

The logo for the Shire of Dardanup features a stylized, flowing line in shades of green and blue, resembling a mountain range or a wave.

Shire of Dardanup

MINUTES

AUDIT COMMITTEE MEETING

Held

17 July 2019

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

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COMMITTEE MEMBERSHIP:

AUDIT COMMITTEE

- CR P ROBINSON - CHAIRPERSON
- CR J DOW - DEPUTY CHAIRPERSON
- CR. T G GARDINER
- CR. M T BENNETT
- CR. J LEE

COUNCIL ROLE

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

DISCLAIMER

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

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

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

SHIRE OF DARDANUP**MINUTES OF THE SHIRE OF DARDANUP AUDIT COMMITTEE MEETING HELD ON WEDNESDAY 17 JULY 2019, AT SHIRE OF DARDANUP – EATON ADMINISTRATION CENTRE, COMMENCING AT 2.00PM.****1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

Chairperson, Cr. P S Robinson declared the meeting open at 2.00pm, welcomed those in attendance and referred to the Acknowledgement of Country; Emergency Procedures, the Disclaimer and Affirmation of Civic Duty and Responsibility on behalf of Councillors and Officers:

Acknowledgement of Country

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

Affirmation of Civic Duty and Responsibility

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

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

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

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

Emergency Procedure

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

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

2.1 Attendance

Voting

Cr. Peter Robinson	-	Elected Member - Chairperson
Cr. Michael Bennett	-	Shire President
Cr. Janice Dow	-	Elected Member – Deputy Chairperson
Cr. Tyrrell Gardiner	-	Elected Member
Cr. James Lee	-	Elected Member [2.08pm]

Non-voting

Mr André Schönfeldt	-	Chief Executive Officer
Mr Phil Anastasakis	-	Deputy Chief Executive Officer
Ms Cathy Lee	-	Manager Governance & HR
Mrs Natalie Hopkins	-	Manager Financial Services
Mrs Cindy Barbetti	-	Compliance Officer
Mrs Donna Bailye	-	PA – Deputy Chief Executive Officer

2.2 Apologies

None.

3. PETITIONS/DEPUTATIONS/PRESENTATIONS

3.1 Risk Management Presentation

Mrs Cindy Barbetti provided a powerpoint presentation to the Committee, which provided an overview of the Risk Management and Framework.

Note: Cr James Lee joined the meeting at 2.08pm.

Mr Phil Anastasakis provided an overview to the Committee of the ongoing management and reporting process.

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

4.1 Audit Committee Meeting Held 6 March 2019

**OFFICER RECOMMENDED RESOLUTION
& AUDIT COMMITTEE RESOLUTION**

AUD 05-19 MOVED - Cr. M T Bennett SECONDED - Cr. T Gardiner

THAT the Minutes of the Audit Committee Meeting held on 6 March 2019, be confirmed as true and correct subject to no corrections.

CARRIED
5/0

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

Discussion:

Chairperson, Cr. P Robinson asked Councillors and staff if there were any Declarations of Interest to be made.

There were no Declarations of Interest made

8. REPORTS OF OFFICERS

8.1 Title: Update on the Implementation of the Reg. 17 Review Actions

<i>Reporting Department:</i>	<i>Corporate & Community Services</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy CEO</i> <i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Audit) Regulations</i>

Overview

This report provides the Audit Committee with an update on the implementation of the Regulation 17 Review Actions.

Background

Regulation 17 of the Local Government (Audit) Regulations 1996 requires the Chief Executive Officer to review the appropriateness and effectiveness of a Local Government's systems and procedures at least once in every three (previously two) years and report to the Audit Committee the results of that review.

This review was undertaken by AMD Chartered Accountants and the report along with the CEO's and management's comments were presented to the Audit Committee meeting held on the 13 December 2017.

At the Audit Committee Meeting and subsequent Council meeting, the following was resolved [334-17]:

THAT Council:

1. *Receives the Chief Executive Officer and Director Corporate & Community Services' Report that incorporates the review and findings of AMD Chartered Accountants (dated 17 November 2017) on the Local Government systems and procedures under Regulation 17 of the Local Government (Audit) Regulations 1996.*
2. *Request that the Chief Executive Officer provide an update of the actions required from the findings of the Regulation 17 Audit to each future Audit Committee meeting.*

This report is provided to the Audit Committee meeting as an update by management on the implementation of the report findings and recommendations.

Legal Implications - None.

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

Reg 17. CEO to review certain systems and procedures

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*

- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

The Shire's Risk Management Policy AP023 guides the approach to Strategic Risk Management.

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 previous (and first) review was performed internally by Shire of Dardanup staff and presented by the Chief Executive Officer to the Audit Committee on 26 November 2014. The scope of the previous review included all 3 areas of (a) Risk Management; (b) Internal Controls; and (c) Legislative Compliance.

An update report on the Regulation 17 Review Actions was presented to the previous Audit Committee meeting on the 6 March 2019.

Budget Implications

The annual budget provides sufficient expenditure allocation for consultancies to cover the cost of the next review report due in September 2020.

Budget – Whole of Life Cost

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

Council Policy Compliance

The review of the Regulation 17 requirements complies with Council Risk Management Policy. The Regulation 17 review is a precursor for a complete review of the Shire of Dardanup Risk Management Framework policies and procedures.

Risk Assessment - Low.

The Regulation 17 review is designed to reduce and minimise risk. As the review has been completed by an independent professional third party recognised accounting firm the Risk Assessment for this report is low.

Officer Comment

Local Government (Audit) Regulation 17 is a relatively new regulation requiring the Chief Executive Officer to review the appropriateness and effectiveness of a Local Government's systems and procedures in relation to:

- (a) risk management;

- (b) internal control; and
- (c) legislative compliance.

The review is to be undertaken at least every three (previously two) years as required by Regulation 17 (2) which was gazetted in February 2013.

The Chief Executive Officer is to report to the Audit Committee the results of a review. The Audit Committee under Regulation 16(c) is to review the report and report to Council the results of the review.

A Terms of Reference was developed to define the scope of the review. This Terms of Reference was based on previous reviews and the Local Government Operational Guidelines No.9 – *Audit in Local Government*.

AMD Chartered Accountants were appointed in September 2017 to undertake the review and attended the 13 December 2017 Audit Committee meeting to present and discuss their report.

