



Shire of
Serpentine
Jarrahdale

Audit, Risk and Governance Committee

Unconfirmed Minutes

Tuesday 6 March 2018
5.30pm

Contact Us

Enquiries

Call: (08) 9526 1111
Fax: (08) 9525 5441
Email: info@sjshire.wa.gov.au

In Person

Shire of Serpentine Jarrahdale
6 Paterson Street, Mundijong WA 6123
Open Monday to Friday 8.30am-5pm (closed public holidays)



www.sjshire.wa.gov.au

Ordinary Council Meeting 26 March 2018



TERMS OF REFERENCE – AUDIT, RISK AND GOVERNANCE COMMITTEE

1. Name

The name of the Group is the **Audit, Risk and Governance Committee (ARG)**.

2. District / Area of Control

Local Government boundaries of the Shire of Serpentine Jarrahdale and Peel Region as appropriate.

3. Purpose of the Terms of Reference

The purpose of the terms of reference is to:

- 3.1 facilitate the operation of the Audit, Risk and Governance Committee;
- 3.2 support the Council in fulfilling its responsibilities in relation to:-
 - a) risk management systems
 - b) internal control structure
 - c) financial reporting
 - d) compliance with laws and regulations
 - e) internal and external audit functions

4. Introduction

The Audit, Risk and Governance (ARG) committee has been established in accordance with part 7 of the *Local Government Act 1995*.

The Audit, Risk and Governance committee is an advisory committee formally appointed by the Council and is responsible to the Council. The ARG committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any financial responsibility. The ARG committee does not have any management functions and is therefore independent of management.

5. Objectives

The ARG committee's primary objective is to support the Shire of Serpentine Jarrahdale's Council in discharging its legislative responsibility associated with governing the Shire's affairs and overseeing the allocation of the Shire's finances and resources. The ARG committee will promote transparency and accountability in the Shire's financial reporting and promote effective and responsible management of risks to protect the Shire's assets.

The ARG committee will report to Council and provide appropriate advice and recommendations on matters relevant to its terms of reference in order to facilitate decision making by the Council in relation to the discharge of its responsibilities.

More specifically, the objectives of the ARG committee are to oversee:

- 5.1 The integrity of external financial reporting, including accounting policies.
- 5.2 The scope of work, objectivity, performance and independence of the external auditor.
- 5.3 The establishment, effectiveness and maintenance of controls and systems to safeguard the Shire's financial and physical assets.
- 5.4 The framework and systems that are designed to ensure the Shire comply with relevant statutory and regulatory requirements.
- 5.5 The framework for recognising risks arising from the Shire's operations and strategies, and consider the adequacy of measures taken to manage those risks.
- 5.6 The framework and systems which protect the Council against fraud and irregularities.



The ARG committee must also add to the credibility of Council by promoting ethical standards through its work.

6. Authority

The ARG committee has the authority of Council to:

- 6.1 Review the internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken;
- 6.2 Formally meet with the Shire's appointed external auditor as necessary;
- 6.3 Ensure that any matters raised by external audit that require action are actioned; and
- 6.4 Advise Council on any or all of the above as deemed necessary.

7. Composition

- 7.1 The ARG committee will comprise of seven (7) members, five (5) Elected Members and two (2) external independent members.
- 7.2 An external member will be a person independent of the Shire of Serpentine Jarrahdale, and will not have provided paid services to the Shire either directly or indirectly.
- 7.3 External independent members will be selected based on the following criteria:
 - a) a demonstrated high level of expertise and knowledge in financial management, reporting, governance and audit; and
 - b) relevant skills and experience in providing independent expert advice.
- 7.4 Appointments of external independent members will be made following a public advertisement. The Chief Executive Officer (CEO) will evaluate potential members and make a recommendation to Council.
- 7.5 The Council will appoint all members of the ARG committee.
- 7.6 Members shall be appointed for a period of up to two (2) years terminating on the day of the Local Government Ordinary Council Elections, unless Council resolves otherwise.
- 7.7 The Presiding Member and Deputy Presiding Member will be appointed by the ARG committee, biennially by election by all committee members after the Local Government Ordinary Council Elections.
- 7.8 The quorum for a meeting shall be a minimum of 4 committee members.
- 7.9 ARG committee members are required to abide by the *Local Government Act 1995* and *Code of Conduct* in observing the requirements of declaring any proximity, financial or impartiality interests that relate to any matter to be considered at each meeting.
- 7.10 Reimbursement of expenses approved by Council may be paid to an external person who is a member of the ARG committee.

