



Shire of Dardanup

# MINUTES

## AUDIT & RISK COMMITTEE MEETING

Held

4 December 2019

At

Shire of Dardanup  
ADMINISTRATION CENTRE EATON  
1 Council Drive - EATON

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## COMMITTEE MEMBERSHIP:

- CR M BENNETT
- CR P ROBINSON
- CR. C BOYCE
- CR. T GARDINER
- 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](#)

### COUNCIL 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

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

**SHIRE OF DARDANUP****MINUTES OF THE SHIRE OF DARDANUP AUDIT & RISK COMMITTEE MEETING HELD ON WEDNESDAY, 4 DECEMBER 2019, AT SHIRE OF DARDANUP – EATON ADMINISTRATION CENTRE, COMMENCING AT 4.00PM.****1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The Presiding Officer, Mr André Schönfeldt declared the meeting open, at 4.00pm welcomed those in attendance and referred 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

#### Voting

Cr. Michael Bennett	-	Shire President
Cr. Peter Robinson	-	Elected Member
Cr. Tyrrell Gardiner	-	Elected Member [4.10pm]
Cr. Mark Hutchinson	-	Elected Member

#### Non-voting

Mr André Schönfeldt	-	Chief Executive Officer
Mr Phil Anastasakis	-	Deputy Chief Executive Officer [4.05pm]
Mr Luke Botica	-	Director Infrastructure
Mrs Natalie Hopkins	-	Manager Financial Services
Mr Ray Pryce	-	Accountant
Mrs Cindy Barbetti	-	Compliance Officer
Mrs Donna Bailye	-	PA – Deputy Chief Executive Officer
Mr Marius Van Der Merwe	-	Butler Settineri (Audit) Pty Ltd

### 2.2 Apologies

Cr. Carmel Boyce	-	Elected Member
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## 3. ELECTION OF CHAIRPERSON & DEPUTY CHAIRPERSON

### 3.1 Election of Chairperson

Nominations for the position of Chairperson are to be given to Mr André Schönfeldt who will be the Presiding Officer for the election in writing [forms available from the Chief Executive Officer].

The position of Chairperson will expire on the October 2021 being the date of the next ordinary election Local Government Act 1995 2.28(2) Item 12.

The nominee is to accept the nomination in writing to the position of Chairperson.

If more than one person is nominated, voting is to be conducted by secret ballot, with the candidate that receives the greater number of votes being elected.

#### *Discussion:*

*Cr. T Gardiner was nominated for the position of Chairperson by Cr. M T Bennett. Cr. T Gardiner accepted the nomination by phone conversation with the Presiding Member, Mr André Schönfeldt.*

*As there were no other nominations Cr. T Gardiner was declared as Chairperson.*

### 3.2 Election of Deputy Chairperson

Nominations for the position of Deputy Chairperson are to be given to the Chairperson in writing [forms available from Chief Executive Officer].

The position of Deputy Chairperson will expire in October 2021 being the date of the next ordinary election Local Government Act 1995 2.28(2) Item 12.

The nominee is to accept the nomination in writing to the position of Deputy Chairperson.

If more than one person is nominated, voting is to be conducted by secret ballot, with the candidate that receives the greater number of votes being elected.

#### *Discussion:*

*Cr. M T Bennett was nominated for the position of Deputy Chairperson by Cr. P Robinson. Cr. M T Bennett accepted the nomination.*

*As there were no other nominations Cr. M T Bennett was declared as Deputy Chairperson.*

## PROCESS

*As the elected Chairperson, Cr. T Gardiner was currently not present, the Deputy Chairperson, Cr. M T Bennett assumed the Chair.*

## DECLARATION

**Following due process as per Section 5.12 and Schedule 2.3 of the Local Government Act 1995 the following people are declared:**

**Cr. T Gardiner - Chairperson  
Cr. M T Bennett - Deputy Chairperson**

**of the Audit & Risk Committee.**

*Note: Mrs Donna Bailye left the room [4.03pm].*

*Note: Deputy Chief Executive Officer, Mr Phil Anastasakis joined the meeting [4.05pm].*

## 4. PETITIONS/DEPUTATIONS/PRESENTATIONS

### 4.1 Compliance Manual

Presentation on the Shire of Dardanup Compliance Manual to be made by Mrs Cindy Barbetti.

#### *Process:*

*Mrs Cindy Barbetti provided the Committee with a Powerpoint presentation on the Shires Compliance manual. Discussion and questions followed the presentation.*

*Note: Mrs Donna Bailye returned to the room [4.07pm].*

*Note: Cr. T Gardiner joined the meeting [4.10pm]. He did not assume the Chair. The Deputy Chairperson continued to chair the meeting.*

## 5. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

5.1 Audit Committee Meeting Held 18 September 2019

### OFFICER RECOMMENDED RESOLUTION

AAR 01-19      MOVED -      Cr. P Robinson                      SECONDED -                      Cr. M Hutchinson

**THAT the Minutes of the Audit Committee Meeting held on 18 September 2019, be confirmed as true and correct subject to no corrections.**

CARRIED  
4/0

## 6. ANNOUNCEMENTS OF MATTERS FOR WHICH MEETING MAY BE CLOSED

None.

## 7. QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

None.

## 8. 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.

*Discussion:*

*Deputy Chairperson, Cr. M T Bennett asked Councillors if there were any Declarations of Interest to be made.*

*There were no Declarations of Interest made.*

<b>9      REPORTS OF OFFICERS AND COMMITTEES</b>
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9.1    Title:    Compliance Manual – Update

*Reporting Department:        Corporate & Governance Directorate*

*Reporting Officer:            Mr Phil Anastasakis - Deputy Chief Executive Officer*  
*Mrs Cindy Barbetti - Compliance Officer*

*Legislation:                    Local Government Act 1995 and Local Government*  
*(Audit) Regulations 1996, Regulation 17*

Overview

The purpose of this report is to provide the Audit and Risk Committee with an understanding of the approach being taken in relation to the Compliance Manual, which incorporates the Annual Compliance Calendar.

Background

The Shire of Dardanup (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.

Recent changes to the Local Government Act 1995, also instructs that the Auditor General undertake the financial and performance audits for all Local Governments. Council can prepare for this by ensuring that operational activities and processes support, manage and monitor legislative compliance.

