

The logo for the Shire of Dardanup, featuring a stylized mountain range in shades of green and blue.

Shire of Dardanup

# MINUTES

# AUDIT & RISK COMMITTEE MEETING

Held

7 December 2020

At

Shire of Dardanup  
ADMINISTRATION CENTRE EATON  
1 Council Drive - EATON

This document is available in alternative formats such as:

- ~ Large Print
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Upon request.

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## **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

## AUDIT & RISK COMMITTEE CHARTER

The Terms of Reference for this Committee are located in the Tardis records system – refer to the following link:  
[2020 - ToR - Audit and Risk Committee Charter](#)

### 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"> <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 MONDAY, 7 DECEMBER 2020, AT SHIRE OF DARDANUP – EATON ADMINISTRATION CENTRE, COMMENCING AT 1.00PM.****1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The Chairperson, Cr. T G Gardiner declared the meeting open at 1.00pm 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).*

<b>2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE PREVIOUSLY APPROVED</b>
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2.1 *Attendance*

Voting

Cr Tyrrell Gardiner	-	Chairperson
Cr Michael Bennett	-	Shire President – Deputy Chairperson
Cr Peter Robinson	-	Deputy Shire President
Cr Mark Hutchinson	-	Elected Member

Non-Voting

Mr André Schönfeldt	-	Chief Executive Officer
Mr Phil Anastasakis	-	Deputy Chief Executive Officer
Mr Luke Botica	-	Director Infrastructure
Mrs Donna Bailye	-	PA – Deputy Chief Executive Officer
Mrs Natalie Hopkins	-	Manager Financial Services
Mr Ray Pryce	-	Accountant
Mrs Cindy Barbetti	-	Compliance Officer
Mr Sudi Mishra	-	Manager Information Services
Mr Stephen Eaton	-	IT Manager

Visitors

Marius Van Der Merwe	-	Partner - Butler Settineri
Suraj Karki	-	Assistant Director - Office of Auditor General

2.2 *Apologies*

Cr Carmel Boyce	-	Elected Member
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<b>3. PRESENTATIONS</b>
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None.

**4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING****4.1 Audit & Risk Committee Meeting Held 2 September 2020****OFFICER RECOMMENDED RESOLUTION &  
AUDIT & RISK COMMITTEE RECOMMENDED RESOLUTION**

AAR 22-20      MOVED -      Cr P Robinson      SECONDED -      Cr M Hutchinson

**THAT the Minutes of the Audit & Risk Committee Meeting held on 2 September 2020, be confirmed as true and correct subject to no corrections.**

CARRIED  
4/0**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.

*Discussion:*

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

*There were no Declarations of Interest made.*

**8 REPORTS OF OFFICERS AND COMMITTEES****8.1 Title: Annual Meeting – 2019/20 Draft Auditor Report**

<i>Reporting Department:</i>	<i>Corporate &amp; Governance</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy Chief Executive Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995</i>

**Overview**

This report presents the draft Audit Report for the 2019/20 Annual Financial Statements to the Audit and Risk Committee for consideration and recommendation to Council for adoption.

**Background**

On the recommendation of its Audit Committee, Council is required to appoint an auditor per s7.3 of the *Local Government Act 1995 (LGA 1995)*. The *LGA 1995* also requires that the Local Government meet annually with the auditor.

From 1 July 2017, the *Local Government Amendment (Auditing) Act 2017* was enacted giving the Auditor General a mandate to audit all Western Australian local governments. *The Local Government Amendment (Auditing) Act 2017* is an Act to amend the *Local Government Act 1995* to provide for the auditing of local governments by the Auditor General and for related purposes. The change in legislation effectively required all local government audits to come under the control of the Office of the Auditor General (OAG).

Council's five year audit contract with Butler Settineri (Audit) Pty Ltd ceased at the end of the 2018/19 financial year. In March 2020, Council received confirmation that the Office of the Auditor General (OAG) would be responsible for the 2019/20 annual audit of the Shire of Dardanup Annual Financial Report. This responsibility also extends to subsequent years after the 2019/20 financial audit. Following confirmation from OAG of the 2019/20 financial audit, as is standard practice, the OAG outsourced the 2019/20 financial year audit to Council's previous auditors, Butler Settineri (Audit) Pty Ltd. This ensured a smooth transition towards the new OAG process, noting that the OAG have still maintained an active role during this year's audit.

As part of the new OAG process, an audit entrance meeting was scheduled on 8 April 2020 which provided an overview to the Audit and Risk Committee and Council staff on how the audit was to be undertaken. There may be the opportunity in future years for this audit entrance meeting to be conducted only with the CEO and finance staff, avoiding the need for the Audit and Risk Committee to convene for this one short item.

During the 2019/20 financial year, Council staff liaised directly with Butler Settineri, who in turn, communicated directly with the OAG throughout the process. The interim audit was conducted remotely from 25 to 28 May, at the height of COVID-19, whilst the majority of Council's finance staff were working from home. Fortunately the final audit was conducted onsite at the Eaton Administration Centre from 21 to 24 September, whereby three (3) Butler Settineri auditor staff were in attendance. It should be noted that both the interim and final audits have effectively doubled, from two days per audit to four days per audit, an indication of the increased objective and scope under the OAG practices.

The Audit and Risk Committee meeting provides the opportunity for the Audit and Risk Committee members to meet with the partner of Butler Settineri (Audit) Pty Ltd, Mr Marius van der Merwe, and the OAG Assistant Director of Financial Audit, Mr Suraj Karki, and consider the annual audit report.



Legal ImplicationsLocal Government Act 1995s7.2. 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 —*

- (a) *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.*

Local Government (Audit) Regulations 19969. 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 1.3.1 - 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 Audit and Risk 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 2020/21 budget provides an allocation 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 AAR: 8.1A) for full assessment document.

<b>Tier 1 – No discernible Inherent Risk has been identified (no Risk Theme or Consequence).</b>	
Risk Event	Annual Meeting – 2019/20 Draft 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 office in September 2020 to conduct the final audit, with three audit staff in attendance. 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: 8.1B) advises that the financial report of the Shire of Dardanup gives a true and fair view of the Shire of Dardanup financial position as at 30 June 2020 and of its performance during the year, and complies with Australian Accounting Standards.