Listed below are the Findings noted in the Regulation 17 Review Report, and an update on the implementation of recommended actions:

- *Summary Table*

1. Risk Management	Original Proposed Completion Date	Revised Completion Date	Status
1.1 – Risk Management Framework	30/6/2018	30/6/2019	Completed
1.2 – Business Continuity Plan	1/11/2017		Completed
1.3 – Projects and Procurement	30/6/2018	30/6/2019	Completed
1.4 – Emergency Risk Management	30/6/2018		Completed
1.5 – Risk Management Policies and Procedures	30/6/2018	26/7/2018	Completed
1.6 – Outdated Policies	30/6/2018	26/7/2018	Completed
2. Internal Controls	Original Proposed Completion Date	Revised Completion Date	Status
2.1 – Information Technology	31/12/2017	30/6/2019	Completed
2.2 – Independent Review	31/12/2017		Completed
2.3 – Signature Specimen	31/12/2017		Completed
2.4 – Financial Management Systems Review	30/6/2018		Completed
3. Legislative Compliance	Original Proposed Completion Date	Revised Completion Date	Status
3.1 – Tender Register	31/12/2017		Completed
3.2 – Compliance Calendar	30/6/2018	30/6/2019	Completed
3.3 – Audit Committee	30/6/2018		Completed
3.4 – Internal Audit	30/6/2018		Completed
3.5 – Petty Cash	31/12/2017	26/7/2018	Completed

1. RISK MANAGEMENT**1.1 RISK MANAGEMENT FRAMEWORK***Auditor Recommendation:*

We recommend the Shire develop an organisational risk register. This should include conducting a comprehensive risk identification process to identify potential Shire risks within each business unit and incorporates the following categories:

- Operational;
- Strategic;
- Finance;
- Technological; and
- Compliance risks.

The risk register should identify the risk, analyse the risk by determining the likelihood, consequence and current controls in respect to each identified risk; evaluate the risk by deciding whether the risk is to be treated/controlled, reassessed or accepted and determine the action to be taken to treat or control each risk.

The risk register should also be monitored and reviewed on a regular basis to ensure up to date and integrates with existing Shire's Risk Management Framework policies and procedures.

Furthermore, once the organisational risk register is developed, we recommend this register is tabled at the Audit Committee meeting and subsequent Council meetings on a periodic basis.

- *Officer Comment*

In March 2019, Local Government Insurance Services (LGIS) conducted two workshops attended by Senior Staff to set the Council's methodology in identifying, assessing, managing, reporting and monitoring risks. This workshop supported the foundations of the Risk Management Framework and Council's Risk Management Policy AP023 in accordance with Australian Standard AS/NZS ISO 31000:2018 Risk Management – Guidelines.

LGIS also conducted a one hour Councillor briefing session to provide our elected members with an overview of the Risk Management Framework. The LGIS facilitator highlighted that the Council recognises that risk is inherent in all of its operations and that effective management of risk is necessary in order to protect its people, assets, liabilities and community against potential losses and negative consequences.

The Shire of Dardanup is committed to monitoring and reviewing the Framework on a regular basis to ensure it is meeting requirements and that it is integrated with the Risk Management policies and procedures. This function will be undertaken by the Compliance Officer where a Risk Report (Dashboard) will be produced every quarter to Senior Managers and every six months to the Audit Committee.

An update on the Risk Management Framework is presented in *Item 8.3 Risk Management Framework Update* of this Agenda and provided for in (Appendix: AUD:8.3B).

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	30 June 2019
Status	
Action completed.	

1.2 BUSINESS CONTINUITY PLAN

Auditor Recommendation:

We recommend the Shire finalise their incident management and business continuity plan. In addition, we recommend the incident management and business continuity plan is tested on a regular basis to ensure that in the event of a disaster, appropriate action(s) can be taken.

- *Officer Comment*

This action was completed 1 November 2017 and presented to the Audit Committee at the March 2018 meeting.

Responsible Officer	Proposed Completion Date
Coordinator Emergency & Ranger Services	1 November 2017
Status	
Action completed.	

1.3 PROJECTS AND PROCUREMENT

Auditor Recommendation:

We suggest the Shire further enhance the already robust procurement process by developing and implementing the following:

- Documented comprehensive project / tender risk assessment and reporting process for all major projects and tenders. Determine instances/thresholds where a risk assessment is to be conducted for those tenders / projects that are deemed high risk to the Shire (i.e. monetary value, reputational impact, culturally sensitive etc.); and
- Formal post tender review process, identifying both positive and negative findings with a view of continuous improvement of the tender / quotation process the Shire has in place.

- *Officer Comment*

A review and update of Council's Procurement Policy CP034 (adopted OCM 13 February 2019) and Procurement Procedure PR045 has introduced increased project planning and risk assessment for major items of expenditure.

As part of the Risk Management workshop that was held in March 2019, Senior Staff were required to identify and rate key controls concerned with the themes "Supplier/Contract Management" and "Project/Change Management". Both of these themes are pertinent to the risk assessment to be undertaken for tenders/projects that are deemed high risk to the Shire.

The Procurement Officer has established a comprehensive Template Procurement Plan which is tailored for any purchase over \$50,000. This plan is deployed for Request for Quotes (RFQ), Request for Tenders (RFT) and Expressions of Interest (EOI). Incorporated in this plan is a potential risk and mitigation section that aligns to the Risk Management Framework and its supporting risk tables and matrix.

A post tender review table has been incorporated in the relevant tender case which will identify both positive and negative findings from successful tenders. At the Risk Management workshop, Senior Staff identified the need to standardise a formal structure for all projects (from conception to completion) and this action is scheduled for completion in March 2020. The post tender review process will be further captured in this structure and will continually evolve and gain strength.

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	30 June 2019
Status	
Action completed.	

1.4 EMERGENCY RISK MANAGEMENT

Auditor Recommendation:

We recommend a bushfire recovery plan be prepared and adopted by Council. Once the plan has been adopted and implemented the plan should be monitored on a regular basis including testing the appropriate sections of the plan to ensure that in the event of a disaster, appropriate actions can be taken.

- *Officer Comment*

This action was completed 1 November 2017 and presented to the Audit Committee at the March 2018 meeting.

Responsible Officer	Proposed Completion Date
Coordinator Emergency & Ranger Services	30 June 2018
Status	
Action completed.	

1.5 RISK MANAGEMENT POLICIES AND PROCEDURES

Auditor Recommendation:

We recommend a litigation/claims and fraud/misconduct policy be prepared and adopted by the Shire.

- *Officer Comment*

This action was completed 26 July 2018 and presented to the Audit Committee at the December 2018 meeting.

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	26 July 2018
Status	
Action completed.	

1.6 OUTDATED POLICIES

Auditor Recommendation:

We recommend the code of conduct be reviewed and the next required review date be specified.

Furthermore, we recommend all policies be reviewed in accordance with their stated review dates.

- *Officer Comment*

This action was completed 26 July 2018 and presented to the Audit Committee at the December 2018 meeting.

Following the completion of this task as part of the Regulation 17 Review, the Code of Conduct was again identified under the Financial Management System Review that was undertaken by AMD Chartered Accountants in February 2019. An update on the Code of Conduct is presented in *Item 8.2 Update on the Financial Management Systems Review* of the Agenda

Responsible Officer	Proposed Completion Date
Manager Governance & HR	26 July 2018
Status	
Action completed.	

2. INTERNAL CONTROLS

2.1 INFORMATION TECHNOLOGY

Auditor Recommendation:

We recommend the following:

- Customer service operators use their own unique username and password.

- Officer Comment*

This action was completed 30 June 2018 and presented to the Audit Committee at the July 2018 meeting.