In addition, each year the Department of Local Government, Sport and Cultural Industries requires local governments to conduct an annual assessment of their compliance with key components of the Local Government Act 1995 and associated Regulations. This requirement is achieved by the completion of the statutory Compliance Audit Return (CAR) which is to be provided to the Department by 31 March each year.

To support the Council in meeting these compliance obligations, the Compliance Manual has been developed as a tool to identify the annual compliance activities throughout the calendar year. The objective is to assist responsible officers to review their quarterly activities that require compliance and accountability across a variety of legislative components. The Compliance Manual is an improvement to assist management on all compliance matters and is considered to be best practice in the local government industry.

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 - None.

### Budget Implications

The Compliance Manual consists primarily of an Excel based spreadsheet which has been developed in-house by Council staff, and is managed and monitored by the Compliance Officer. The quarterly update reports require the review and input of responsible staff across the organisation.

The cost to Council is through staff time and IT/Software systems.

### 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 AUD: 9.1A) for full assessment document.

<b>Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.</b>	
Risk Event	Compliance Manual - Update
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	<ul style="list-style-type: none"> <li>Legal &amp; Compliance - Not observing Council's commitment to meeting its compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.</li> <li>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..</li> </ul>

### Officer Comment

How a local government manages its compliance programs is a strong indication of the attitude of the Council towards meeting legislative requirements. It is a Councillors responsibility as well as good practice for an Audit and Risk Committee to be well informed on how this is being achieved across the organisation.

- *Managing Compliance*

Local Governments may focus their compliance resources on facilitating compliance with legislation. However, legislation is not the only compliance obligation that creates potential risks and liabilities if there is a compliance failure.

Council should consider compliance risks related to:

- Statutory Compliance – regulatory responsibility under State and Local Laws;
- Industry Compliance – Codes, Standards and Guidelines; and
- Organisational Compliance – Council and Administration Policies, Procedures, Delegations and Legal Advice.

Council's methodology to managing compliance is through the implementation of 'The Compliance Manual'. The Compliance Manual consists of an Annual Compliance Calendar, relevant legislation, associated Policies, Procedures, Delegations and Local Laws. It also includes Responsible Officers, compliance performance monitoring, document review and version control mechanisms.

The Compliance Manual provides a systemic approach to assist and guide staff of the Shire of Dardanup in compliance requirements. It also contributes to improved compliance outcomes and reduced risk.

- *Annual Compliance Calendar*

The Annual Compliance Calendar sits within the Compliance Manual and has been tailored to suit the specific requirements and operational timeframes of Council. A dedicated 'Tasks' page has been developed which organises tasks by month and runs for a calendar year (January to December).

- *Quarterly Compliance Reminders*

The Annual Compliance Calendar process initiates compliance work via regulatory quarterly reminders and creates auditable records for how compliance has been achieved. Officers will be required to demonstrate compliance and where necessary provide detail of their work to ensure the work procedures of the Council assist to meet obligations of the Act and Regulations.

- *Roles and Responsibilities*

The following roles and responsibilities have been assigned to achieve an overall effectiveness of the Compliance Manual:

*Chief Executive Officer / Executive Management Team*

- Approve and review the appropriateness and effectiveness of the Compliance Manual.
- Promote the culture of the Compliance Manual throughout the organisation.

*Compliance Officer*

- Oversee and facilitate the Compliance Manual.
- Support reporting requirements.
- Working with stakeholders to ensure compliance.
- Document decisions and actions arising from 'task actions'.



The Audit & Risk Committee meeting is scheduled to be held on Wednesday 4 December 2019. This provides the opportunity for the Audit & Risk Committee to meet in person with the partner of Butler Settineri, Marius van der Merwe and consider the annual audit report.

### Legal Implications

#### **Local Government Act 1995**

##### **s7.2. Audit**

*The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.*

##### **7.3. Appointment of auditors**

- (1) *Subject to subsection (1A), a local government is to, from time to time whenever such an appointment is necessary or expedient, appoint\* a person, on the recommendation of the audit committee, to be its auditor.*

\* Absolute majority required.

##### **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.*
- (2) *Without limiting the generality of subsection (1), where the auditor considers that —*
- (a) *there is any error or deficiency in an account or financial report submitted for audit; or*
  - (b) *any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or*
  - (c) *there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government,*

*details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.*

##### **7.12AB. Conducting a financial audit**

*The auditor must audit the accounts and annual financial report of a local government at least once in respect of each financial year.*

##### **7.12AD. Reporting on a financial audit**

- (1) *The auditor must prepare and sign a report on a financial audit.*
- (2) *The auditor must give the report to —*
- (a) *the mayor, president or chairperson of the local government; and*
  - (b) *the CEO of the local government; and*
  - (c) *the Minister.*

##### **7.12A. Duties of local government with respect to audits**

- (2) *Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.*
- (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.*

Strategic Community Plan

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

Environment - None.

Precedents

The Council's Audit Committee has in previous years met with the Auditor to consider the audit of the Annual Financial Statements and financial position of Council.

Budget Implications

The 2019/20 budget provides an allocation of \$20,000 for the conduct of the annual audit.

The Annual Financial Report presents the financial performance for the past financial year and is scrutinised by an independent auditor to ensure compliance with legislation and accounting standards. The financial impact upon the current financial year is that the audited net current assets position becomes the actual brought forward surplus/(deficit) for the Rate Setting Statement.

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 AUD 9.2A ) for full assessment document.

<b>Tier 1 – No discernible Inherent Risk has been identified (no Risk Theme or Consequence).</b>	
Risk Event	Annual Meeting – 2018/19 Audit 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	<ul style="list-style-type: none"> <li>• Legal &amp; Compliance - Not meeting its compliance obligations pursuant to the Local Government (Audit) Regulations 1996 and Australian Accounting Standards.</li> <li>• Reputational – Loss of reputation through non-compliance or mismanagement of funds.</li> </ul>

Officer Comment

Butler Settineri visited the Council offices in March and June 2019, together with the final Audit on the 1 and 2 October 2019 to conduct the interim and annual audit.

Council staff had prepared the draft annual financial statements, together with all of the working files and audit material provided to the auditors during their visit. Council staff subsequently worked with the auditors to finalise the annual financial statements.