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The Annual Audit Completion Report is provided (Appendix AAR: 8.1C) and will be discussed further at the meeting.

Council Role - Executive.

Voting Requirements - Simple Majority.

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

AAR 23-20      MOVED      Cr M Bennett      SECONDED -      Cr P Robinson

**THAT the Audit and Risk Committee recommends that Council accept the Draft Auditor's Report (Appendix AUD: 8.1B) as issued by the Office of the Auditor General (OAG) of the Annual Financial Statements for the 2019/20 financial year.**

CARRIED  
4/0

## 8.2 Title: 2019/20 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 2019/20 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 is provided in (Appendix AAR: 8.2A).

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 2019/20 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 20 January 2021, 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**

##### *4. AAS, effect of*

- (1) *These regulations are in addition to and not in derogation of the requirements of the AAS.*
- (2) *If a provision of the AAS is inconsistent with a provision of these regulations, the provision of these regulations prevails to the extent of the inconsistency.*
- (3) *All words in the Act or these regulations that import revenue or expenditure are to be interpreted to permit compliance with the requirements of the AAS.*

##### *5A. Local governments to comply with AAS*

*Subject to regulation 4, the annual budget, annual financial report and other financial reports of a local government must comply with the AAS.*

##### *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

Each year the Council is required to receive the audited Annual Financial Report.

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

### Council Policy Compliance

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 AAR: 8.2B) for full assessment document.

<b>Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.</b>	
Risk Event	2019/20 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 2019/20 Annual Financial Report is not received by Council.</li> </ul>

### Officer Comment

The 2019/20 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 2020 have been completed, as has been audited by the Office of the Auditor General (OAG) appointed auditors, Butler Settineri (Audit) Pty Ltd. Council’s Auditors have issued an unqualified draft Audit Report (Appendix AAR: 8.2A). The draft Audit Report is also shown on page 65 of the Annual Financial Report and will form part of the Annual Report scheduled to be adopted at the ordinary Council meeting on 16 December 2020.

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

- *Changes to Local Government (Financial Management) Regulations 1996*

On 6 November 2020, changes to the *Local Government (Financial Management) Regulations 1996* came into effect, which required local governments to apply the new Regulation amendments to the financial statements for 2019/20 financial year. Whilst the intention of the regulatory change was to reduce cost and the reporting burden on Local Governments by simplifying and removing requirements for the revaluation of certain asset classes and to address recent changes to the Accounting Standards, the timing of the gazetted changes (6 November 2020) has required many Councils, including Dardanup, to revise their draft annual financial statements.

The impact of these changes have required Council to de-recognise the Asset Valuation for Easements under Council’s control. In effect, the removal of Easement valuations from Council’s asset register amounts to a reduction of non-current assets of \$1.9M, which is offset against the Asset Revaluation Reserve Account for Intangible Assets. The de-recognition of the asset is included in disclosure, *Note 13 Intangible Assets* of the 2019/20 annual financial report.

In addition to the asset valuation adjustment, Council has recognised a liability provision for the leased land at part Lot 81 Banksia Road, Dardanup on which Council’s Waste Transfer Station operates. Conditions pertaining to the lease of land require Council to remove infrastructure and rehabilitate the land at the end of the lease period. As a result a provisional sum of \$83,833 has been included at *Note 21 Other Provisions* in the audited annual financial report for the Provision for Rehabilitation on Leased Land. It is anticipated any future rehabilitation works at the site will be funded from Council’s *Refuse Site Environmental Works Reserve* account on the expiration of the lease.

It should be noted that both amendments to the financial report do not affect Council's end of year surplus, nor does it impact the financial ratios that Council is required to report on. However, the reduction of Council asset valuation and increase in non-current liability provision does impact the equity in the Statement of Changes in Equity, and the Statement of Financial Position.

Other changes to the *Local Government (Financial Management) Regulations 1996* are summarised below, however, these changes have minimal impact on Council's 2019/20 Annual Financial Report:

- *Land under Roads*
  - The exemption for land under roads has been removed, but it will still be valued at zero.
  - In accordance with *AASB 16 Leases*, land under roads is now considered a concessionary right-of-use asset that is to be valued using the cost model, i.e. zero.
- *Land and buildings classified as Property, Plant and Equipment*
  - Continues to be valued at fair value.
  - Required to be revalued every 5 years, unless the fair value of the asset differs materially from its carrying value.
- *Land and buildings classified as Inventory*
  - Continues to be valued in accordance with *AASB 102 Inventories*.
- *Investment properties*
  - Continues to be valued in accordance with *AASB 140 Investment Property*.
- *Infrastructure*
  - Accounting treatment remains unchanged.
  - Improvements are valued at fair value and depreciated over their remaining useful life.
  - Assets are required to be revalued every 5 years, unless the fair value of the asset differs materially from its carrying value.
- *Vested improvements that the Local Government controls*
  - Required to be valued at fair value.
  - Not intended to be a separate asset class, but to come under Infrastructure.
- *Plant and Equipment*
  - The requirement to revalue has been removed. Local Governments are now required to use the cost model for plant and equipment.
  - If plant and equipment has already been revalued in 2019-20, there is no requirement to reverse the revaluation undertaken, now or in the future.
  - In moving to the cost model, Local Governments do not need to make any adjustments to the current carrying cost or accumulated depreciation. They can continue to depreciate on the existing revalued amount.
  - Commercial leases (e.g. offices, vehicles, machinery, ICT equipment) are right-of-use assets and should be recognised as plant and equipment.
  - New acquisitions above the threshold carrying value of \$5,000 should be brought in at their carrying value and depreciated over their useful life.
  - Art is considered to form part of the plant and equipment assets, so there is no requirement to revalue. Art is considered to have an indefinite life, so should not be depreciated.
- *Crown Land that is vested or under a Management Order, or other land that is not owned by the local government but which is vested in the local government*
  - The requirement to value vested land that is a golf course, showground, racecourse or any other sporting or recreational facility of State or regional significance has been removed. Any values brought to account should be reversed against the relevant revaluation reserve.
  - In accordance with *AASB 16 Leases*, Crown or other land vested in the local government is now considered a concessionary right-of-use asset that is to be valued using the cost model.