8. Meetings

- 8.1 The ARG committee shall meet every three (3) months or more regularly as required at the discretion of the Presiding Member of the ARG committee, the Shire President or the CEO.
- 8.2 All ARG committee members are expected to attend each meeting in person.



- 8.3 Elected Members, who are not part of the ARG committee are invited to observe ARG committee meetings, however they are not entitled to participate in the meeting.
- 8.4 The members of the ARG committee are to elect a Presiding Member from amongst themselves at the first meeting of the committee following an Ordinary Local Government Election.
- 8.5 The Presiding Member will preside at all meetings.
- 8.6 Each member of the Committee at a meeting will have one vote. The Presiding Member will have a casting vote and simple majority will prevail.
- 8.7 A committee recommendation does not have effect unless it has been made by simple majority. A simple majority is the agreement of not less than half of the members present at the meeting.
- 8.8 The CEO, or his delegate, the Director Corporate & Community, is to attend all meetings to provide advice and guidance to the committee, however the CEO and employees are not members of the committee.
- 8.9 The CEO will invite members of management, internal and external auditors or others to attend meetings as observers and to provide pertinent information, as necessary.
- 8.10 The ARG committee meetings are generally open to the public unless the Presiding Member or CEO deem it necessary to proceed behind closed doors pursuant to section 5.23 of the *Local Government Act 1995*.
- 8.11 Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
- 8.12 Minutes will be taken at each meeting and presented to the subsequent meeting for confirmation.
- 8.13 Reports and recommendations of each committee meeting shall be presented to the next ordinary council meeting.

9. Responsibilities

The ARG committee will carry out the following responsibilities:

9.1 Risk Management

- 9.1.1 Review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of the Shire's business and financial risks, including fraud.
- 9.1.2 Assess whether a sound and effective approach has been followed in managing the Shire's major risks including those associated with individual projects, program implementation, and activities.
- 9.1.3 Assess the impact of the Shire's enterprise risk management framework on its control environment and insurance arrangements.
- 9.1.4 Review the process of developing and implementing the Shire's fraud control arrangements and satisfy itself the Shire has appropriate processes and systems in place to detect, capture and effectively respond to fraud-related information.

9.2 Business Continuity

- 9.2.1 Assess whether a sound and effective approach has been followed in establishing the Shire's business continuity planning arrangements,



including whether business continuity and disaster recovery plans have been periodically updated and tested.

9.3 Internal Control

- 9.3.1 Review whether management's approach to maintaining an effective internal control framework is sound and effective.
- 9.3.2 Review whether management has in place relevant policies and procedures and that they are periodically reviewed and updated.
- 9.3.3 Assess whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with.
- 9.3.4 Review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations.
- 9.3.5 Consider how management identifies any required changes to the design or implementation of key internal controls.

9.4 Financial Report

- 9.4.1 Review significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report.
- 9.4.2 Review with management and the external auditors the results of the audit, including any difficulties encountered.
- 9.4.3 Review the annual financial report and performance report of the Shire of Serpentine Jarrahdale and consider whether it is complete, consistent with information known to ARG committee members, and reflects appropriate accounting principles.
- 9.4.4 Review with management and the external auditors all matters required to be communicated to the ARG committee under the Australian Auditing Standards.
- 9.4.5 Review the draft Annual Financial Statements and recommend the adoption of the Annual Financial Statements to Council, in accordance with the timeframes as prescribed.
- 9.4.6 Review the midyear budget review and recommend the adoption of the budget review to Council.

9.5 Compliance

- 9.5.1 Review the systems and processes to monitor effectiveness of the system for monitoring compliance with legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- 9.5.2 Keep informed of the findings of any examinations by regulatory agencies and any auditor (internal or external) observations and monitor management's response to those findings.
- 9.5.3 Obtain regular updates from management about compliance matters.
- 9.5.4 Review the annual Compliance Audit Return and report to the Council the results of the review.