The audit did not identify any areas of concern and the auditors have provided an unqualified audit report. The Audit Report (Appendix AUD: 9.2B) advises that the financial report of the Shire of Dardanup gives a true and fair view of the Shire's financial position as at 30 June 2019 and of its performance during the year, and complies with Australian Accounting Standards.

Council Role - Executive.

Voting Requirements - Simple Majority.

Change to Officer Recommendation - No Change

*Discussion:*

*Deputy Chief Executive Officer - Mr Phil Anastasakis acknowledged the work undertaken by the Manager Financial Services, Mrs Natalie Hopkins in the preparation of the Shire's Financial Report.*

*Mrs Natalie Hopkins then spoke to the report.*

*Mr Marius Van Der Merwe provided the Committee with an overview of the Auditors role and Butler Settineri audit processes*

#### **OFFICER RECOMMENDED RESOLUTION & AUDIT & RISK COMMITTEE RESOLUTION**

AAR 03-19      MOVED -      Cr. M T Bennett      SECONDED -      Cr. P Robinson

**THAT the Shire of Dardanup Audit Committee recommends Council accept the Auditor's Report (Appendix AUD: 9.2B) by Butler Settineri (Audit) Pty Ltd of the Annual Financial Statements for the 2018/19 financial year.**

CARRIED  
4/0

9.3      Title: 2018/19 Annual Financial Report

*Reporting Department: Corporate & Governance*

*Reporting Officer: Mr Phil Anastasakis – Deputy Chief Executive Officer  
Mrs Natalie Hopkins – Manager Financial Services*

*Legislation: Local Government Act 1995*

#### Overview

This report presents the Annual Financial Report for the 2018/19 financial year to the Audit and Risk Committee and Council for consideration and adoption.

### Background

Section 6.4 of the *Local Government Act 1995* requires a Local Government to prepare an Annual Financial Report each financial year. This report has been audited and the Audit Statement is provided in (Appendix AUD: 9.3A).

The Annual Financial Report has been prepared in accordance with the *Local Government (Financial Management) Regulations 1996* and includes the following:

- Statement by the Chief Executive Officer;
- Statement of Comprehensive Income (by Nature or Type);
- Statement of Comprehensive Income (by Program);
- Statement of Financial Position;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Rate Setting Statement;
- Notes to and forming Part of the Financial Statements; and
- Auditor Report.

In accordance with section 5.53 of the *Local Government Act 1995*, the 2018/19 Annual Financial Report forms part of the Annual Report.

The adoption of the Annual Financial Report by Council allows for the adoption of the Annual Report and the holding of the Annual Electors Meeting which is proposed to be held on Wednesday 29 January 2020, commencing at 6.30pm in the Eaton Council Chambers, following the completion of the monthly Council meeting.

### Legal Implications

#### *Local Government Act 1995*

##### *5.53. Annual Reports*

- (1) *The local government is to prepare an annual report for each financial year.*
- (2) *The annual report is to contain —*
  - (f) *the financial report for the financial year; and*

##### *6.4. Financial Report*

- (1) *A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.*
- (2) *The financial report is to —*
  - (a) *be prepared and presented in the manner and form prescribed; and*
  - (b) *contain the prescribed information.*
- (3) *By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —*

- (a) *the accounts of the local government, balanced up to the last day of the preceding financial year; and*
- (b) *the annual financial report of the local government for the preceding financial year.*

**Local Government (Financial Management) Regulations 1996**

**R36. Annual financial report, content of (Act s. 6.4(2))**

(1) *The annual financial report is to include —*

- (a) *a statement setting out all movements of money to and from reserve accounts which has not been included in the income statement but which has been included in the rate setting statement; and*
- (b) *if the net current assets carried forward from the previous financial year for the purpose of the budget of the financial year to which the report relates is different from the net current assets shown in the audited annual financial report for the previous financial year, the amount of that difference; and*

*[(c), (d) deleted]*

- (e) *in relation to the disposal of a class of assets —*
  - (i) *the net book value of that class of assets; and*
  - (ii) *the sale price of that class of assets; and*
  - (iii) *the profit or loss on the sale of that class of assets; and*

(f) *notes or statements containing the information set forth in regulations 37 to 50.*

(2) *The annual financial report is to include the following —*

- (a) *the rate setting statement included under regulation 22(1)(d) in the annual budget for the year to which the report relates;*
- (b) *adjacent to each item in that rate setting statement that states an amount, the end-of-year amount for the item;*
- (c) *adjacent to each item in the income statement that states an end-of-year amount, the original or amended budget estimate for the item;*
- (d) *adjacent to each item that states an end-of-year amount required by a provision of these regulations listed in the Table to this subregulation, the original or amended budget estimate for the item.*

- R37. *Trust fund, information about in annual financial report*
- R38. *Reserve accounts, information about in annual financial report*
- R39. *Rates, information about in annual financial report*
- R40. *Service charges, information about in annual financial report*
- R41. *Fees and charges, information about in annual financial report*
- R42. *Discounts for early payment etc., information about in annual financial report*
- R43. *Interest charges etc., information about in annual financial report*
- R44. *Fees etc. to council members, information about in annual financial report*
- R45. *Trading undertakings, information about in annual financial report*
- R46. *Major land transactions, information about in annual financial report*
- R47. *Completed major land transactions, information about in annual financial report*
- R48. *Borrowings, information about in annual financial report*
- R49. *Invested money, information about in annual financial report*
- R50. *Financial ratios to be included in annual financial report*
- R51. *Annual financial report to be signed etc. by CEO and given to Department*

**Strategic Community Plan**

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 Monitor and produce statutory budgetary and financial reporting requirements applicable to local government operations. (Service Priority: High)

Environment - None.

Precedents - None.

#### Budget Implications

The Annual Financial Report is produced internally and the preparation and printing costs are incorporated within the staffing, printing and stationery budgets. The Annual Financial Report presents the financial performance for the past financial year and is scrutinised by an independent auditor to ensure compliance with legislation and accounting standards. The financial impact upon the current financial year is that the audited net current assets position becomes the actual brought forward surplus/(deficit) for the Rate Setting Statement.

#### 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

Council Policy – CP128 - Significant Accounting Policies applies.

#### Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AUD: 9.3B ) for full assessment document.