- Consequently, Crown or other vested land will continue to be valued at zero.
- *Changes to Australian Accounting Standards Board (AASB)*

In addition to Regulation changes, several Australian Accounting Standards came into effect on 1 July 2019 that apply for the first time to Local Governments for the financial year ending 30 June 2020. The new standards include:

*AASB 15 Revenue from Contracts with Customers*

*AASB 16 Leases*

*AASB 1058 Income of Not-for-Profit Entities*

*AASB 15 Revenue from Contracts with Customers* establishes the accounting principles a Local Government shall apply in relation to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard requires Council to recognise revenue aligned to the transfer of promised goods or services to customers for an amount that reflects the consideration to which the Local Government is entitled for those goods or services.

Grants with sufficiently specific performance obligations need to be considered when applying *AASB 15*. In effect, if Council receives a conditional grant funding, which is not yet expended, the accounting treatment requires Council to recognise the grant funding as a Contract Liability until the 'grant' has been consumed. In essence, the grant is recognised as revenue when the performance obligations in the contract are satisfied.

*AASB 16 Leases* supercedes Lease Standard *AASB 117* with the introduction of a single lessee accounting model to the extent there is no longer a distinction between finance and operating leases. The effect of *AASB 16 Leases* now results in both an asset and a liability on the Statement of Financial Position (balance sheet) i.e. a right-of-use asset is created, and a lease liability for the lease repayments which is measured at the present value of the future lease payments using a discount rate that is implicit and within the lease agreement.

*AASB 1058 Income of Not-for-Profit Entities* has considerable changes for Local Governments, including changes to accounting policies. Local Governments now need to consider how the standard impacts assets received below fair value, Transfers received to acquire or construct non-financial assets, Prepaid rates, Leases entered into at below market rates, and Volunteer services.

The AASB changes have impacted Council's financial resources significantly and are summarised below.

➤ *AASB 15 Revenue from Contracts with Customers*

*AASB 15 Revenue from Contracts with Customers* has required Council to assess grant and other revenue held at 1 July 2019 on which there is a future contract performance obligation.

Historically, when Council has received a grant, the general approach is for the asset (cash) to be recognised in the accounts when received, and the corresponding credit would have been recorded as revenue, irrespective of whether the performance obligations under the grant agreement have been completed. From 1 July 2019, if Council enters into a contract with a customer resulting in the receipt of a specific purpose grant or contribution in advance, *AASB 15* requires Council to recognise the asset (cash) with the corresponding credit being a financial liability.

The adjustment on 1 July 2019 required Council to recognise a Contract Liability for several grants and developer contributions received in prior years from the start of the financial year. Subsequently specific purpose grant revenue and developer contributions received during the 2019/20 financial year, where the performance obligations under the agreement has not yet been satisfied, are recorded as Contract Liabilities and can be found at Note 17 Contract Liabilities in the Annual Financial Report.

It should be noted unspent grants and developer contributions continue to be transferred to their respective Reserve accounts at year end as part of end of year processes.

➤ *AASB 16 Leases*

An adjustment was made on 1 July 2019 to recognise the Lease Liability of all Council's leases that were previously classified as operating leases. This effectively meant the vast majority of existing leases, which only impacted the Statement of Comprehensive Income prior to 1 July 2019, now required Council to capitalise each lease from the date of adopting the new standard.

The accounting treatment required Council to measure and record the lease liability of all Leases (20) at the present value of the future lease payments (using a discount rate), and recognise a corresponding right-of-use (ROU) asset which is depreciated over the life of the ROU asset (i.e. 'over the life of the lease'). *Note 12 Leases* and *Note 18 Lease Liabilities* form part of the disclosure requirements for this standard.

➤ *AASB 1058 Income of Not-for-Profit Entities*

Similar to *AASB 15*, *AASB 1058 Income of Not-for-Profit Entities* is about deciding which accounting period various items of revenue belong to. As per prior audited financial statements, Council has continued to recognise rates received in advance as 'Prepaid Rates' and revenue received in advance 'Prepaid Revenue' in the Statement of Financial Position. The disclosure note is listed at *Note 15 Trade and Other Payables* in the Annual Financial Report.

- *Financial Ratios*

Council is in good financial health and this is reflected in its statutory financial ratios that require reporting in the Annual Financial Report. The draft Annual Financial Report incorporates the 2020 financial ratios, noting that each individual ratio is favourably reported at either the same rating as the prior financial year (2019) or an improvement on last year.

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 20 = 1.270 or 127.0%

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 of Dardanup 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 2020 would be calculated at 693.7%, meaning the Shire has a multiple of 6.937 in liquid Current Assets to meet its Current Liabilities.

- **Asset Sustainability Ratio (ASR)**

#### *Formulae*

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

30 June 20 = 0.901 or 90.1%

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 2020 is reflective of this commitment.

- **Debt Service Cover Ratio**

30 June 20 = 14.774

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 management process has led to a significant reduction in the reliance on borrowed funds. 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 being used to meet immediate or operational 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 and sustainable debt levels.

- **Operating Surplus Ratio**

30 June 20 = 0.012

Department Standard = Achieving Standard

*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 Surplus as at 30 June 2020 = \$225,428. The 2020 Operating Surplus Ratio has improved from ‘Standard Not Met’ in 2019 to ‘Achieving Standard’ for the year ended 30 June 2020.

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.

Due to the inclusion of depreciation expense (a non-cash expense) in this calculation, it will be a challenge to meet this ratio into the future. As the Council’s asset base increases, the ratio demonstrates the need to meet annual deprecation expenditure from revenue.

- **Own Source Revenue Coverage Ratio**

30 June 20 = 0.848

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:

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

- **Asset Consumption Ratio (ACR)**

30 June 20 = 0.642 (64.2%)

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 64.2% indicates that Council Assets are at 64.2% of their useful life.