9.6 Internal Audit

- 9.6.1 Review with management the terms of reference, activities and resourcing of the internal audit function.
- 9.6.2 Review and recommend the annual internal audit plan for approval by the Council and all major changes to the plan.
- 9.6.3 Monitor processes and practices to ensure that the independence of the audit function is maintained.
- 9.6.4 Annually review the performance of the internal audit including the level of satisfaction with internal audit function having consideration of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
- 9.6.5 Review all audit reports and provide advice to the Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.
- 9.6.6 Monitor management's implementation of internal audit recommendations.
- 9.6.7 Regularly review a report given to it by the CEO under regulation 17 (3) of the *Local Government (Administration) Regulations 1996*.

9.7 External Audit

- 9.7.1 Develop and recommend to Council a process to be used to select and appoint a person to be an auditor.
- 9.7.2 Recommend to Council the person or persons to be appointed as the external auditor.
- 9.7.3 Develop and recommend to Council a written agreement for the appointment of the external auditor in accordance with *Local Government (Audit) Regulation 7*.
- 9.7.4 Note the external auditor's proposed audit scope and approach for financial performance audits.
- 9.7.5 Consider the findings and recommendations of relevant Management Letters undertaken by the external auditor and ensure the Shire implements relevant recommendations.
- 9.7.6 Provide an opportunity for the ARG committee to meet with the external auditors to discuss any matters that the ARG committee or the external auditors believe should be discussed privately.
- 9.7.7 Annually review the performance of external audit including the level of satisfaction with external audit function.
- 9.7.8 Monitor management's implementation of external audit recommendations.

9.8 Reporting Responsibilities

- 9.8.1 Report regularly to the Council about ARG committee activities, issues, and related recommendations through circulation of minutes.
- 9.8.2 Monitor that open communication between the external auditor and the Shire's management occurs.



9.9 Other Responsibilities

- 9.9.1 Perform other activities related to this terms of reference as requested by the Council.
- 9.9.2 Annually review and assess the adequacy of the ARG committee terms of reference, request Council approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.

Approval and Amendment History

Reviewed/Modified	Reference	Date	Comment	Reviewed By
Adopted	AC002/03/17	27/03/2017	Audit Committee renamed as Audit, Risk and Governance (ARG) Committee	
Reviewed	OCM156/11/17	27/11/2017	Adopted Terms of Reference	
Reviewed				

Table of Contents

1.	Attendances and apologies (including leave of absence):	9
2.	Public question time:	9
2.1	Response to previous public questions taken on notice:	9
2.2	Public questions:	9
3.	Public statement time:	9
4.	Petitions and deputations:	9
5.	Declaration of Councillors and Officers interest:	9
6.	Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:	10
6.1	Minutes of previous Audit, Risk and Governance Committee Meeting:	10
6.2	Reports for consideration:	10
	ARG001/03/18 – Compliance Audit Return 2017 (SJ2484)	10
	ARG002/03/18 – Status Reports on Audit Regulation 17 Improvement Plan Progress, Department Local Government Report, Financial Management Review, Governance Health Review & Statutory Compliance Calendar (SJ2196)	15
	ARG003/03/18 – 2017/2018 Interim Audit – Fraud and Error Assessment by the Audit Committee (SJ2196)	22
7.	Motions of which notice has been given:	26
8.	Urgent business:	26
9.	Closure:	26





Minutes of the Audit, Risk and Governance Committee Meeting held in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong on Tuesday 6 March 2018. The Presiding Member, Councillor See declared the meeting open at 5.33pm and welcomed Councillors, Committee Members and staff, and acknowledged that the meeting was being held on the traditional land of the Noongar People and paid his respects to their Elders past and present.

Minutes

1. Attendances and apologies (including leave of absence):

Councillors: Cr J See Presiding Member
Cr Byas (arrived 5.35pm)
Cr Coales
Cr McConkey

Independent Members: Ms E Newby
Mr S Casilli

Officers: Mr K Donohoe Chief Executive Officer
Ms H Sarcich Deputy CEO / Director Community Services
Mr F Sullivan Director Corporate Services
Mr A Schonfeldt Director Development Services
Mr R Davy (arrived 5.36pm) Director Infrastructure Services
Mrs K Bartley Manager Corporate Services
Ms A Liersch Agendas and Minutes Officer (Minute Taker)

Apologies: Cr M Rich
Cr B Denholm

Observers: Nil

Members of the Public: Nil

2. Public question time:

2.1 Response to previous public questions taken on notice:

Nil

2.2 Public questions:

Nil

3. Public statement time:

Nil

4. Petitions and deputations:

Nil

5. Declaration of Councillors and Officers interest:

Nil



6. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:

6.1 Minutes of previous Audit, Risk and Governance Committee Meeting:

6.1.1 Audit, Risk and Governance Committee Meeting – 5 December 2017

AUDIT, RISK & GOVERNANCE COMMITTEE DECISION

Moved Cr Coales, seconded Cr McConkey

That the minutes of the Audit, Risk and Governance Committee Meeting held on 5 December 2017 be confirmed (E17/12163).