- Employee access to Shire of Dardanup systems be suspended when an employee is on extended leave.

- Officer Comment*

This action was completed 30 June 2018 and presented to the Audit Committee at the July 2018 meeting.

- Formal KPI's be implemented in respect of IT.

- Officer Comment*

Formal KPI's have been identified to address ICT on outstanding matters. This provides strategic direction to Information Services and for the organisation overall.

The MIS Department recently translated the Strategic Community Plan 2018 (SCP) into a draft Strategic ICT Business Plan for the Shire. This ICT Plan will support and assist the formal KPI's.

The recent appointment of an Acting Manager Information Services has enabled the establishment of formal KPI's to address outstanding ICT matters, as well as finalise the Strategic ICT Business Plan.

(Action Completed)

- A formal review of vendor performance be completed following contract completion.

- Officer Comment*

The Procurement Officer is progressively reviewing existing service contracts and arrangements that are in place.

The approach moving forward is to align any 'new' service contracts or arrangements to the Procurement Plan. This plan captures and enforces KPI's that are agreed to. These KPI's are then transitioned to the formal contract document and monitored by the Procurement Officer. Part of this service contract or agreement monitoring involves a formal review of the vendor's performance.

For 'existing' service contracts and arrangements these are captured in a register monitored by the Procurement Officer. The intention is that before a 'renewal' of any contract or arrangement takes place, the Procurement Officer discusses the renewal or tender options available.

(Action Completed)

Responsible Officer	Proposed Completion Date
Manager Information Services	30 June 2019
Status	
Action completed.	

2.2 INDEPENDENT REVIEW

Auditor Recommendation:

We recommend the following:

1. The Manager of Financial Services sign general journals raised as evidence of independent review, for journals raised by the Manager of Financial Services we recommend the Director of Corporate and Community Services review these journals. We understand journals are prepared in excel format and thereby electronic signatures may be required to evidence this review occurring.

- *Officer Comment*

This action was completed 31 December 2017 and presented to the Audit Committee at the March 2018 meeting.

2. Credit card statements once signed by the cardholder be reviewed and signed by the Director Corporate and Community Services to evidence review occurring.

- *Officer Comment*

This action was completed 31 December 2017 and presented to the Audit Committee at the March 2018 meeting.

3. End of day cash reconciliation be signed by preparer and a second employee to evidence review prior to monies being banked; and

- *Officer Comment*

This action was completed 31 December 2017 and presented to the Audit Committee at the March 2018 meeting.

4. A periodic review (e.g. quarterly) of Synergy master file changes reports be completed.

- *Officer Comment*

This action was completed 30 June 2018 and presented to the Audit Committee at the July 2018 meeting.

Responsible Officer	Proposed Completion Date
Manager Information Services	30 June 2018
Status	
Action completed.	

2.3 SIGNATURE SPECIMEN

Auditor Recommendation:

We recommend a signature specimen be prepared and signed by all delegated authorities.

- *Officer Comment*

This action was completed 30 June 2018 and presented to the Audit Committee at the July 2018 meeting.

Responsible Officer	Proposed Completion Date
Manager Financial Services	30 June 2018
Status	
Action completed.	

2.4 FINANCIAL MANAGEMENT SYSTEMS REVIEW

Auditor Recommendation:

We recommend the above recommendations be implemented.

Management Comment

The review recommendation is noted and supported. The relevant recommendations in the FMSR are:

5 – Purchase/Expense

- Findings: The Shire's payment of accounts policy states that the Council staff shall settle accounts due and payable each fortnight. The review noted that the payment of accounts occurs every Friday. The policy and practice appear to be inconsistent.
- Recommendation: That the Shire's payment of accounts policy be amended to reflect the actual process.

6 – Purchase/Expense

- Findings – The Shire's payment of accounts policy includes the Customer Service Officer in Dardanup as a responsible officer for delegated petty cash. From their enquiry the Dardanup CSO no longer has petty cash.
- Recommendation: That the Shire's payment of accounts policy be updated accordingly.

10 – Credit Card

- Findings: In the use of the corporate credit card policy, they noted the following clause: *Failure to comply with this policy may incur disciplinary action at the discretion of the CEO.* It was noted that the CEO is the only person that has a Shire credit card.
- Recommendation: That the policy be adjusted to refer any non-compliance issues to Council.

- *Officer Comment*

These actions (5, 6 and 10) were completed 26 July 2018 and presented to the Audit Committee at the December 2018 meeting.

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	26 July 2018
Status	
Action completed.	

3. LEGISLATIVE COMPLIANCE

3.1 TENDER REGISTER

Auditor Recommendation:

The following should be included within the tender register:

- The name of any successful tenderer; and
- For each invitation to tender the amount of the consideration or a summary of the amount of the consideration sought in the tender accepted by the local government.

We also recommend:

- The name of any successful tenderer; and
- For each invitation to tender the amount of the consideration or a summary of the amount of the consideration sought in the tender accepted by the local government.

- *Officer Comment*

This action was completed 30 June 2018 and presented to the Audit Committee at the July 2018 meeting.

Responsible Officer:	Proposed Completion Date:
Director Corporate & Community Services	30 June 2018
Status:	
Action completed.	

3.2 COMPLIANCE CALENDAR

Auditor Recommendation:

We recommend consideration be given to completing and implementing a compliance manual linked to each business unit risk assessment.

We would expect the manual to be divided into each business unit section (as identified within the organisation structure) and to:

- Identify relevant legislation to that business unit (for example the Health Act 1911 or the Planning and Development Act 2005 or the Dog Act 1976);
- Identify key relevant sections within each legislation and note within the compliance manual;
- Who is responsible for ensuring controls in place to ensure compliance with each identified legislation section;

- The mechanism in place to ensure compliance, for example a policy or procedure (this component of the compliance manual would link each relevant section of legislation to a policy, procedure, person or other control).
- Regular testing of compliance, for example if the mechanism for compliance is a policy, regular review and spot checking (internal audit) of that policy; and
- Key milestone / reporting dates applicable to that legislative section and how compliance is met.

Once the compliance calendar is implemented, we recommend a standing agenda item be added to the Audit Committee / Council meeting agenda to assess the effectiveness of compliance through the review and assessment of the compliance calendar.

- *Officer Comment*

The Compliance Officer has commenced work on updating and tailoring the Compliance Manual which incorporates the Compliance Calendar.

As part of this role, the Compliance Officer will regularly report to the Audit Committee on this process. It is anticipated that the first report will be presented to the next Audit Committee meeting to be held September/October 2019.

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	30 June 2019
Status	
Action completed.	

3.3 AUDIT COMMITTEE

Auditor Recommendation:

We recommend a review of the audit committee 'Instrument of Appointment and Terms of Reference' be completed and audit committee meetings be held at least quarterly as recommended by the Department of Local Government Sport And Cultural Industries, operational guideline Number 09.

- *Officer Comment*

This action was completed and presented to the Audit Committee at the March 2018 meeting.

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	30 June 2018
Status	
Action completed.	