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

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

- **Asset Renewal Funding Ratio**

30 June 20 = 1.100 (110.0%)

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 renewal 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 2020 the Shire of Dardanup has met the 3 required ratio benchmarks.

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.

- *Financial Summary*

As at 30 June 2020 Council's Equity (Total Assets *minus* Total Liabilities) decreased by \$2,458,022 from \$192,648,300 to \$190,190,278. The decrease in Total Equity is partly due to changes in both *Australian Accounting Standards* from 1 July 2019, and recent changes to the *Local Government (Financial Management) Regulations 1996* for the valuation of assets in the financial statements for the period 30 June 2020.

Australian Accounting Standard Board (AASB) changes introduced on 1 July 2019 have required considerable changes to the way Council recognises revenue. Council adopted *AASB 1058 Income of Not-for-Profit Entities* and *AASB 15 Revenue from Contracts with Customers* on 1 July 2019 which has resulted in an adjustment (reduction) to the Retained Surplus as at 30 June 2020. The change in accounting policy required Council to recognise \$2,920,859 in Contract Liabilities.

*The Local Government (Financial Management) Regulations* were amended in November 2020 which require local governments to reflect the changes in the financial statements for the year ending 30 June 2020.

The removal of \$1,920,902 from Council's asset register relates to the valuation of Council's Easement's which were previously recorded at fair value as per Regulation 16 of the *Local Government (Financial Management) Regulations 1996*. Recent amendments the *LG (FM) Regs 1996* have now removed Regulation 16 which has resulted in an adjustment to Council's asset valuations and a reduction in Council's Equity.

Other changes that have impacted the change in Total Equity include the *Correction of Error* at Note 35 Correction of Error in the Annual Financial Report. This correction is to recognise that Council has a provisional liability to rehabilitate the leased land on which Council's Waste Transfer Station operates.

Council's carry forward surplus at 30 June 2020 is \$474,501. This was against the forecast budgeted carry forward surplus in the 2020/21 budget of \$382,052. The favourable variance of \$92,449 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 2019/20.

In summary, the Shire of Dardanup is in a 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;
4. Structured planning for all borrowings; and
5. Tight budgetary monitoring and control.

I would like to take the opportunity to thank all Corporate & Governance 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 2019/20 financial year.

Council Role - Executive.

Voting Requirements - Simple Majority.

## ITEM 8.2– FURTHER INFORMATION

### Officer Comment:

Following the distribution of the Audit & Risk Committee Meeting Agenda on Friday 4 December 2020, Auditors Butler Settineri have requested the following changes to the Annual Financial Report as provided for in (Appendix AAR: 8.2A).

The minor disclosure changes in the updated Annual Financial Report are summarised as follows:

- Page 23 – Note 9(b) Property, Plant & Equipment - Fair Value Measurements. Removal of fair value measurements for Furniture & Equipment and Motor Vehicles. This is due to a change in the Local Government (Financial Management) Regulations 1996.
- Page 25 – Note 10(b) Property, Plant & Equipment – Fair Value Measurements. Terminology correction - Replaced '*depreciated replacement cost*' with '*current replacement cost*'.
- Page 30 – Note 13 Intangible Assets. Terminology correction – Replaced '*audited financial statements*' with '*financial report*'.
- Page 53 – Note 33 Financial Risk Management. Layout correction – add in '*debt investments*'. Part of line was obscured which resulted in the '*debt investments*' being removed.



Page 56 – Note 34 Events Occurring After the End of the Reporting Period. Terminology correction – replaced ‘by Council’s auditors’ with ‘by the Council’.

The above changes on the relevant pages were presented to the Committee at the start of the meeting.

*Discussion:*

*Mr Phil Anastasakis spoke to the report and also acknowledged the work undertaken by the Manager Financial Services, Mrs Natalie Hopkins and Account, Mr Ray Pryce in producing the 2019/20 Annual Financial Report*

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

AAR 24-20      MOVED -      Cr P Robinson                      SECONDED -                      Cr M Bennett

**THAT the Audit and Risk Committee recommends that Council receive the Shire of Dardanup 2019/20 audited Annual Financial Statements for the financial year ended 30 June 2020 (Appendix AAR: 8.2A).**

CARRIED  
4/0

### 8.3 Title: 2021 Annual Audit Work Plan

<i>Reporting Department:</i>	<i>Corporate &amp; Governance</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy Chief Executive Officer Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 Local Government (Audit) Regulations 1996 Local Government (Administration) Regulations 1996</i>

#### Overview

This report to the Audit and Risk Committee provides members with the Annual Audit Work Plan for 2021 for their consideration and subsequent recommendation to Council.

#### Background

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

Since the emergence of Regulation 17 of the *Local Government (Audit) Regulations 1996*, the operation of the Audit and Risk Committee has been expanded to not only support the local government in effective financial management but also to provide effective corporate governance. This is achieved through the review of systems and procedures in place relating to risk management, internal control and legislative compliance.

In June 2020, the Auditor General released a Better Practice Guide 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, the Terms of Reference for the Audit and Risk Committee were reviewed and Council resolved the following at the Ordinary Council meeting held on 30 September 2020 [Res 279-20]:

#### *THAT Council:*

1. *Receives and endorses the reviewed Terms of Reference for the Audit & Risk Committee and for this to be herein known as the Audit & Risk Committee Charter.*
2. *Requests that a report on the '2021 Annual Work Plan' be brought back to the next Audit & Risk Committee Meeting, 2 December 2020 for member consideration and Council endorsement.*

In accordance with point 2 above, the 2021 Annual Audit Work Plan is hereby presented to the committee for their consideration.

#### 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

This is the first Annual Audit Work Plan to be considered by the Audit and Risk Committee.

### Budget Implications

Setting the Annual Audit Work Plan 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: 8.3A) for full assessment document.