CARRIED UNANIMOUSLY 5/0

Councillor Byas entered the meeting at 5.35pm

6.2 Reports for consideration:

ARG001/03/18 – Compliance Audit Return 2017 (SJ2484)	
Authors:	Kellie Bartley – Manager Corporate Services
Senior Officer/s:	Frazer Sullivan – Director Corporate Services
Date of Report:	12 February 2018
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Introduction

The Audit Committee is requested to endorse the Department of Local Government and Communities 2017 Compliance Audit Return (CAR).

Each year local governments are required to complete a CAR for the period 1 January to 31 December. The CAR is to be reviewed by the Audit, Risk and Governance Committee (ARG), adopted by Council and submitted to the Department of Local Government and Communities by 31 March each year.

The aim of the CAR is to build good governance by promoting and enforcing compliance and encouraging all local governments to move beyond minimum compliance through continuous improvement.

Relevant Previous Decisions of Council

AC004/03/17 – The previous CAR was presented to Council for endorsement on 20 March 2017.

Background

The Shire's ARG Committee is requested to review the completed CAR. The recommendation of the ARG Committee will then be presented to the Ordinary Council Meeting on the 26 March 2018. Following adoption by Council, the CAR will be submitted to the Department of Local Government and Communities by the required deadline of 31 March 2018.



Community / Stakeholder Consultation

No community consultation is required on this matter. However, a number of Officers who have compliance responsibility relevant to the CAR were consulted. Source documents such as, but not limited to, minutes of meetings, declarations of interest, annual and primary returns, resolutions of Council, and public notices, were all utilised in evidencing the Shire's compliance with the requirements of the Compliance Audit Return.

Statutory Environment

In accordance with Section 7.13 (i) of the *Local Government Act 1995* and Regulations 13, 14 and 15 of the *Local Government (Audit) Regulations 1996*, a Local Government is to carry out a compliance audit for the period 1 January to 31 December each year. After carrying out the compliance audit, the Local Government is to prepare a compliance audit return in a form approved by the Minister.

A compliance return is to be:

1. Reviewed by the Audit Committee and report to Council the results of that review,
2. Presented to Council at a meeting of the Council,
3. Adopted by Council, and
4. Recorded in the minutes of the meeting, which it is adopted.

After the compliance return has been presented to Council, it is to be submitted to the Director General of the Department of Local Government and Communities by 31 March.

Comment

Section 7.13 (1)(i) of the *Local Government Act 1995* (the Act) requires local governments to carry out an annual audit of their compliance with specific statutory obligations which may be prescribed in regulations.

The scope of the Compliance Audit Return (CAR) is prescribed by regulation 13 of the *Local Government (Audit) Regulations 1996* and may vary from year to year.

The 2017 Compliance Return focuses on the following:

- a) Commercial Enterprises by Local Governments
- b) Delegation of Power/Duty
- c) Disclosure of Interest
- d) Disposal of Property
- e) Elections
- f) Finance
- g) Integrated Planning and Reporting
- h) Local Government Employees
- i) Official Conduct
- j) Tenders for Providing Goods and Services

Regulation 14 requires the Audit, Risk and Governance Committee to review the CAR and report the result of that review to Council, prior to Council's adoption and submission to the Department by 31 March each year.

By Council Resolution AC004/03/17, it was resolved to engage an independent consultant to peer review the CAR. Effective peer reviews provide an independent perspective and judgements of



professionals who are knowledgeable in the subjects that are being reviewed. Gary Martin was appointed the task, and undertook the review. The report provided by Mr Martin identified 7 non-compliance items out of a total of 94 items tested within the CAR.

The following notes and advisory recommendations are outlined within the Compliance Audit Return for the Chief Executive Officer to consider:

Delegations of Power/Duty

The Shire was non-compliant in respect to items 8, 9 & 12.