3.4 INTERNAL AUDIT

Auditor Recommendation:

In accordance with Department of Local Government Sport And Cultural Industries best practice operational guidelines, we recommend an internal audit function be established incorporating an internal audit program which is re-assessed annually.

Should Shire of Dardanup consider an internal audit function not be required, we suggest the Audit Committee formally document they have considered the best practice guideline and the reasons they feel it is not necessary.

- *Officer Comment*

This action was completed and presented to the Audit Committee at the March 2018 meeting.

Responsible Officer	Proposed Completion Date
Director Corporate & Community Services	30 June 2018
Status	
Action completed.	

3.5 PETTY CASH

Auditor Recommendation:

We recommend petty cash purchases do not exceed \$20 and where purchases are required above this threshold they are made through the Shire's creditors system. Alternatively it may be appropriate and practical to increase the \$20 threshold within the 'Payment of Accounts' policy.

- *Officer Comment*

This action was completed 26 July 2018 and presented to the Audit Committee at the December 2018 meeting.

Responsible Officer	Proposed Completion Date
Manager Financial Services	26 July 2018
Status	
Action completed.	

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION & AUDIT COMMITTEE RESOLUTION

AUD 06-19 MOVED - Cr. M T Bennett SECONDED - Cr. J Dow

THAT the Audit Committee:

1. **Receive the July 2019 update report on the implementation of actions required from the findings of the December 2017 Regulation 17 review of Risk Management, Internal Controls and Compliance.**
2. **Requests that Council acknowledges that all tasks resulting from the December 2017 Regulation 17 Review are now completed and further reports are no longer required.**

CARRIED
5/0

8.2 Title: Update on the Financial Management Systems Review Actions

Reporting Department:	Corporate & Community Services
Reporting Officer:	Mr Phil Anastasakis – Deputy Chief Executive Officer Mrs Cindy Barbetti - Compliance Officer
Legislation:	Local Government Act 1995 and Local Government (Financial Management) Regulations 1996

Overview

This report provides the Audit Committee with an update on the implementation of the Financial Management Systems Review Actions.

Background

In accordance with regulation 5(2)(c) Local Government Financial Management Regulation 1996, the Chief Executive Officer is required to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (not less than once in every 3 financial years) and report to the Local Government the results of those reviews.

This review was undertaken by AMD Chartered Accountants in February 2019 and the report along with management comments were presented to the Audit Committee meeting held on 6 March 2019.

At the Audit Committee Meeting of the 6 March 2019 and subsequent Council meeting of 27 March 2019, the following was resolved [56-19]:

THAT Council receive the report from the Chief Executive Officer, incorporating the review and findings of AMD Chartered Accountants (dated 28 February 2019) on the review of the appropriateness and effectiveness of the financial management systems and procedures under Regulation 5 of the Local Government (Financial Management) Regulations 1996.

The areas noted in the report are to be addressed in accordance with the management comments provided, and are subsequently reported and monitored through future reviews and reports.

This report is provided to the Audit Committee meeting as an update by management on the implementation of the report findings and recommendations.

Legal Implications

Local Government Act 1995

Local Government (Financial Management) Regulations 1996 (as Amended):

- (2) The CEO is to —
- c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.

Strategic Community Plan

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

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

Environment - None.

Precedents

The previous review was undertaken by Butler Settineri in 2015 and presented to the Chief Executive Officer on 13 January 2016. The scope of the previous review was to compare the financial policies adopted by the Shire with the minimum requirements of the Local Government Act 1995 and its associated regulations and to determine the extent to which the stated policies and procedures as adopted by the Shire have been implemented by the Chief Executive Officer.

Budget Implications

The annual budget provides sufficient expenditure allocation for consultancies to cover the cost of the next review which will capture the period from January 2019 to December 2021.

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 - Low.

As the Financial Management System review was completed by an independent professional third party recognised accounting firm the Risk Assessment for this report is low.

Officer Comment

The Financial Management Systems Review is to be undertaken at least once in every 3 financial years. The Chief Executive Officer is to report to the Audit Committee the results of the review. The Audit Committee under Regulation 16(c) of the Local Government (Audit) Regulations 1996 is to review the report and report to Council the results of the review.

It was considered appropriate for this review to be conducted by an external auditing firm familiar with local government functions to reinforce the transparency and independence of the process.

The scope of the review was in accordance with Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 which would incorporate an assessment of the appropriateness and effectiveness of Council's financial management systems and procedures.

Quotes were obtained from two auditing firms to review the financial management systems of the Shire of Dardanup for the period from January 2016 to December 2018.

AMD Chartered Accountants (AMD) were appointed in February 2019 to undertake the review, and attended the 6 March 2019 Audit Committee meeting to present and discuss their report.

Listed below are the Findings noted in the Financial Management Systems Review Report, together with the Auditor Recommendations and Management Comment. An update on the implementation of recommended actions is also provided under the Officer Comment.

Ref	Issue	Risk Rating	Proposed Completion Date	Status
1.	Collection of money			
	We have no recommendations to raise in respect to the collection of money and related internal controls in place.			
2.	Custody and security of money			
	We have no recommendations to raise in respect to the custody and security of money and related internal controls in place.			
3.	Maintenance and security of financial records			
3.2.1	<p>Key Security and Register No documented procedure in respect to access of motor vehicles machinery and building keys. Key cabinet at the Shire depot was unlocked during the onsite visit. Currently no key register is maintained at the Shire Depot.</p> <p>Auditor Recommendation We recommend:</p> <ul style="list-style-type: none"> • A documented key procedure be developed and implemented in respect to the access of motor vehicles, machinery and building keys; • The depot key cabinet be locked and secured when not in use; and • A depot key register be maintained to ensure an accurate record of current vehicle use. <p>Management Comment Management acknowledges and accepts the recommendations. It is proposed in the near future to appoint a part-time Depot Administration Officer who will assist in the development of a key procedure and the ongoing monitoring or access and maintenance of records.</p> <p>Officer Comment - Update on Action Key Register Procedure PR116 has been implemented to provide direction for the management of 'motor vehicle and machinery' keys at the Shire Depot. A key register for the Depot has also been created to record daily vehicle use.</p> <p>Keys/fobs/remotes to Depot 'building' are issued to staff in accordance with their role and are issued and managed by Governance. If a Depot staff member requires keys for 'other' Shire buildings, then the normal process of obtaining these keys is managed through the Eaton or Dardanup office key register/procedure on a case by case basis.</p> <p>The depot key cabinet has been secured with a combination lock. The cabinet is locked when not in use. <i>Completed 21-06-2019.</i></p>	Moderate	30 June 2019	Completed
4.	Accounting for municipal or trust transactions			
4.2.1	<p>FBT and BAS Independent Review We noted the BAS and FBT returns are not signed off by the preparer and are not signed off to evidence review by someone independent of the BAS/FBT preparation process.</p> <p>Auditor Recommendation We recommend the BAS and FBT returns be signed by the preparer and also be signed as evidence of review by someone independent of the BAS and FBT preparation process.</p> <p>Management Comment Management acknowledges and accepts the recommendation. It is noted that the BAS/FBT Returns are lodged electronically by the Manager Financial Services, with advice provided electronically to the Manager Financial Services by the Accountant as evidence of the task completion. A signed version of these documents will be produced and recorded by the Accountant (preparer) and Manager Financial Services (reviewer).</p> <p>Officer Comment - Update on Action BAS returns are now signed by the preparer (Accountant) and also independently reviewed and authorised by Manager Financial Services. <i>Completed 24-04-2019.</i></p> <p>FBT returns are now signed by the preparer (Accountant) and also independently reviewed and authorised by Manager Financial Services. <i>Completed 21-05-2019.</i></p>	Minor	30 June 2019	Completed