<b>Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.</b>	
Risk Event	2021 Annual Audit Work Plan.
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 the Annual Work Plan 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>



<b>AUDIT AND RISK COMMITTEE – 2021 ANNUAL AUDIT WORK PLAN</b>					
<b>FUNCTIONS, RESPONSIBILITIES &amp; ASSOCIATED ACTIVITIES</b>	<b>Mar 21</b>	<b>* Apr 21</b>	<b>Jun 21</b>	<b>Sep 21</b>	<b>Dec 21</b>
Receive the biannual dashboard report			✓		✓
<b>3. Legislative Compliance</b>					
Review the annual Compliance Audit Return (CAR) and report to the Council the results of that review.	✓				
Receive the biannual compliance report resulting from the Compliance Manual (incorporating the annual calendar).	✓			✓	
<b>4. Internal Audit</b>					
Review annually the internal audit annual work plan, including any reports produced as part of special assignments undertaken by internal audit.				✓	
<b>5. Financial Reporting</b>					
Consider and recommend adoption of the Annual Financial Report to Council.					✓
<b>6. External Audit (OAG)</b>					
Audit Entrance Meeting with Audit and Risk Committee, Management and Council Auditors. The option exists for this entrance meeting to be only with the CEO and Finance staff negating the need for an Audit and Risk Committee meeting.		*			
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.					✓
Examine the reports of the auditor to – i.) determine if any matters raised require action to be taken by the local government; and ii.) ensure that appropriate action is taken in respect of those matters.					✓
Audit Exit Meeting with Audit and Risk Committee, Management and Council Auditors. To meet with the auditor, once in each year and provide a report to Council on the matters discussed and the outcome of those discussions.					✓
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.	✓		✓	✓	✓
<b>7. Regulation 17 Triennial Review (report next Due: March 2021)</b>					
To consider the CEO's triennial review on risk management, internal control and legislative compliance.	✓				

<b>AUDIT AND RISK COMMITTEE – 2021 ANNUAL AUDIT WORK PLAN</b>					
<b>FUNCTIONS, RESPONSIBILITIES &amp; ASSOCIATED ACTIVITIES</b>	<b>Mar 21</b>	<b>* Apr 21</b>	<b>Jun 21</b>	<b>Sep 21</b>	<b>Dec 21</b>
Set the action plan arising from auditor recommendations from the Regulation 17 review.	✓				
Receive an update on the action plan arising from auditor recommendations from the Regulation 17 review.			✓	✓	✓
<b>8. Financial Management Systems Triennial Review (report next Due: March 2022)</b>					
To consider the Financial Management Systems Review required every three years under Regulation 5 of the Local Government (Financial Management) Regulations 1996, and report to Council the results of that review.	Not Applicable				
Set the action plan arising from auditor recommendations from the Financial Management Systems Review.	Not Applicable				
Receive an update on the action plan arising from auditor recommendations from the Financial Management Systems Review.	Not Applicable				
<b>9. Governance Health &amp; Financial Sustainability Biennial Review (report next Due: March 2022)</b>					
To consider the CEO's biennial Governance Health and Financial Sustainability Review, and report to the Council the results of that review.	Not Applicable				
Set the action plan arising from the recommendations from the review.	Not Applicable				
Receive an update on the action plan arising from the recommendations from the review.	Not Applicable				
Undertake an independent external assessment of the Committee at least once in every three years. This assessment may be included in the scope of the Governance Health and Financial Sustainability Review.	Not Applicable				
<b>10. Information Systems Security Audit (report next Due: June 2021)</b>					
Receive the audit report arising from the 2 yearly Information Systems Security Audit.				✓	
Set the action plan arising from the recommendations from the Information Systems Security Audit.					✓
Receive an update on the action plan arising from the recommendations from the Information Systems Security Audit.					✓

\* A minimum of four meetings per annum is required, however an additional meeting may be scheduled for April 2021 that serves as an audit entrance meeting with Council's appointed Auditors, unless this entrance meeting can be conducted with just the CEO and Finance Staff.

CARRIED  
4/0

#### 8.4 Title: Bi-Annual Risk Management Dash Board Report

Reporting Department:	Corporate & Governance
Reporting Officer:	Mrs Cindy Barbetti – Compliance Officer
Legislation:	Local Government Act 1995 Local Government (Audit) Regulations 1996

#### Overview

The purpose of this report is to present the six monthly Risk Dashboard Report to the Audit and Risk Committee for consideration.

#### Background

In August 2019 Council, through the Audit and Risk Committee, adopted the revised Risk Management Governance Framework (the Framework) for the Council. The 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.

In accordance with the reporting requirements of the Framework, the Compliance Officer is required to present the Audit and Risk Committee with a Risk Dashboard Report (Appendix AAR 8.4A) every six months. In addition, the Terms of Reference within the Audit and Risk Committee Charter state the following as a committee objective:

- 5.8 *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.*

The Risk Dashboard Report has been developed as part of the Framework and in collaboration with a risk consultant from Council's insurer (LGIS), and 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.

#### 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 June 2020 meeting.

Budget Implications

As part of the Compliance Officer role, regular reporting of the Risk Management Governance Framework is essential. 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

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 AAR 8.4A) for full assessment document.



Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	Bi-Annual Risk Management 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	<p>Legal and Compliance</p> <p>Reputational</p> <p>Failure to fulfil compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.</p> <p>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

It is essential to monitor and review the management of risks, as changing circumstances may result in some risks increasing or decreasing in significance.

The Risk Dashboard Report for December 2020 (Appendix AAR 8.4B) summarises the risks of Council and provides the current treatment plans (actions) that have been identified by management to improve certain key control ratings. Typically these control ratings have been identified as inadequate and a treatment plan (action) has been determined to improve the control effectiveness to at least adequate.

The format of the Dashboard enables each treatment plan (action) to be categorised according to the relevant 15 risk theme profiles and provides the following information:

- The overall control rating (how effective the controls in place are operating).
- The overall risk rating (the determined level of risk).
- The overall assigned officer for the theme profile according to the level of risk responsibility:
  - Low – responsibility of Staff Member/Supervisor
  - Moderate – responsibility of Supervisor/Manager
  - High – responsibility of Manager/Director/EMT
  - Extreme – responsibility of EMT/CEO/Council
- The current treatment plan based on the following evaluation of risks:
  - Controls that are rated as inadequate must have a treatment plan to improve the control effectiveness to at least adequate.
  - Where the residual risk rating is high or extreme, treatment plans must be implemented.
- The due date of the treatment.
- The officer responsible for managing the individual treatment plans.