- Item 8 Under section 5.42 (1)(2) and Administration Regulations 18G – Were all delegations to the CEO in writing?
- Item 9 Were all delegations by the CEO to any employee in writing?
- Item 12 Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2016/2017 financial year?

Officer's comment

The Register of Delegations were adopted at the Special Council Meeting held on 19 December 2017 (SCM163/12/17), and due to Council employees taking leave over the Christmas period, these requirements were delayed. Items 8 and 9 have now been completed.

Item 12 has already been identified and addressed with Council at the Ordinary Council Meeting 18 December 2017 (OCM180/12/17/ARG010/12/17). Due to the organisational restructure, the annual review of delegations was delayed and finally presented to Council 19 December 2017.

External Comment

Mr Martin strongly recommended that the issue of a Notice of Delegation to a new employee is managed at the induction phase, and that this notice include written advice of the requirement to lodge a primary return and subsequent annual returns, and the personal penalties involved if non-compliant. It was also recommended that the Notice of Delegation provided to each employee contained the prohibition of exercising a delegated power or duty under s5.71 of the Act where a conflict of interest exists.

Both of these recommendations have now been implemented throughout the organisation.

Tenders for Providing Goods and Services

The Shire was non-compliant in respect to items 1, 2 & 6 and partially non-compliant to item 10:

- Item 1 Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)).
- Item 2 Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract.
- Item 6 Did the local government's procedure for receiving and opening tenders comply with the requirements of F&G Reg 16.
- Item 10 Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted.

Officer's comment

These items were recently identified in the Governance Health Review that was completed in April 2017. The outcomes from this investigation provided sound advice for the Shire to create a new



position of a Procurement Officer. This position only commenced early January 2018. This position will significantly improve the purchasing processes for the Shire and ensure future compliance for tendering as detailed in items 1, 2, 6 & 10.

External Comment

Mr Martin recommended we implement a 'Tender Checklist' to support the Tender process. It is essential that the checking and certification process is carried out immediately after the completion of the tender process.

Conclusion

It is apparent that the Shire has made significant progress in improving governance and compliance since the Governance Health Review in April 2017. With the recently appointed Procurement team, the items that have been identified are already in the process of being delivered throughout the organisation.

Council Officers have already completed the non-compliant Register of Delegations items.

Attachments

- [ARG001.1/03/18](#) – Draft Compliance Audit Return 2017 (E18/1834)
- [ARG001.2/03/18](#) – Independent Review - Compliance Audit Return 2017 (E18/1594)

Alignment with our Strategic Community Plan

The proposal aligns with the following specific objectives outlined in the Strategic Community Plan:

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions.
Strategy 4.2.3	Provide clear strategic direction to the administration.

Financial Implications

There are no financial implications to be considered as part of this recommendation.

Risk Implications

Risk has been assessed on the basis of the Officer's Recommendation.

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That Council does not accept the Compliance Audit Return 2017	Unlikely (2)	Moderate (3)	Moderate (5-9)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Accept Officer Recommendation



Risk Matrix

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

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 5 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements: Simple Majority

ARG001/03/18 AUDIT, RISK & GOVERNANCE COMMITTEE DECISION / Officer Recommendation:

Moved Ms Newby, seconded Cr Coales

That the Audit, Risk and Governance Committee:

- 1. Endorses the Local Government Compliance Audit Return for the period 1 January to 31 December 2017 as contained in attachment ARG001.1/03/18.**
- 2. Authorises the Shire President and the Chief Executive Officer to sign the joint certification and lodge with the Director General of the Department of Local Government, Sport and Cultural Industries by 31 March 2018.**
- 3. Notes the non-compliance and requests the Chief Executive Officer to address the areas of non-compliance and report back to the Audit, Risk and Governance Committee meeting on the measures taken to mitigate the non-compliances.**
- 4. Continues with the Chief Executive Officers decision to employ an Independent Compliance Audit process, with a view to achieving continuous improvement and Local Government Best Practice.**

CARRIED UNANIMOUSLY 6/0

Please note that the Audit Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit Risk and Governance Committee are presented to Council for ratification.