Ref	Issue	Risk Rating	Proposed Completion Date	Status
4.2.2	<p>Fixed Asset Capitalisation and Depreciation Policy There are no documented policies in place in respect to asset capitalisation, depreciation and the management of attractive assets.</p> <p>Auditor Recommendation We recommend a policy be developed and implemented in respect to fixed asset capitalisation, depreciation and the management of attractive assets, to reflect current Shire operations and ensure compliance with Regulation 17A of the Local Government (Financial Management) Regulations 1996.</p> <p>Management Comment Management acknowledges and accepts the recommendation. It is proposed to develop the required new policies in the next few months.</p> <p>Officer Comment - Update on Action Council adopted CP127 Asset Capitalisation Threshold Policy at the 26 June 2019 OCM [Resolution 188-19]. This Policy has been developed using industry best practice standards.</p> <p>An 'Attractive & Portable Items Assets Register' has been created to ensure that those assets with a value below \$5,000 are recorded and managed, however they will have a zero value in the financial statements.</p> <p style="text-align: right;"><i>Completed 26-06-2019</i></p> <p>As part of the Asset Management Working Group's Terms of Reference, Council Policy CP074 - Asset Management will be reviewed over the coming 12 months and incorporate depreciation rates and classes. These depreciation rates will be established to reflect the useful life of assets and estimated consumption patterns. It is also proposed to develop a new Significant Accounting Policies Policy which will be presented to Council in August 2019, which will include depreciation rates amongst other items.</p>	Minor	30 June 2019	Completed
5. Authorisation for incurring liabilities and making payments				
5.2.1	<p>Changes to Creditor Master File We note there is no standard documentation completed and subsequently approved prior to making a change to creditor details in the creditor master file.</p> <p>Auditor Recommendation We recommend a standard form be developed to ensure there are no unauthorised or untimely changes to the creditor master files. When supplier detail changes are requested, the form should be completed and subsequently authorised by a senior employee or manager of the Shire to confirm changes in payee details are in fact correct.</p> <p>Management Comment Management acknowledges and accepts the recommendation. The proposed new Creditor Change Authorisation Form will be developed in the next few months.</p> <p>Officer Comment - Update on Action The existing creditor form (Form 14) has been amended to include an approval section by the Manager Financial Services (MFS) to endorse the modification of the creditor details.</p> <p>Another element of control has also been introduced for creditor reporting. Each week a report is produced to MFS showing changes to the Creditor Master File bank details. This report is reviewed and authorised by MFS prior to the weekly file upload of creditor payments.</p> <p>At the end of each month, another report is also provided to MFS which shows other changes to the Creditor Master File (ie changes to name, address etc). This report is reviewed and authorised by MFS.</p> <p style="text-align: right;"><i>Completed 14-06-2019</i></p>	Significant	30 June 2019	Completed
5.2.2	<p>Purchasing and Payment We identified a number of matters for enhancement and improvement in respect to purchasing and payments.</p>	Significant	30 June 2019	Completed

Ref	Issue	Risk Rating	Proposed Completion Date	Status
	<p>Auditor Recommendation We recommend:</p> <ul style="list-style-type: none"> Purchase orders are raised and signed as evidence of authorisation for all purchases prior to the expenditure being incurred; The EFT checklist be fully completed prior to finalising the EFT payment; and Cash reconciliations are a key control and should be reviewed by someone independent of the reconciliation function. Reconciliations should be signed off as evidence of this review. <p>Management Comment Management acknowledges and accepts the recommendation. The relevant staff associated with the Payment of Invoices will be advised to increase monitoring of compliance by staff to procurement and payment requirements. Additional focus on compliance will be undertaken by the Compliance Officer. Further staff training will occur to promote and educate all staff on the requirements of the updated Procurement Policy and procedures.</p> <p>Officer Comment - Update on Action</p> <ul style="list-style-type: none"> Purchase Orders (PO): Increased monitoring of Purchase Orders (PO) has been implemented. This process involves the Procurement Officer reviewing all PO's prior to Accounts Payable Officer filing the PO. This review process ensures purchase orders are compliant with Council's Procurement Policy and that the PO is raised prior to expenditure being incurred. In addition, the Procurement Officer has also undertaken team training sessions with each Council Department to ensure that Procurement Policy and process is fully understood by Authorising Officers. The training addresses compliance with legislation, internal policies and procedure and aims to promote a culture of compliance. These training sessions further strengthen to staff that the Procurement Officer is to be used as a resource for any Procurement questions or issues that may arise. <i>Completed 31-03-2019</i> EFT Checklist: Accounts Payable Officer ensures that the checklist is completed prior to EFT payment finalisation. Authorised signatories independently review and authorise the weekly EFT file prior to bank file being uploaded. <i>Completed 29-03-2019.</i> Pettycash: Pettycash Recoup Forms for Eaton Administration Centre, Eaton Recreation Centre and Eaton Library have been updated to include signed by preparer and authorisation by Purchasing Officer. The recoup forms are also independently reviewed by Accounts Payable Officer. <i>Completed 29-03-2019</i> 			
6.	Maintenance of payroll, stock control and costing records			
6.2.1	<p>Fuel Card/Usage Policy Currently no fuel card policy in place.</p> <p>Auditor Recommendation We recommend a fuel card policy be developed and implemented which provides guidance to staff members who are entitled to fuel cards, the terms of fuel card use and record keeping requirements.</p> <p>Management Comment Management acknowledges and accepts the recommendation. It is proposed to develop the required new policy in the next few months.</p> <p>Officer Comment - Update on Action The Fuel Card Administration Policy and Procedure has been created and was endorsed by EMT on the 1 July 2019. Staff have also implemented a proposed form that will be used by all fuel card holders to declare that they understand the guidelines and conditions imposed with holding a Shire issued fuel card. A current 'Fuel Card Register' has been developed and will be updated on a regular ongoing basis. <i>Completed 01-07-2019</i></p>	Minor	30 June 2019	Completed
6.2.2	<p>Loss on Private Works Loss of \$350 made on private works jobs completed for the period ended 31 December 2018.</p> <p>Auditor Recommendation We recommend the recovery of costs in respect to private works be reviewed to ensure costs incurred are on-charged to customers inclusive of a mark-up component.</p>	Minor	30 June 2019	Completed