To provide a comparison between reporting periods, table 1 below indicates that there are currently 26 treatments in place, compared with 23 treatments in June 2020. Twelve new treatments have been added, with 9 being completed in the last 6 months. As treatments are cleared or completed they are removed from the Dashboard.

**Table 1 – Treatment Plan Summary**

June 2020 (last reporting period)			December 2020 (this reporting period)			
					In Progress	
Total	Completed	In Progress	Total	New	Overdue	On Schedule
23	9	14	26	12	2	12

The Risk Dashboard Report also provides an indication of the value of the combined controls in mitigating levels of risk. This is summarised by the overall control rating (how effective the controls in place are operating) and the overall risk rating (the determined level of risk). From the last reporting period, there remains no change to the overall control ratings or the overall risk ratings. Of the 15 Risk Profile Themes, 13 combined controls remain rated as 'Adequate' and 2 remain rated as 'Effective'.

The Audit and Risk Committee can expect the next Risk Dashboard Biannual Report at the committee meeting scheduled for 9 June 2021.

Council Role - Legislative.

Voting Requirements - Simple Majority.

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

AAR 26-20      MOVED -      Cr M Bennett                      SECONDED -                      Cr P Robinson

**THAT the Audit and Risk Committee receive the December 2020 Risk Dashboard Report provided in (Appendix AAR 8.4B).**

CARRIED  
4/0

## 8.5 Title: Secure Pay Security Breach

<i>Reporting Department:</i>	<i>Corporate &amp; Governance</i>
<i>Reporting Officer:</i>	<i>Mr Stephen Eaton – IT Manager</i>
<i>Legislation:</i>	<i>Local Government Act 1995</i>

### Overview

This report provides an overview of a fraudulent transaction breach that occurred in October 2020 which targeted a third-party gateway 'payment' system linked to the website of the Shire of Dardanup.

### Background

SecurePay is a gateway that is used for the payment of rates by credit card. Customers access the website of the Shire of Dardanup (<https://www.dardanup.wa.gov.au/council/online-payments/>) and navigate to the 'Pay your Rates' option. As part of the gateway provided, customers are redirected to SecurePay's website to complete the transaction. At this point of the transaction, Council has no control over the SecurePay website.

On 16 October 2020, the Shire of Dardanup IT Manager received a phone call from SecurePay warning that a card washing fraudulent activity had been detected. The activity concerned was an automated bot washing of credit cards, whereby the bot attempts to process a transaction of a low amounts (less than \$2.00) which either results in a decline (stolen credit card details not valid) or accept (stolen credit card details are valid) of the card details.

During the period from 16/10/2020 to 19/10/20, Council was subject to approximately 141,732 transactions (either declined or accepted) through this automated bot washing activity. Under the terms of the merchant agreement, each time a transaction was declined or accepted a transaction fee of \$0.12 is incurred, which had the potential to result in a total loss to Council of \$17,007.84 excluding GST.

Management responded by activating a 'Fraud Guard' product (at no additional cost) which limits the risk of fraudulent activity to the credit card holder and the organisation in terms of accepting fraudulent payments. However, this does not mitigate the risk around automated bot card washing activity and the transaction costs that can be incurred by the organisation. Therefore the decision to disable the online payment services was made and the service was disabled on 19/10/2020 until the risk could be mitigated.

To further mitigate the service from future attacks, SecurePay was requested to implement a re-captcha system on their payment page that requires a human input when making an online payment. This process slows down automated bots to the point where they become un-feasible and therefore prevents automated attacks.

The online rates payment service was re-enabled on 5/11/2020 once the reporting officer completed testing of the SecurePay re-captcha implementation and the Manager Financial Services confirmed reversal of transaction fees had been approved by SecurePay.

An audit of the remaining online payment gateways was initiated by the reporting officer on the 19/10/2020 and the findings are presented in this report.

Legal Implications

Local Government (Financial Management) Regulations 1996  
Part 2 s. 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.*

Local Government (Audit) Regulations 1996  
s. 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.*

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

While transaction costs were initially incurred, the majority of these were reversed and Council incurred less than \$50 in costs.

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 - CnG CP126 Cyber Security.

Risk Assessment

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

Tier 3 – ‘High’ or ‘Extreme’ Inherent Risk.	
Risk Event	SecurePay Fraudulent Transaction
Inherent Risk Rating (prior to treatment or control)	High (12 - 19)
Risk Action Plan (treatment or controls proposed)	<p>Customers were advised to contact the Rates Department to pay through alternative measures, either over the phone or in person at the Eaton or Dardanup offices.</p> <p>Re-captcha implemented to prevent automated attacks from re-occurring.</p> <p>Fraud guard implemented to prevent fraudulent activity, plus re-captcha implemented to prevent automated attacks.</p>
Residual Risk Rating (after treatment or controls)	Low (1 - 4)
Further Risk Categories Assessed Against (with a low to moderate inherent risk rating)	<p><b>Financial Impact</b> Potential for Council to incur additional transaction fees totalling \$17,000 excluding GST.</p> <p><b>Reputational</b> Risk of Council’s reputation being viewed negatively for having a payment gateway system vulnerable to outside security threats.</p> <p>Plus, not being able to deliver an online payment system during this period could lead to adverse comments from customers.</p>

Officer Comment -

The risk to Council with attempts of this nature is concerning and highlights the vulnerability of payment gateway providers. Maintaining a strong defensive system and recognising the importance of cyber security through policy and procedure is therefore paramount to the ongoing operations of Council.

The Shire of Dardanup utilises three online payment gateways as part of its daily operations.

1. **SecurePay**; Used for processing online rate payments via a direct simple payment page.
2. **IntegraPay**; Used as the online payment processor by Synergy Online for Cat, Dog, Creditor Invoices and Infringements.
3. **DebitSuccess**; Used as the online payment processor of ERC online Active Carrot (Gym) and Creche systems.