<b>Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.</b>	
Risk Event	2018/19 Annual Financial 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	<ul style="list-style-type: none"> <li>Legal and Compliance - Risk of Council breaching the Local Government Act 1995. Risk that the audited 2018/19 Annual Financial Report is not received by Council.</li> </ul>

#### Officer Comment

The 2018/19 Annual Financial Report has been produced in accordance with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996, and to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

The annual financial statements for the year ended 30 June 2019 have been completed, as has the annual audit of the financial statements by Council’s auditors, Butler Settineri (Audit) Pty Ltd. Council’s Auditors have issued an unqualified Audit Report (Appendix AUD: 9.3A). The Audit Report shown on page 61 of the Annual Financial Report will form part of the Annual Report scheduled to be adopted at the ordinary Council meeting in December 2019.

The financial statements includes additional new Notes and Disclosures relating to Changes in Accounting Policy, Future Policy and Correction of Error summarised below.

On 1 July 2018 changes to the Local Government (Financial Management) Regulations came into effect whereby an asset with a fair value of less than \$5,000 (at the date of acquisition) was no longer classified an asset. The change in accounting policy, and subsequent de-recognition of these assets, required Council to restate its assets and liabilities in the Statement of Financial Position as at 30 June 2018.

During the 2018/19 financial year, on receiving both legal and external accounting advice, it was identified that Council should record the valuation of its contribution towards the Millbridge/Treendale Bridge BR5370 expenditure, incurred in previous financial years', as an asset.

The corrective treatment to adjust the 'prior period error' required Council to recognise its portion of the bridge asset valuation in accordance with the *Accounting Standard AASB 116 Property, Plant and Equipment*. The adjustment, which favourably impacted Council's 2017/18 restated ratios, resulted in a reduced Operating Expenditure for the 2017/18 financial year, offset by an increase in Infrastructure Asset Valuation.

As a result, the 2018/19 Annual Financial Report includes a restatement of values in the following reports:

- Statement of Financial Position (balance sheet) as at 30 June 2018 and 1 July 2017; and
- Statement of Comprehensive Income.

Council is in sound financial health and this is reflected in its statutory financial ratios that require reporting in the Annual Financial Report.

It is important to note that statutory financial ratios are not intended to be the only factor to consider in assessing Council's overall performance. Other factors include the range of services offered, the efficiency of services delivered and overall community satisfaction.

- **Current Ratio**

*Formulae*

$$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$$

30 June 19 = 1.096 or 109.6%

Department Standard = Achieving Standard

Department of Local Government Description & Benchmark:

*This is a modified commercial ratio designed to focus on the liquidity position of a local government that has arisen from past year's transactions.*

*The standard is not met if the ratio is lower than 1:1 (less than 100%).*

*Achieving Standard is met if the ratio is greater than 1:1 (100% or greater).*

*A ratio less than 1:1 means that a local government does not have sufficient assets that can be quickly converted into cash to meet its immediate cash commitments.*

*This may arise from a budget deficit from the past year, a Council decision to operate an overdraft or a decision to fund leave entitlements from next year's revenues.*

- **Officer Comment**

The Current Ratio, as adopted by the Department of Local Government is modified from the standard commercial calculation of the Current Ratio. The Department requires "Restricted Assets" (cash backed reserve funds) to be excluded from the calculation.

The Current Ratio is calculated in the commercial world as follows;

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

While the Shire does meet the required Department benchmark, if the standard commercial calculation of the Current Ratio was made, the Shire's Current Ratio as at 30 June 2019 would be calculated at 554.9%, meaning the Shire has a multiple of 5.549 in liquid Current Assets to meet its Current Liabilities.

#### *Restatement of 2017/18 Current Ratio*

*The 2017/18 Annual Financial Report stated Council's Current Ratio as 0.991 or 99.1% which is 'Standard Not Met'. The 2018/19 Annual Financial Report includes restatement of Council's Assets contained in the Statement of Financial Position as at 30 June 2018, and as a result, the 2017/18 Current Ratio has been favourably restated as follows:*

*30 June 18 Restated = 1.065 or 106.5%*

*Department Standard = Achieving Standard*

- **Asset Sustainability Ratio (ASR)**

#### *Formulae*

$$\frac{\text{Capital renewal and replacement expenditure}}{\text{Depreciation expense}}$$

30 June 19 = 0.930 or 93.0%

Department Standard = Standard Improving

Department of Local Government Description & Benchmark:

*This ratio indicates whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.*

*Achieving Standard is met if the ratio data can be calculated and ratio is 90% (0.90)*

*Standard Improving is met if the ratio is between 90% and 110% (or 0.90 and 1.10)*

*Capital / Renewal Expenditure means expenditure to renew or replace existing assets. In other words, it is expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure. As it reinstates existing service potential it may reduce operating and maintenance costs.*

- *Officer Comment*

Council's asset management planning process has identified and is rectifying the existing infrastructure renewal backlog. Council has acknowledged this backlog and has committed funding to renew its asset base for a number of years. The ratio result for 30 June 2019 is reflective of this commitment.

*Restatement of 2017/18 Asset Sustainability Ratio*

*The 2017/18 Annual Financial Report stated Council's Asset Sustainability Ratio as 1.129 or 112.9% which is 'Standard Improving'. The 2018/19 Annual Financial Report includes restatement of Council's Assets contained in the Statement of Financial Position as at 30 June 2018, and as a result, the 2017/18 Asset Sustainability Ratio has been favourably restated as follows:*

*30 June 18 Restated = 1.653 or 165.3%*

*Department Standard = Standard Improving*

- **Debt Service Cover Ratio**

30 June 19 = 8.499

Department Standard = Advanced Standard

*Formulae*

$$\frac{\text{Annual operating surplus before interest and depreciation}}{\text{Principal and interest}}$$

Department of Local Government Description & Benchmark:

*This ratio is the measurement of a local government's ability to repay its debt including lease payments. The higher the ratio is, the easier it is for a local government to obtain a loan.*

*Achieving Standard is met if the ratio is greater than or equal to 2.*

*Advanced Standard is met at a higher level if this ratio is greater than 5.*

- *Officer Comment*

The Shire's integrated financial process has led to a significant reduction in reliance in borrowing requirements. Since the commencement of Council's Asset Management & Integrated Financial Planning process in 2005, the reduced reliance on borrowings has been a key demonstrable benefit. Borrowings are planned through Council's Debt Management Plan rather than used to meet immediate funding requirements.