Ref	Issue	Risk Rating	Proposed Completion Date	Status
	<p>Management Comment Management acknowledges and accepts the recommendation. The new Fees and Charges software will assist in determining the appropriate fee to charge for private works. This is anticipated to be fully implemented by the end of 2019.</p> <p>Officer Comment - Update on Action Staff have undertaken a review of best practice for the recovery of costs in respect to private works. As a result, staff have reviewed and revised procedure GOP024 to include a monthly reconciliation and reporting process to ensure that all costs incurred for private works are recouped in a timely and efficient manner.</p> <p>The \$350 loss noted in the auditor findings was purely a timing issue (costs incurred in December 2018 and costs recouped in January 2019) and has since been recouped.</p> <p style="text-align: right;"><i>Completed 07-06-2019</i></p> <p>The new Fees and Charges software is currently in the process of being updated by the Manager Financial Services and will be utilised in the 2019/20 financial year.</p>			
7.	Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations			
7.2.1	<p>Code of Conduct The Shire Code of Conduct for Council Members, Committee Members and Staff was last reviewed and adopted by Council on the 6 November 2013.</p> <p>Auditor Recommendation We recommend the Code of Conduct be reviewed and subsequently communicated to current Council Members, Committee Members and Staff.</p> <p>Management Comment Management acknowledges and accepts the recommendation. Council staff have been working with Councillors and WALGA during 2018 to review the Code of Conduct. This was put on hold pending the finalisation of the Local Government Act review.</p> <p>Officer Comment – Update on Action The Auditor finding reported that the Code of Conduct had last been reviewed and adopted by Council on 6 November 2013. This date was the last time it went to Council in an adopted format, management have advised that the Code of Conduct has been reviewed since then.</p> <p>In November 2018, Council considered a full review of the Code of Conduct at a workshop held with WALGA representative and management in attendance. On advice from James McGovern from WALGA, it was agreed that the review be held off pending the review of the Local Government Act 1995.</p> <p>The Local Government Act review process has progressed with the presentation of a Bill to Parliament. At the time of compiling this report, the Bill has been passed by both Houses, awaiting assent. Advice received from WALGA is that the date of assent will likely be the end of July 2019. However, it is to be noted that the Code of Conduct has its own commencement clause which will be a fixed date determined by the Governor-General.</p> <p>Once accepted, the new Local Government Act will introduce some significant changes in the way Codes of Conduct are adopted and managed, in the following ways;</p> <ul style="list-style-type: none"> • The current Rules of Conduct Regulations will become mandatory content of a Code of Conduct, which must be adopted by all Local Governments. The Code will apply to Council Members, Committee Members and election candidates; • Allegations of breach of a Rule will still be referred to the Local Government Standards Panel; • A Code of Conduct can contain content in addition to the Rules of Conduct, and any allegations of a breach of Code content (i.e. not the Rules) will be dealt with by the Local Government; • The Chief Executive Officer will be responsible for determining the Code of Conduct for employees. The Bill will also change the rules relating gifts and Chief Executive Officers will in future use the Code as a means of describing employees' responsibilities to accept and declare gifts received in association with their employment. <p>Due to the substantial changes to the Local Government Act described above, it was therefore decided that the current Code of Conduct review be deferred until the new legislation relating to Codes of Conduct is passed.</p>	Minor	31 December 2019	In Progress

Voting Requirements - Simple Majority.

**OFFICER RECOMMENDED RESOLUTION
& AUDIT COMMITTEE RESOLUTION**

AUD 07-19 MOVED - Cr. M T Bennett SECONDED - Cr. T Gardiner

THAT the Audit Committee:

- 1. Receive the July 2019 update report on the implementation of actions required from the findings of the February 2019 Financial Management Systems Review.**

- 2. Requests that Council acknowledges that all actions, except 7.2.1 Code of Conduct, have been completed**

CARRIED
5/0

8.3 Title: Risk Management Framework Update

<i>Reporting Department:</i>	<i>Corporate & Community Services</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy Chief Executive Officer</i> <i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17</i>

Overview

This report provides the Audit Committee with an update on the Shire of Dardanup Risk Management Governance Framework.

Background

Risk management is a key aspect of corporate governance and forms part of the Shire of Dardanup's Strategic Community Plan to be efficient, effective and financially sustainable.

The reference point for Council's risk management work is Administrative Policy AP023 - *Risk Management* which was adopted by Council on 25 January 2017. The activation of risk management is through the supporting Administrative Procedure PR036. It is recognised however, that improving the framework and procedures is only one aspect of sound management, and a strong risk management culture is essential.

To assist with reviewing this framework and enhancing the culture within the organisation, Council through the Audit Committee agreed to support the engagement of Local Government Insurance Services (LGIS) to conduct a Risk Management Governance Framework workshop with staff. LGIS have been pro-active in continually developing and implementing this Framework across many local governments in both a strategic and operational manner.

This commitment was finalised in March 2019 with a facilitator from LGIS conducting two workshops with Senior Staff and a one hour briefing session with Council's elected members. The outcome of the workshop was to provide staff with the skills to identify, manage and mitigate risk across the entire range of activities undertaken by the Council, and communicate to Councillors the broader objectives of the Framework and how it achieves the risk management obligations and responsibilities of Council.

A revised Risk Management Governance Framework has now been developed to connect all of the risk management processes and methodologies and to clearly articulate the Shire of Dardanup's appetite for risk. This review also ensures compliance with Local Government (Audit) Regulations 1996, Regulation 17, to review the appropriateness and effectiveness of risk management at least once every 2 calendar years.

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

Council has previously established a Risk Management Governance Framework for the organisation.

Budget Implications - None.

Council Policy Compliance

Council historically had Council Policy PR036 - *Risk Management* to manage risk, which was updated on 25 January 2017 as an Administrative Policy AP023 - *Risk Management and Administrative Procedure PR036*.

Risk Assessment - Low.

Officer Comment -

The Risk Management Governance Framework introduced by the Shire of Dardanup is a complete approach that incorporates three lines of defence. The first line of defence is operational, and requires all staff to have a degree of accountability and responsibility for risk management processes and controls in their operational areas.

The second line is the responsibility of the Compliance Officer who manages the framework for risk management. This officer is responsible for monitoring and reporting on emerging risks through the provision of a 'dashboard' report'.

Internal and External audits are the third line of defence that provides independent assurance to Council, the Audit & Risk Committee and Council's management on the effectiveness of business operations.

- *How Does it Work?*

There are three components which comprise an identified Risk Assessment:

- Risk Theme Profile*

In the development of the framework there were 15 distinct 'Risk Theme Profiles' identified. These themes have been designed by LGIS and refined by their work with other local governments throughout the State.