Consolidating payment processors within the organisation is impractical as the front-end systems for each have different requirements in their implementation and therefore rely on specific backend

payment processors, as such multiple payment providers will always exist within the organisation in one form or another.

- *Audit*

Each of the remaining payment processors were asked the following questions:

- Q1. *What preventions are in place on the payment gateway to prevent automated payments by a bot? i.e. technologies such as re-captcha on the payment gateway to prevent automated card washing.*
- Q2. *What fraud prevention is in place on the gateway to provide fraud protection?*
- Q3. *Is the Shire charged transaction fees for declined transactions?*
- Q4. *What is the process to dispute transaction fees? (i.e. in the event of an automated bot).*

- *Audit Findings*

	<b>SECUREPAY</b>	<b>INTEGRAPAY</b>	<b>DEBITSUCCESS</b>
<b>Q1</b>	Re-Captcha enabled.	Re-Captcha offered, however would require IT Vision to update the Synergy Online Application.  No direct payment gateway access.	Payments subject to account balance checks before payment is accepted. Not accepted if payment and balance do not match.  No direct payment gateway access.
<b>Q2</b>	Fraud Guard Enabled.	Is enabled by default where a number of rules are managed by their Risk and Fraud team (similar to Fraud Guard).	None.
<b>Q3</b>	Yes.	Yes.	Yes.
<b>Q4</b>	Only if an incident.	None.	None.

- *Risk of Future Bot Washing Attack*

These findings represent a low risk to the organisation in terms of an automated bot washing attack due to:

1. There is no direct access to these payment gateways for bot washing to occur, with the exception of SecurePay.
2. On services other than SecurePay, some form of validation is required to proceed i.e. valid dog registration, or gym membership login etc.
3. SecurePay risk from bot washing attack has been mitigated through the use of re-captcha technology.

- *Financial Risk due to unforeseen Security Incident.*

An important finding is that two out of the three providers do not offer a resolution process around fees charged for a declined or fraudulent transaction. This represents a financial risk to the organisation if an unknown attack were to occur in the future, as the organisations in the standard merchant agreement is charged for bot successful and declined transactions.

While there is not much that can be done to mitigate this risk without re-negotiating service agreements or cancelling services, the likelihood of this risk area occurring is low due to there not being any direct access.

- *Prevention*

To prevent a similar incident from occurring in the future, and for the organisation to become aware of merchant dispute processes around these fees, an online payment provider selection and evaluation guideline should be created as a control.

This control would define a check-list of the minimal service level requirements and contract conditions for the organisation to check before entering into such agreements. While these points may not always be able to be negotiated, at least it raises awareness for the organisation and a risk assessment can then be performed on whether to proceed or not.

Council Role - Legislative.

Voting Requirements - Simple Majority.

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

AAR 27-20      MOVED -      Cr P Robinson      SECONDED -      Cr M Bennett

**THAT the Audit and Risk Committee recommends that Council:**

- 1. Receive the SecurePay Fraudulent Transaction report.**
- 2. Request that the Chief Executive Officer formulate an Administrative Policy and Procedure to ensure that the controls around the selection and evaluation of future online payment providers be created.**

CARRIED  
4/0

## 8.6 Title: 2020-2021 Insurance Provisions

<i>Reporting Department:</i>	<i>Corporate &amp; Governance Services</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy Chief Executive 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 an overview of the current insurance portfolio in place following a recent update from LGIS, together with the service that is provided to Council and the financial implication.

### Background

Local Government Insurance Services (LGIS) has been providing insurance services to Council for many years. LGIS was established in the early 1990's by the WA Local Government Sector to establish its own sustainable solution for local governments in the format of an industry based self-insurance scheme. The scheme is entirely owned and controlled by the participating WA Local Government Members and provides a stable cost of cover together with the ability to eliminate volatilities driven by insurance market conditions.

Further to this, LGIS holds a competitive advantage over traditional insurers through the return of surplus funds to participating members when performance results exceed target levels. This surplus results from good claims management and risk mitigation. Such redistribution of funds is not provided by the traditional insurance market who instead distribute profits to shareholders. Currently 100% of local government in Western Australia are insured through LGIS.

Where LGIS is unable to provide insurance protection they seek Non-Scheme protection with mainstream insurers (for example Chubb, Zurich, QBE) whereby LGIS act as the broker and obtain the insurance product on the behalf of all members at a reduced rate.

### Legal Implications

#### *Local Government Act 1995*

#### *5.49. Workers' compensation arrangement*

*(2) WALGA is to establish and manage, for the benefit of itself and any eligible body that chooses to participate, a group self insurance arrangement against liability to pay compensation under the WCIM Act.*

#### *9.58. Constitution of associations of local government*

*(6) Without limiting the generality of subsection (3), WALGA may —*

*(b) with the approval of the affected members, arrange contracts of insurance on behalf of all or any of its members for any purpose.*

### Strategic Community Plan

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

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

Environment                      None



Precedents

The former Audit Committee received a report at the September 2019 meeting detailing the Scheme and Non-Scheme Insurance policies undertaken with Local Government Insurance Services (LGIS).

Budget Implications

The 2020/21 Annual Budget contains a total insurance provision of \$472,279 consisting of \$161,497 for Workers Compensation Insurance and \$310,782 for other Insurances.

Total insurance costs for previous years have been:

2015/16	\$438,926
2016/17	\$409,503
2017/18	\$402,191
2018/19	\$414,503
2019/20	\$468,976

The 2020/2030 Long Term Financial Plan contains further annual provisions for insurance.

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

CnG CP009 – Voluntary Works/Tasks – Equipment.

CnG CP034 – Procurement Policy. The suite of LGIS insurances are established in accordance with s.9.58(6)(b) of the Local Government Act 1995 and are provided as part of a mutual, where WALGA Member Local Governments are the owners of LGIS. Therefore, obtaining LGIS insurance services is available as a member-base service and is not defined as a purchasing activity subject to this Policy. Should Council resolve to seek quotations from alternative insurance suppliers, compliance with this Policy is required.