The benefit of such a process is evident by borrowing related financial ratios. Despite sustained population and fiscal demand upon Council's budget, these ratios demonstrate a sustained improving trend.

Borrowings are planned for future projects; the structured process to borrowing planning ensures these projects are able to be undertaken with affordable debt levels.

### Restatement of 2017/18 Debt Service Cover Ratio

The 2017/18 Annual Financial Report stated Council's Debt Service Cover Ratio as 1.512 which is 'Standard Not Met'. The 2018/19 Annual Financial Report includes restatement of Council's Expenditure contained in the Statement of Comprehensive Income as at 30 June 2018, and as a result, the 2017/18 Debt Service Cover Ratio has been favourably restated as follows:

30 June 18 Restated = 5.639

Department Standard = Advanced Standard

- **Operating Surplus Ratio**

30 June 19 = -0.064

Department Standard = Standard Not Met

Formulae

$$\frac{\text{Operating Revenue MINUS Operating Expense}}{\text{Own Source Operating Revenue}}$$

Department of Local Government Description & Benchmark:

*This ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes.*

*Achieving Standard is met if the operating surplus ratio is between 0% and 15% (0 and 0.15).*

*Advanced Standard is met if the operating surplus ratio is greater than 15% (>0.15).*

*"Operating Revenue" Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.*

*"Operating Expense" Means the expense that is operating expense for the purposes of the AAS.*

*"Own Source Operating Revenue" Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets.*

- **Officer Comment**

Meeting this standard is dependent upon achieving an Operating Surplus as defined by the Department. Operating Surplus is ordinarily calculated as Operating Revenue minus Operating Expenditure. The Department requires the exclusion of grants and contribution revenue for the development of assets from the calculation. Council's Operating (Deficit) / Surplus as at 30 June 2019 = (\$1,158,950)

This ratio demonstrates the ability to service its day to day operational costs, including asset depreciation from its revenue base. If a local government consistently achieves a positive operating surplus ratio and has sound long term financial plans showing that it can continue to do so in the future, having regard to asset management and the community's service level needs, then it is considered financially sustainable.

The inclusion depreciation expense (a non-cash expense) as part of this calculation provides a challenge to meet this ratio into the future as Council asset base increases the ratio has an expectation to meet annual deprecation expenditure from revenue.

#### *Restatement of 2017/18 Operating Surplus Ratio*

*The 2017/18 Annual Financial Report stated Council's Operating Surplus Ratio as -0.263 which is 'Standard Not Met'. The 2018/19 Annual Financial Report includes restatement of Council's Expenditure contained in the Statement of Comprehensive Income as at 30 June 2018, and as a result, the 2017/18 Operating Surplus Ratio has marginally increased, restated as follows:*

*30 June 18 Restated = -0.113*

*Department Standard = Standard Not Met*

- **Own Source Revenue Coverage Ratio**

30 June 19 = 0.851

Department Standard = Achieving Standard

#### *Formulae*

$$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$$

Department of Local Government Description & Benchmark:

*This ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts. Different standards have been established to recognise the varying revenue raising capacities across the sector, where some rural and remote local governments have limited rate bases and revenue raising capacity, whereas others such as major metropolitan and regional local governments have significant rate bases and other own source revenues.*

*Achieving Standard is met if the ratio is between 40% and 90% (or 0.4 and 0.9)*

*Advanced Standard is met if the ratio is greater than 90% (or > 0.9)*

*"Own Source Operating Revenue"*

*Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets.*

- **Officer Comment**

The ratio measures Council's ability to cover operating expenses from own source revenue (ie revenue, excluding grants). The higher the ratio, the more self-reliant a local government is.

This ratio is maximised by:

- Greater reliance upon user pay services.
- Reduced Operating Expenditure.
- Ongoing commitment to fund Council's asset base from its own source funds.

#### *Restatement of 2017/18 Own Source Revenue Coverage Ratio*

*The 2017/18 Annual Financial Report stated Council's Operating Surplus Ratio as 0.727 which is 'Achieving Standard'. The 2018/19 Annual Financial Report includes restatement of Council's*

*Expenditure contained in the Statement of Comprehensive Income as at 30 June 2018, and as a result, the 2017/18 Own Source Revenue Coverage Ratio is restated as follows:*

*30 June 18 Restated = 0.815*

*Department Standard = Achieving Standard*

- **Asset Consumption Ratio (ACR)**

*30 June 19 = 0.655 (65.5%)*

*Department Standard = Standard Improving*

*Formulae*

$$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$$

Department of Local Government Description & Benchmark:

*This ratio measures the extent to which depreciable assets have been consumed, by comparing their written down value to their replacement cost.*

*Achieving Standard is met if the ratio data can be identified and ratio is 50% or greater (0.50 or >).*

*Standard Improving is met if the ratio is between 60% and 75% (0.60 and 0.75).*

- **Officer Comment**

This ratio essentially measures the depreciated state of Council's asset base. 100% would mean all brand new assets, 0% would mean all the assets have reached the end of their life.

The result of 65.5% indicates that Council Assets are at 65.5% of their useful life.

This ratio is improved by a sustained program of renewing assets.

Council's current asset management planning process is currently addressing the backlog of infrastructure renewal. Ongoing commitment to funding this process is required to improve performance in this area.

*Restatement of 2017/18 Asset Consumption Ratio*

*The 2017/18 Annual Financial Report stated Council's Asset Consumption Ratio as 0.652 or 65.59% which is 'Standard Improving'. The 2018/19 Annual Financial Report includes restatement of Council's Assets contained in the Statement of Financial Position as at 30 June 2018, and as a result, the 2017/18 Asset Consumption Ratio has been favourably restated as follows:*

*30 June 18 Restated = 0.668 (66.8%)*

*Department Standard = Standard Improving*

- **Asset Renewal Funding Ratio**

30 June 18 = 1.273 (127.3%)

Department Standard = Standard Improving

Formulae

$$\frac{\text{Net Present Value of Planned Capital Renewals over 10 years}}{\text{Net Present Value of Required Capital Expenditure over 10 years}}$$

This ratio is a measure of the ability of a local government to fund its identified asset renewal / replacement requirements over a period of 10 years.