1. Assets Sustainability Practices
2. Business and Community Disruption
3. Failure to Fulfil Compliance Requirements (Statutory and Regulatory)
4. Document Management Processes
5. Employment Practices
6. Engagement Practices
7. Environment Management
8. Errors, Omissions and Delays
9. External Theft and Fraud (including Cyber Security)
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

In theory, any activity that Council undertakes involving risk should fall into one or more of these themes. If not, it is deemed that no risk is present.

ii) *Risk Assessment and Acceptance Criteria (Consequence)*

Six Risk Assessment and Acceptance Criteria (or Consequence) have been established. These are Health, Financial Impact, Service Interruption, Legal and Compliance, Reputational and Environment. If there is no Consequence identified it is deemed no risk is present.

The Consequence Ratings are introduced as follows:

1. Insignificant
2. Minor
3. Moderate
4. Major
5. Catastrophic

iii) *Likelihood*

1. Rare
2. Unlikely
3. Possible
4. Likely
5. Almost Certain

When assessing Risk, the Consequence rating is combined with the Measure of Likelihood arriving at a measurable risk score, which is assessed in the Risk Matrix.

• *How is it applied?*

The Risk Management Governance Framework could be applied to every action undertaken by every officer of Council, however this is considered to be impractical and unrealistic. The other extreme is the Framework could be adopted and then not applied to any activities, which defeats the purpose of the exercise.

A balanced approach would seem appropriate with the key application of the Framework being the degree to which it is applied to the Council decision making process. This translates into including

some notation in Council reports (this process currently occurs) that the Risk Management Governance Framework has been considered in arriving at recommendations to Council.

In considering how this would be done, a three tiered approach is utilised:

- Should no discernible Risk be identified (no Risk Theme or Consequence identified) a notation to that effect to be included in the Council report. An example is Council receiving a Status Report.
- Should a Risk be determined as Moderate or Low a brief notation/commentary will state this. No treatment or action will emanate as a result of the Moderate or Low rating. This would cover many of the 'standard' reports to Council such as Accounts for Payment, Planning reports with uncomplicated legislative compliance, minor Policy updates etc.
- Reports with an identified High or Extreme Risk would include a Matrix Assessment Table. Matters with significant legal implications or complex issues such as Tenders, large contract renewals, major plant purchases or projects where there is a significant value/budget or time component involved may also be presented in this manner.

- *Reporting Requirements*

An overall 'Dashboard' report that summarises the 15 Risk Theme Profiles will be provided. Where there are current actions underway in respect of the Risk Theme Profiles these are noted.

In terms of the updated Reporting requirements proposed in the Risk Management Governance Framework document, these are proposed to be undertaken by the Compliance Officer as follows:

- Direct contact with officers on completing tasks identified in the Dashboard report;
- Dashboard report – Quarterly general update advice to Senior Officers; and
- Review of Risk Theme Profiles and Summary Risk Report to Senior Officers and Audit Committee every six months (Appendix AUD: 8.3A).

In conclusion, by operating within the approved risk appetite and framework, the Council, management and the community will have assurance that risks are managed effectively to support the delivery of the Shire of Dardanup's Strategic and Corporate Plans and objectives.

Voting Requirements - Simple Majority.

**OFFICER RECOMMENDED RESOLUTION
& AUDIT COMMITTEE RESOLUTION**

AUD 08-19 MOVED - Cr. T Gardiner SECONDED - Cr. J Dow

THAT the Audit Committee:

- 1. Receive the July 2019 report relating to the Shire of Dardanup Risk Management Governance Framework.**
- 2. Request that Council endorse the Risk Management Governance Framework – July 2019. (Appendix AUD: 8.3B)**
- 3. Request that a summary 'Dashboard' report that summarises the 15 Risk Theme Profiles be presented biannually to the Executive Management Team and Audit & Risk Committee.**

CARRIED
5/0

8.4 Title: Internal Audit Strategic Plan

<i>Reporting Department:</i>	<i>Corporate & Community Services</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy Chief Executive Officer</i> <i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17</i>

Overview

This report provides the Audit Committee with an overview of the Internal Audit Strategic Plan and its purpose.

Background

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

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

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

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

Legal Implications

Local Government Act 1995

Local Government (Audit) Regulations 1996

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 not less than once in every 3 financial years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

Local Government (Financial Management) Regulations 1996

5. *CEO's duties as to financial management*(1) *Efficient systems and procedures are to be established by the CEO of a local government —*

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

(2) *The CEO is to —*

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

Strategic Community Plan

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

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

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

Environment - None.

Precedents - None.

Budget Implications - None.

Risk Assessment - Low.

The Internal Audit Strategic Plan has been developed after consideration of key risks and opportunities facing the Shire of Dardanup. The Internal Audit Strategic Plan includes audits to ensure legislative compliance, as well as ensuring the effectiveness and efficiency of controls.

Officer Comment -

Many local governments have recognised the need to improve their internal auditing processes. The Shire of Dardanup has approached this by developing an internal audit plan. This Internal Audit Strategic Plan will help the organisation achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control.

The Internal Audit program is the responsibility of the Compliance Officer. This Officer will conduct reviews based on the methodology and internal audit coverage prioritisation contained within the Internal Audit Plan and report on the outcome of this review.

At the conclusion of each internal audit a report on the outcome will be forwarded to the Deputy Chief Executive Officer. This report will outline:

- What auditing actions were taken;
- Provide recommendations for corrective action as required; and
- Monitoring and reporting on the corrective actions undertaken.

During each financial year, the Internal Audit coverage will have a different focus depending on the Council's current risk profile and assurance needs. The Internal Audit coverage is categorised into the following broad groups. The order in which these are listed is in line with the current priority given to each group based on the risk assessment.

1. *Annual Audits* to review key areas of financial, operational, and human resources across the whole Council. This group of engagements are treated as first priority audits to meet the external reporting and compliance obligation of the Council, which can include:
 - a) Grant Audits;
 - b) Direct assistance to external audit by performing audit or review procedures under the direction of the external auditor; such activities customarily include the following engagements:
 - i) Salaries Audit;
 - ii) Expenditure Audit;
 - iii) Revenue Audit; and
 - iv) Follow up on audit recommendations made by the external auditor.
2. *Audits Of High Risk Areas/Systems* where the controls are considered to be effective, however, independent assurance is required to ensure that the controls are in fact operating as intended.
3. *Audits That Review Particular Topics Across The Whole Council* – such as supplier selection and OHS management framework. This group of engagements are aimed at addressing systemic risks.
4. *Audits That Review Particular Processes/Activities* owned by a particular Directorate or Divisions such as gym membership; and
5. Consultancy/ad hoc advice on new systems, processes and initiatives.

The Internal Audit Annual Work Plan for 2019 – 2020 will be considered based on the broad groups above and presented to the Deputy Chief Executive Officer. There will also be a direct reporting line to the Audit Committee of the Internal Audit Annual Work Plan. This will act as an adequate safeguard in the event of a serious breakdown in internal controls and/or culture.

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

Voting Requirements - Simple Majority.