SDev CP501 – Volunteer Bush Fire Brigade Training Expenditure Reimbursement.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR:8.6A) for full assessment document.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	2020/2021 Insurance Provisions
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 Categories Assessed Against	<p>Financial Impact</p> <p>Legal and Compliance</p> <p>Reputational</p>	<p>Council not having adequate insurance services in place and suffering a substantial loss.</p> <p>Failure to fulfil insurance obligations as per Council Policies:</p> <ul style="list-style-type: none"> <li>• CnG CP009</li> <li>• CnG CP034</li> <li>• SDev501</li> </ul> <p>Council’s reputation could be seen in a negative light for not maintaining an adequate insurance provision.</p>

### Officer Comment

LGIS provide Council with greater security and certainty which is a benefit derived from the strength and commitment of working together. This commitment enables Council to finance and manage insurance services and risk through a shared vision and alignment of outlook, interest and loyalty.

From 1 July 2020, LGIS expanded its Scheme Protection cover to enable members to receive more protection with the addition of Cyber Liability, Management Liability, Motor Vehicle, Personal Accident and Travel Protection (Appendix AAR 8.6B). Previously these covers were Non-Scheme Protection insurance products which were obtained by LGIS on member’s behalf, with cover being provided by mainstream insurers. This expansion has enabled LGIS to provide protection for all insurance covers except Marine Cargo.

Figure 1 below details the Scheme and Non-Scheme insurance policies through LGIS and provides a price comparison between 2019/20 and 2020/21 financial years and Figure 2 details the credits that have been returned. All figures are GST exclusive.

**Figure 1 – Insurance Provision**

Class of Cover	Underwriter / Scheme	Interest Insured / Protected	2019/20 Premium	2020/21 Premium
<b>Local Government Special Risks</b>	LGIS Property	Physical loss, destruction or damage to property including machinery breakdown and electronic equipment.  <i>Note: Treendale Bridge BR5370 has been removed from the property register for 2020/21 as this is now fully insured by Shire of Harvey as per the Joint Maintenance Agreement. Payment has been made direct to the Shire of Harvey for Shire of Dardanup contribution.</i>	\$173,755	\$147,706
<b>Bush Fire</b>	LGIS Bushfire	Volunteer Bush Fire Brigade Members in respect of medical expenses, loss of salary/wages and death benefits.	\$29,930	\$27,370
<b>Public Liability</b>	LGIS Liability	Public Liability – Death or personal injury, loss or damage to property.  Professional Indemnity – protection arising out of civil liability in the conduct of the Member’s Professional Activities undertaken in the business.	\$57,620	\$59,487
<b>Casual Hirers</b>	LGIS Liability	Legal Liability to Third Parties for death,	\$0.00	\$0.00

Class of Cover	Underwriter / Scheme	Interest Insured / Protected	2019/20 Premium	2020/21 Premium
<b>Liability</b>		illness or personal injury and loss or damage to property at hired facility.		
<b>Environmental Impairment Liability</b>	LGIS Liability	For loss or claims arising from Pollution Conditions of Effluent Re-Use Conditions.	\$0.00	\$0.00
<b>Management Liability</b>	LGIS Liability	For individual Councillors and Officers in respect of claims for any alleged wrongful acts arising out of their official duties.	\$9,934	\$11,048
<b>Motor Vehicle</b>	LGIS Property	All Motor Vehicles and Trailers owned, leased, mortgaged under Hire Purchase Agreement, hired in or let out on hire, loaned to or by, or used or operated by the Insured including to the extent the Insured has accepted responsibility to insure.	\$37,625	\$39,525
<b>Commercial Crime and Cyber Liability</b>	LGIS Liability	Direct financial loss sustained by the Member anywhere in the world in connection with a single act or series of related continuous or repeated acts of internal crime, external crime, theft or physical loss or damage.	\$4,463	\$4,763
<b>Personal Accident</b>	LGIS Workcare	Elected Members and Volunteers if injured or death occurs whilst engaged in work for the Shire if said work is authorised by the Shire.	\$622	\$622
<b>Corporate Travel</b>	LGIS Workcare	External journey beyond 50km	\$1,046	\$1,046
<b>Workers' Compensation</b>	LGIS Workcare	Workers Compensation and Injury Management including Journey Accident cover.	\$153,681	\$167,307
<b>Marine Cargo Non-Scheme</b>	QBE Insurance	All goods and/or interests belonging and/or appertaining whilst in transit by land, air, water and parcel post.	\$300.00	\$300.00
<b>Shire of Harvey</b>	LGIS Property	2020/21 Insurance Contribution 68.77% for the Danjoo Koorliny (Treendale Bridge) as per Joint Maintenance Agreement	N/A	\$18,293
<b>TOTAL</b>			<b>\$468,976</b>	<b>\$477,467</b>

**Figure 2 – Credits received from LGIS**

CREDITS	2019/20	2020/21
Contributions Assistance Package Credit	(\$24,548)	(\$39,570)
Surplus Contribution Credit	(\$33,620)	*
Good Driver Rebate	(\$2,991)	*

\* Figures not yet received/determined

LGIS further advise that in collaboration with WALGA they will be delivering new services, products and events, while meeting the needs of local government entities and communities moving forward.

Council Role - Legislative.

Voting Requirements - Simple Majority.

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

AAR 28-20      MOVED -      Cr T Gardiner                      SECONDED -                      Cr M Bennett

**THAT the Audit and Risk Committee receive the December 2020 Insurance Provision report.**CARRIED  
4/0**9. ELECTED MEMBER MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

None.

**10. NEW BUSINESS OF AN URGENT NATURE**

None.

**11. MATTERS BEHIND CLOSED DOORS**

None.

**12. CLOSURE OF MEETING***Discussion:**Cr M Bennett acknowledged the work undertaken by the Finance Department and wanted to thank the team for the work carried out in what has been a year of changes.*

The Chairperson advised that the date of the next Audit &amp; Risk Committee Meeting will be Wednesday, 3 March 2021.

There being no further business the Chairperson declared the meeting closed at 2.00pm.