Department of Local Government Description & Benchmark:

*This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.*

*The ratio is calculated from information included in the local government's Long Term Financial Plan and Asset Management Plan; not the Annual Financial Report. For the ratio to be meaningful, a consistent discount rate should generally be applied in NPV calculations.*

*Achieving Standard is met if the ratio is between 75% and 95% (or 0.75 and 0.95)*

*Standard Improving is met if the ratio is between 95% and 105% (or 0.95 and 1.05), and*

*the Asset Sustainability Ratio falls within the range 90% to 110%, and*

*Asset Consumption Ratio falls within the range 50% to 75%*

- **Officer Comment**

The Asset Renewal Funding Ratio should be read in conjunction with Asset Consumption Ratio (ACR) and the Asset Sustainability Ratio (ASR).

This ratio measures asset renewal works identified as being required against actual planned asset renews expenditure.

To meet the standard this ratio must be met in addition to the Asset Consumption Ratio (ACR) and the Asset Sustainability Ratio (ASR).

For the year ended 30 June 2019 the Shire has met the 3 required ratio standards to achieve the standards required.

Council's commitment to its integrated financial planning process and addressing its infrastructure backlog from own sourced funds, has been integral to achieving the benchmark standard.

*Restatement of 2017/18 Asset Renewal Funding Ratio*

*The 2017/18 Annual Financial Report stated Council's Asset Renewal Funding Ratio as 1.029 or 102.9% which is 'Standard Improving'. The 2018/19 Annual Financial Report includes restatement of Council's Assets contained in the Statement of Financial Position as at 30 June 2018, and as a result, the 2017/18 Asset Sustainability Ratio has been favourably restated as follows:*

*30 June 18 Restated = 1.131 or 113.1%*

*Department Standard = Standard Improving*



### Financial Summary

As at 30 June 2019 Council's Equity (Total Assets *minus* Total Liabilities) increased by \$766,902 from \$191,881,398 to \$192,648,300. The increase in Total Equity is partly due to the restatement of Council's assets to include the Millbridge/Treendale Bridge BR5370. Previously all expenditure incurred on the bridge had been expensed in the Statement of Comprehensive Income in prior financial years.

Recent legal advice indicated that the bridge expenditure should be capitalised and the asset included in Council's Infrastructure Asset valuation. Further information on the bridge restatement can be found at Note 35 - Correction of Error in the 2018/19 Annual Financial Report. As a result of this correction, both the Statement of Comprehensive Income and the Statement of Financial Position as at 30 June 2018 figures have been restated in the 2018/19 Annual Financial Report.

Other changes that have impacted the change in Total Equity include the de-recognition of assets with a fair value of less than \$5,000. Paragraph 17A (5) of the Local Government (Financial Management) Regulations state "*an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5 000*".

This change in Accounting Policy, which came into effect from 1 July 2018, is detailed in Note 33 - Change in Accounting Policy of the Annual Financial Report and required Council to restate the impact of derecognising assets with a fair value of less than \$5,000 as at 30 June 2018, and 1 July 2017.

Council's carry forward surplus at 30 June 2019 is \$404,751. This was against the forecast budgeted carry forward surplus in the 2019/20 budget of \$301,183. The favourable variance of \$103,568 will be included in the mid-year budget review for consideration. The total carry forward surplus amount equates to less than 2% of total budgeted expenditure for 2018/19.

In summary, the Shire is in sound financial position.

This result is directly attributed to;

1. Comprehensive integrated financial planning model;
2. Commitment to investment in infrastructure asset renewal;
3. Cash backed funding model for future asset obligations; and
4. Structured planning for all borrowings.

I would like to take the opportunity to thank all Corporate & Community Services staff for their efforts and high service standard during the year under review.

Council is requested to consider and receive the audited Annual Financial Statements for the 2018/19 financial year.

Council Role - Executive.

Voting Requirements - Simple Majority.

Change to Officer Recommendation - No Change.

**OFFICER RECOMMENDED RESOLUTION &  
AUDIT & RISK COMMITTEE RESOLUTION**

AAR 04-19      MOVED -      Cr. P Robinson      SECONDED -      Cr. T Gardiner

**THAT Council receive the Shire of Dardanup 2018/19 audited Annual Financial Statements for the financial year ended 30 June 2019. (Appendix AUD: 9.3A).**

CARRIED  
4/0

9.4      Title:      Risk Management – Update and Risk Dashboard Report

*Reporting Department:      Corporate & Governance Directorate*  
*Reporting Officer:      Mr Phil Anastasakis - Deputy Chief Executive Officer*  
*Mrs Cindy Barbetti - Compliance Officer*  
*Legislation:      Local Government Act 1995 and Local Government*  
*(Audit) Regulations 1996, Regulation 17*

Overview      -

The purpose of this report is to provide the Audit and Risk Committee with an update regarding Risk Management at the Shire of Dardanup and to receive the six monthly Risk Dashboard Report.

Background

In August 2019, Council through the Audit and Risk Committee adopted the revised Risk Management Governance Framework (the Framework) for the Council. This Framework has been developed to connect all of the risk management processes and methodologies and to clearly articulate the appetite for risk. This ensures Council's commitment to meeting its compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.

Council must strive to respond to the challenges and opportunities of tomorrow and acknowledge that business conditions are continually changing. It is not possible to eliminate all risk however, by actively identifying and managing risk through the implementation of the Risk Management Governance Framework, officers are well prepared to guard against risk. This ensures that the Council can continue to function, come what may.

The Audit and Risk Committee's role and responsibility for risk management is to:

- Endorse the Risk Management Governance Framework inclusive of the policy and procedure;
- Consider the Chief Executive Officer's three yearly review of the appropriateness and effectiveness of the systems and procedures in regard to risk management, internal control and legislative compliance and report to Council the results of those reviews;
- Receive a six monthly risk dashboard report on the current treatment plans (actions) that have been identified to improve certain key control ratings; and
- Receive internal and external audit reports.

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)

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 Risk Dashboard Report at the July 2019 meeting.

Budget Implications - None.

Budget – Whole of Life Cost - None.