**OFFICER RECOMMENDED RESOLUTION
& AUDIT COMMITTEE RESOLUTION**

AUD 09-19 MOVED - Cr. M T Bennett SECONDED - Cr. T Gardiner

That the Audit Committee:

- 1. Receive the July 2019 report relating to the Internal Audit Strategic Plan of the Shire of Dardanup.**

- 2. Requests that Council endorse the Shire of Dardanup Internal Audit Strategic Plan, (Appendix AUD: 8.4) inclusive of the Internal Audit Annual Work Plan – 2019-2020.**

CARRIED
5/0

8.5 Title: 2017/18 Audit Report – Significant Findings Query

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

Overview

This report advises the Audit Committee of correspondence received from the Department of Local Government, Sport and Cultural Industries relating to significant adverse trends in the financial position of Council for 2017/18.

Background

On the 9 July 2019 a letter was received from the Department of Local Government, Sport and Cultural Industries addressed to the Chief Executive Officer of the Shire of Dardanup (Appendix AUD:8.5A), referring to the Council's 2017/18 Audit Report from Buttler Settineri Pty Ltd.

The letter referred to the Audit Report identifying significant adverse trends in the financial position, specifically the Operating Surplus Ratio, Current Ratio and Debt Service Cover Ratio.

The Department have referred to Section 7.12A(4) of the *Local Government Act 1995* where a local government must prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the Local Government has taken or intends to take with respect to each of those matters; and give a copy of the report to the Minister within 3 months after the audit is received by the Local Government.

Council Officer's have contacted our Auditor's to confirm that their 2017/18 audit report did not encounter any significant issues. Written confirmation of this advice has been requested from our auditors and will be provided to the Department when it is received. Contact has also been made with the Department of Local Government, Sport and Cultural Industries to confirm that there is a misunderstanding of the audit statement, and that no significant adverse issues were raised.

Council Officer's are waiting for a response from the Department. In the interim this report is to advise Council's Audit Committee of the matter.

Legal Implications

Local Government Act 1995

7.12A. Duties of local government with respect to audits

- (1) *A local government is to do everything in its power to —*
 - (a) *assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and*
 - (b) *ensure that audits are conducted successfully and expeditiously.*
- (2) *Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.*
- (3) *A local government must —*
 - (aa) *examine an audit report received by the local government; and*

- (a) *determine if any matters raised by the audit report, require action to be taken by the local government; and*
 - (b) *ensure that appropriate action is taken in respect of those matters.*
- (4) *A local government must —*
- (a) *prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
 - (b) *give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*
- (5) *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.*
- [Section 7.12A inserted: No. 49 of 2004 s. 8; amended: No. 5 of 2017 s. 19.]*

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 1.3.1- 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).

Environment - None.

Precedents - None.

Budget Implications - None.

Council Policy Compliance - None.

Risk Assessment - Low.

Officer Comment

The letter from the Department of Local Government, Sport and Cultural Industries refers to a matter identified as significant by the auditor in the 2017/18 financial statements. Specifically "Significant adverse trends in the financial position: Operating Surplus Ratio, Current Ratio and Debt Service Cover Ratio below the Department standard".

The letter refers to Section 7.12A(4) of the Local Government Act 1995 where a Local Government amongst other things must prepare a report addressing any matters identified as significant by the auditor and a copy be provided to the Minister within 3 months.

The Shire of Dardanup Auditor's (Butler Settineri Pty Ltd) conducted the 2017/18 audit and did not encounter any significant issues during the course of the audit, but only noted that the operating surplus ratio, current ratio and debt cover ratio did not meet the benchmark set by the Department.

The Audit report states (Appendix AUD:8.5B) as follows:

- In accordance with the Local Government (Audit) Regulations 1996, we also report that:*
- a) *Apart from the operating surplus ratio, current ratio and debt service cover ratio not meeting the minimum benchmark levels, there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.*

- b) *The Shire substantially complied with Part 6 of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).*
- c) *All information and explanations required were obtained by us.*
- d) *All audit procedures were satisfactorily completed in conducting our audit.*

*BUTLER SETTINERI (AUDIT) PTY LTD
MARIUS VAN DER MERWE CA
Director*

Similarly within the Auditor's Management Report (Appendix AUD:8.5C) states:

We wish to advise that we have recently completed the audit for the year ended 30 June 2018.

The Australian Auditing Standards require auditors to communicate with those charged with governance as a means of advising Council of any matters noted during the course of the audit.

Our audit work involves the review of only those systems and controls adopted by the councillors and management upon which we wish to rely for the purposes of determining our audit procedures. Furthermore, our audit should not be relied upon to disclose defalcations or other similar irregularities, although their disclosure, if they exist, may well result from the audit tests we undertake. While we have considered the control environment in accordance with Australian Auditing Standards, we have not tested controls and hence do not comment on whether systems and controls are operating effectively.

We advise that we have not encountered any significant issues during the course of our audit but we believe the following should be brought to Council's attention as detailed below.

Infrastructure Valuation

....

Financial ratios

....

Based on the above audit statements and confirmation with Council's auditor that no significant issues were raised in the 2017/18 audit, Council Officer's are waiting for confirmation from the Department that there were no material matters raised, and therefore the Council has not failed to report the matter under Section 7.12A to the Minister.

If the Department of Local Government, Sport and Cultural Industries still requires an explanation as to why the operating surplus ratio, current ratio and debt cover ratio did not meet the benchmark as set out by the Department, the management explanation provided in the Auditor's Management Report (Appendix AUD:8.5C) provides a clear response. This states:

The Operating Surplus Ratio is a measure of the Shire's ability to service its day to day operational costs including asset depreciation from its revenue base. The Debt Cover Ratio measures the Shire's ability to service debt out of its uncommitted or general purpose fund available. Both ratios include operating expenditure of \$2,292,000 for the bridge works expensed in 2017/18 for the Treendale Millbridge Bridge works. The ratios do not take into account that this expenditure is fully funded from Reserve, resulting in a 'Standard Not Met' for both ratios. Removing the expenditure of \$2,292,000 from the Debt Cover Ratio would result in an 'Advanced Standard' ratio of 5.638.

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) from being included in the calculation.

While the Shire does not 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 2018 would be calculated at 623.6%, meaning the Shire has a multiple of 6.236 in liquid Current Assets to meet its Current Liabilities.

Voting Requirements - Simple Majority.

**OFFICER RECOMMENDED RESOLUTION
& AUDIT COMMITTEE RESOLUTION**

AUD 10-19 MOVED - Cr. T Gardiner SECONDED - Cr. J Dow

THAT the Audit Committee recommend that Council:

1. **Receive the correspondance from the Department of Local Government, Sport and Cultural Industries querying significant adverse trends in the financial position of Council for 2017/18, and note the auditors response that there were no significant adverse trends to report.**

2. **Resolve that the responses provided in the 2017/18 Audit report (Appendix AUD:8.5B) and 2017/18 Auditor's Management Report (Appendix AUD:8.5C) be provided to the Department of Local Government, Sport and Cultural Industries in response to the query regarding significant adverse trends in the financial position of Council for 2017/18.**

CARRIED
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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.

The Chairperson advised that the date of the next Audit Committee Meeting is to be advised.

There being no further business the Chairperson declared the meeting closed at 2.29pm