Director Infrastructure arrived 5.36pm



ARG002/03/18 – Status Reports on Audit Regulation 17 Improvement Plan Progress, Department Local Government Report, Financial Management Review, Governance Health Review & Statutory Compliance Calendar (SJ2196)	
Author:	Kellie Bartley – Manager Corporate Services
Senior Officer/s:	Frazer Sullivan – Director Corporate
Date of Report:	21 February 2018
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Introduction

The purpose of this report is to provide the Audit, Risk and Governance Committee (ARG) with a progress status reports on the appropriateness and effectiveness of the Shire's systems and procedures in relation to the following:

- Audit Regulation 17 Improvement Plan Progress (Reg 17)
- Department of Local Government Report
- Financial Management Review (FMR)
- Governance Health Review (GHR)
- Statutory Compliance Calendar (SCC)

Relevant Previous Decisions of Council

ARG012/12/17 – Quarterly Status Reports

Background

Audit Regulation 17 Improvement Plan Progress Report

The Regulation 17 review audit produced a comprehensive "Improvement Plan" sanctioned into the following main compliance areas:

- Risk Management (RM)
- Legislative Compliance (LC)
- Internal Controls (IC)

A cumulative total of 61 framework components and actions items were identified to increase procedural and system effectiveness in accordance with legislative requirements.

Financial Management Review

Moore Stephens (WA) Pty Ltd was engaged to conduct a limited assurance review of the appropriateness and effectiveness of the Shire of Serpentine Jarrahdale's financial management systems and procedures. The objective of the review is to assist the Chief Executive Officer discharge responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996.



Governance Health Review & Department of Local Government Report

The GHR and the Department's reports intends to capture the recommendations and actions that were received by Council at the Ordinary Council meeting on the Monday 28 August 2017 (ARG004/07/17) and (ARG005/07/17). Presenting the GHR and the Department's reports to Council, and consequently the wider community having access to the report, endorses transparency and accountability.

Statutory Compliance Calendar

The SCC has been provide to the Shire from the Western Australia Local Government Association (WALGA), a tool that helps the Council to identify the yearly compliance activities throughout the calendar year. The objective is to assist responsible officers to review monthly the relevant activities that require compliance and accountability across a various legislative components.

Community / Stakeholder Consultation

There has been no community consultation in the undertaking of these reports. Internal stakeholder consultation has occurred with Responsible Officers as designated in the status reports attached to this item.

Statutory Environment

Audit Regulation 17

Section 17 of the *Local Government (Audit) Regulations 1996* requires the Chief Executive Officer to review the appropriateness and effectiveness of the local government's systems and procedures in relation to Risk Management, Internal Control and Legislative Compliance separately or all at the one time, on the provision that each matter is reviewed at least once every two years.

Financial Management Review

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer of the Local Government to 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 4 financial years) and report to the Local Government the results of those reviews.

Department of Local Government Report, Governance Health Review & Statutory Compliance Calendar

Whilst there are many provisions in the *Local Government Act 1995* and associated regulations regarding the auditing of financial records, assessment of risk management, internal control and legislative compliance, the undertaking of the SCC and GHR is not bound by legislative requirements. The legislative imperative for each action is noted in the SCC.

Comment

Audit Regulation 17 Improvement Plan Progress Report

The Improvement Plan provides the organisation with a comprehensive overview of business practices and continuous improvement methodologies that work towards increasing best practice standards across all Shire business units.

There are a number of actions that are partially completed or in progress. Full details are contained in attachment ARG002.1/03/18.



The following action items have been completed in accordance with the Regulation 17 Review.