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

Council Policy Compliance

Risk Management Governance Framework

- Administration Policy AP023
- Procedure PR036
- Australian Standard AS/NZS ISO 31000:2018 Risk Management – Principles and Guidelines

Risk Assessment -

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AUD: 9.4A)

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	Risk Management – Update and Risk Dashboard 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	<ul style="list-style-type: none"> <li>Legal and Compliance - Not observing Council’s commitment to meeting its compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.</li> <li>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</li> </ul>

### Officer Comment

- Reporting Requirements*

In terms of the recently updated reporting requirements acknowledged in the Risk Management Governance Framework, the Compliance Officer is required to review the effectiveness and efficiency of key controls for the 15 Risk Theme Profiles every six months. This review was undertaken in September 2019 in consultation with management to consider and respond to identified strategic, operational and project risks. The results of this review were then presented to the Executive Management Team (EMT) who analysed and discussed emerging risks, issues and trends.

As a further reporting obligation, a Risk Dashboard Report (Appendix AUD:9.4B) is required to be presented to the Audit and Risk Committee on the alternate six monthly cycle to the Risk Theme Profile Review. This Risk Dashboard Report provides the current treatment plans (actions) that have been identified by subject experts to improve certain key control ratings. When these control ratings have been identified as ‘Inadequate’, a treatment plan (action) has been determined to improve the control effectiveness to at least ‘Adequate’.

The following tables from the Framework are provided below to:

1. Convey the principle of key control ratings (Effective, Adequate or Inadequate); and
2. Determine whether the risk is within acceptable levels to Council (Low, Moderate, High or Extreme).

EXISTING CONTROL TABLE		
Rating	Foreseeable	Description
Effective	More than what a reasonable person would be expected to do in the circumstances. There is little scope for improvement.	Processes (Controls) operating as intended and / or aligned to Policies & Procedures; are subject to ongoing maintenance and monitoring and are being continuously reviewed and tested.
Adequate	Only what a reasonable person would be expected to do in the circumstances. There is some scope for improvement.	Whilst some inadequacies have been identified; Processes (Controls) are in place, are being addressed / complied with and are subject to periodic review and testing.
Inadequate	Less than what a reasonable person would be expected to do in the circumstance. A need for corrective and / or improvement actions exist.	Processes (Controls) not operating as intended, do not exist, or are not being addressed / complied with, or have not been reviewed or tested for some time.

RISK ACCEPTANCE CRITERIA				
Risk Rank	Description	Criteria	Responsibility	Entered on Risk Register
LOW (1 – 4)	Acceptable	Risk acceptable with adequate controls, managed by routine procedures and subject to annual monitoring	Staff Member / Supervisor	No
MODERATE (5 – 11)	Monitor	Risk acceptable with adequate controls, managed by specific procedures and subject to semi-annual monitoring	Supervisor / Manager	No
HIGH (12 – 19)	Urgent Attention Required	Risk acceptable with excellent controls, managed by senior management / executive and subject to monthly monitoring	Manager / Director / EMT	Yes
EXTREME (20 – 25)	Unacceptable	Risk only acceptable with excellent controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority and subject to continuous monitoring	EMT / CEO / Council	Yes

With reference to the Risk Dashboard Report, this is presented in a format that enables each treatment plan (action) to be categorised according to the relevant Risk Theme Profile. As previously mentioned, the key controls for each of the profiles were subject to a full review in September 2019. The overall 'Risk Rating' and 'Control Rating' for each Risk Theme Profile from that review, is also highlighted in the Risk Dashboard Report. This provides an immediate 'overall snapshot' to the Audit and Risk Committee of the value of the combined controls in mitigating the risk. By regularly reviewing the effectiveness and efficiency of controls and the appropriateness of treatment/action options selected, we can determine if Council resources are being put to the best use possible.

To assist the Audit and Risk Committee with an understanding of the contents of the Risk Dashboard Report, the following example has been taken from the December 2019 Risk Dashboard Report (Appendix AUD: 9.4B). This example solely relates to the risk theme profile 'Failure to Fulfil Compliance Requirements (Statutory, Regulatory)'. At the September 2019 review, the overall control rating for this particular profile was determined as 'Low' and the overall risk rating was also determined to be 'Low'. Each theme has the overall risk responsibility assigned to a responsible officer of Council, in this example it is the Manager Financial Services. The final component of the Risk Dashboard Report is a brief description of the current treatment plans (actions) that have been identified. These treatment plans are assigned a due date in consultation with the officer responsible for actioning the treatment plan. In this example 'Promote new Elected Members training' treatment plan is due for completion by October 2020 and is the responsibility of the Manager Governance & HR.

Example: Risk Dashboard Report (one theme only)		
FAILURE TO FULFIL COMPLIANCE REQUIREMENTS (STATUTORY, REGULATORY)	Risk	Control
		Low
	Risk Responsibility	
	Manager Financial Services	
Current Treatment Plan (Action)	Due Date	Responsibility
<i>Promote new Elected Members training</i>	<i>Oct-20</i>	<i>Manager Governance &amp; HR</i>

The complete Risk Dashboard Report that is required to be presented to the Audit and Risk Committee contains an overall snapshot of the following 15 Risk Theme Profiles:

1. Asset Sustainability Practices.
2. Business and Community Disruptions.
3. Failure to Fulfil Compliance Requirements (Statutory, Regulatory).
4. Document Management Processes.
5. Employment Practices.
6. Engagement Practices.
7. Environment Management.
8. Errors, Omissions and Delays.
9. External Theft and Fraud (includes Cyber Crime).
10. Management of Facilities, Venues and Events.
11. IT, Communication Systems and Infrastructure.
12. Misconduct.
13. Project/Change Management.
14. Safety and Security Practices.
15. Supplier and Contract Management.

- *Reporting Schedule*

The table below has been compiled to provide the Audit and Risk Committee with a summary of the reports that have been undertaken and presented throughout 2019:

DATE	REPORTING RECIPIENT	REPORT TYPE
July 2019	Audit and Risk Committee	Risk Dashboard Report
September 2019	EMT	Risk Theme Profile Review
December 2019	Audit and Risk Committee	Risk Dashboard Report

It is proposed that EMT and the Audit and Risk Committee can expect the following reporting schedule for 2020:

DATE	REPORTING RECIPIENT	REPORT TYPE
March 2020	EMT	Risk Theme Profile Review
July 2020	Audit and Risk Committee	Risk Dashboard Report
September 2020	EMT	Risk Theme Profile Review
December 2020	Audit and Risk Committee	Risk Dashboard Report

- *Conclusion*

Overall, officers are increasing their awareness and embracing their responsibility as the 'first line of defence' in the management of risk. They understand the basis on which decisions are made and why a particular treatment/action options are selected or the reasons to accept that risks have changed.

This is further supported by EMT and management who are proactively promoting the Framework across the organisation. The Risk Profile Theme review and Risk Dashboard Report, in conjunction with the Framework and further reporting of risk via agenda items are all working together to uphold the strong risk management culture of the Council.

Council Role - Legislative.

Voting Requirements - Simple Majority.

Change to Officer Recommendation - No Change

## OFFICER RECOMMENDED RESOLUTION & AUDIT & RISK COMMITTEE RESOLUTION

AAR 05-19      MOVED -      Cr. T Gardiner      SECONDED -      Cr. P Robinson

**THAT the Audit and Risk Committee:**

- 1.      Receive the update on risk management across the organisation; and**
- 2.      Receive the December 2019 Risk Dashboard Report provided in (Appendix AUD: 9.4B).**

CARRIED  
4/0

### 9.5      Title:      Governance Health Check – William Buck

*Reporting Department:      Corporate & Governance Directorate*  
*Reporting Officer:      Mr André Schönfeldt - Chief Executive Officer*  
*Legislation:      Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17*

#### Overview

This report is presented to the Audit & Risk Committee for review and endorsement of the recent Governance Health and Financial Sustainability Review undertaken by contractors William Buck.

#### Background

In accordance with the Shires Strategic Community Plan, Outcomes 1.1.2 and 1.1.3 states that the Shire:

- *Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)*
- *Maintain best practice governance systems and practices. (Service Priority: Moderate)*

In July 2019 quotes were sought for the appointment of a suitably qualified contractor to undertake a Governance Health and Financial Sustainability Review. A total of 4 submissions were received with the winning quote being awarded to William Buck at the end of July 2019. The review was undertaken in house in September 2019 and a report was provided to the Shire in November 2019.(Appendix AUD: 9.5A).

#### 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.*

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

A Governance Review was conducted in 2016 through the Department of Local Government based on the Guide for Undertaking Governance Reviews issued by the Australian Institute of Company Directors.

Budget Implications

A budget allowance of \$20,000 was provided for in the 2019/20 Budget to cover the cost of the review of this report.

Budget – Whole of Life Cost - None.

As not assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance - None.

Risk Assessment - Low.

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AUD: 9.5B) for full assessment document.



Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	Governance Health & Financial Sustainability Review - 2019
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	<ul style="list-style-type: none"> <li>• Financial Impact - Failure to comply with the requirements of the Act and Regulations could lead to financial penalties being imposed</li> <li>• Legal and Compliance - Failure to comply with the requirements of the Act and Regulations could lead to legal penalties being imposed</li> <li>• Reputational - Failure to comply with the requirements of the Act and Regulations could result in the public questioning the Shire procedures.</li> </ul>

### Officer Comment

The Request for Quote (RFQ) forwarded to prospective contractors provided the following scope of works:

*To review systems, processes and policies, reports and recent relevant transactions to determine the Shire's level of compliance and governance health and also to consider the financial sustainability of the Shire of Dardanup, including but not limited to the following:*

- *Major Land Transactions;*
- *Tendering and Procurement policy, procedures, processes and systems;*
- *Council and Committee meetings structure, processes and procedures;*
- *Gift reporting and Disclosures of Interest;*
- *Delegations and delegation reporting including associated information provided to Councillors;*
- *Complaints and Allegations policy, procedures and processes;*
- *Risk Management;*
- *Financial Management Systems, Credit Card Control; and Accounting Policies;*
- *Financial health indicators and ratios;*
- *Human Resource recruitment, appointment and induction processes (including verifying employee identity and credentials);*
- *Elected member induction, training and communications (including interactions with staff, the community and media); and*
- *Records management and compliance, including data and cyber security.*

At the time of writing this report, the Governance Health and Financial Sustainability Review 2019-2020 report produced by William Buck was not finalised. The finalised report will be provided under separate cover (Appendix AUD: 9.5A) prior to the Audit & Risk Committee meeting on 4 December 2019.

Council Role - Executive.

Voting Requirements - Simple Majority.

### OFFICER RECOMMENDED RESOLUTION

THAT the Audit & Risk Committee request that Council receive and endorse the 2019 Governance Health and Financial Sustainability Review (Appendix AUD: 9.5A).

*Discussion:*

*The Committee was provided with a Confidential document at the meeting for their review.*

*Cr. P Robinson put forward an Alternative Resolution for the item to be brought back to the next Audit & Risk Committee meeting so as to allow more time for the Committee to review the Confidential document.*

Change to Officer Recommendation -

As per Local Government (Administration) Regulations 1996 11(da) Council records the following reasons for amending the Officer Recommended Resolution:

- *Defer the report to allow the Committee further time to review the information.*

**AUDIT AND RISK COMMITTEE RESOLUTION**

AAR 06-19      MOVED -      Cr. P Robinson      SECONDED -      Cr. M Hutchinson

**THAT the Audit and Risk Committee defer *Item 9.5 – Governance Health Check – William Buck* to allow for further time for review and to bring the item back to the next Audit & Risk Committee meeting on 4 March 2020.**

CARRIED  
4/0

<b>10. ELECTED MEMBER MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN</b>
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None.

<b>11. NEW BUSINESS OF AN URGENT NATURE</b>
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None.

<b>12. MATTERS BEHIND CLOSED DOORS</b>
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None.

<b>13. CLOSURE OF MEETING</b>
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*Note: Cr. M T Bennett extended his thanks and gratitude to the Deputy Chief Executive Officer, Mr Phil Anastasakis and his team for all the hard work and effort undertaken on the preparation of this year's financials.*

The date of the next Audit & Risk Committee Meeting will be Wednesday, 4 March 2020.

There being no further business the Chairperson declared the meeting closed at 5.16pm.