No.	Framework Component Improvements (Completed)
RM1.3	Management Procedure – OHS procedures – reviewed and to be presented to OCM Dec 2017
RM1.6	Local Emergency Management Arrangements
RM1.10	Insurance – Fair Value completed building & Land
RM1.14	Audit & Risk Committee – TOR and activated ARG committee
RM1.16	Council Agendas & Minutes – Organisational Risk Implications to agenda template completed August 2017
IC1.2	Code of Conduct for Elected Members and Staff – completed by CEO Nov 2017
IC2.3	Staff Training – completed with performance appraisals process
IC2.4	Council Policy G814 Process for review of Policies
IC2.5	Council Policy G003 Councillor Entitlements – reviewed by Council May 2017
IC2.6	Council Policy Legal Proceedings and Prosecutions
IC2.7	Council Policy G807 Legal representation costs indemnification – completed Dec 17 OCM
IC2.8	Council Policy PC102 Financial Assistance to Community – review completed June 2017
IC2.9	Council Policy G006 Investment of Surplus Funds – review completed June 2017
IC2.10	Council Policy G903 Rates Collection and General Debtors Policy
IC2.11	Council Policy Self-supporting loans – completed Dec 17 OCM
IC2.12	Council Policy G001 – Purchasing Amounts Under \$150,000
IC2.14	Council Policy G917 Corporate Purchasing Cards – review completed August 2017
IC3.2	Ordinary Council Meetings – reviewed by Council on consist reporting
IC3.3	Executive Management Group – Financial reporting on a monthly basis completed
IC3.4	Effective Management Group – Statutory Compliance Calendar reviewed and report Dec 2017
LC1.1	Management Framework – Legislative Compliance in Action (Statutory Compliance Calendar)
LC2.6	Access to information – Staff emailed relevant changes/information – completed and ongoing
LC2.7	Management Procedure Statutory Environment in Council Agendas – Completed and reported on OCM item
LC2.8	Council Policy Significant accounting policies – completed Dec 2017
LC2.10	Code of Conduct & complaints register – training completed by CEO Nov 2017
LC3.2	Annual Compliance Return – Completed March 2017
LC3.3	Audit & Risk Committee – CAR completed March 2017
LC3.4	Effective Management Group – Legislative Compliance – Statutory Compliance Calendar Completed and reviewed Dec 2017
LC4.1	Monitoring Compliance – Risk Template completed for OCM

The following action items have been progressed in accordance with the Regulation 17 review pending Council consideration:

No	Framework Component Improvements (In Progress)
RM1.1	Council Policy – Risk Management Policy
RM1.2	Risk Management Framework
RM1.4	Management Plan – Emergency Evacuation Plan
RM1.5	Business Continuity Plan/Disaster Recovery Plan



No	Framework Component Improvements (In Progress)
RM1.7	Staff Knowledge
RM1.8	Entity Risk Register
RM1.9	OSH Risk Register
RM1.11	Asset Management Risk Assessment
RM1.12	Workforce Risk Assessment
RM1.13	Project Management & risk assessment training
RM1.15	Executive Management Group – Organisational Risk Register
RM1.19	Ongoing Improvement Plan – Risk Management Framework
LC2.1	Council Policy – G908 Records Management
LC2.2	Management Procedure – Reporting Legislative Breaches
LC2.3	Management Procedure – Staff Inductions
LC2.4	Experienced Staff
LC2.5	Staff Training
LC2.7	Management Procedure – Statutory Environment in Council Agendas
LC2.8	Council Policy – G009 - Depreciation
LC2.9	Management Procedure – Compliance Audit Return
LC2.10	Communications
LC3.2	Annual Compliance Audit Return
LC4.2	Complaints Handling
IC1.1	Council Policy Internal Controls Policy
IC2.1	Communications of Modifications – Policy & BOP's
IC2.2	Experienced Staff – refer to LC4.2
IC2.13	Council Policy – G002 – Procurement of goods or services through Public Tendering
IC2.15	Council Policy – G004 Light Vehicles

All relevant policies identified will be completed through the review process with Executive Management Group and relevant Responsible Officers and is proposed to be presented to Council by December 2017.

In summary, 61 areas have been assessed to date. The majority of areas audited have substantial effective systems and procedures in place. More specifically, 17 controls have been assessed as being high priority with 8 items completed.

Of the 28 controls identified as being medium priority, 11 items are now completed and of the 16 controls being low priority, 9 have now been finalised.

Therefore, 22 items have now been completed of the 61 items. It is envisaged that the majority of items will be completed by the end of the 2017/2018 financial year.

The report in ARG002.1/03/18 outlines recommendations for improvements to increase all identified partially effective and ineffective controls to completion status.

Financial Management Review

A FMR was undertaken by Moore Stephens (WA) Pty Ltd in April 2017. The review included a number of findings that were noted for improvement. The findings and status of progress is outlined in attachment ARG002.1/03/18.



Governance Health Review

The scope of the GHR concentrated on governance, financial and compliance aspects of the Shire's operations, including: local laws, delegations, disclosure of interests, credit card control, risk management, tendering, procurement, compliance and internal control, policies, financial management systems, primary and annual returns.

The actions taken to implement the key recommendations of the GHR is to be recorded and reported to the ARG Committee. The key recommendations and status of progress is outlined in attachment ARG002.4/03/18.

Department of Local Government Report

In order to monitor the recommendations made, the Department has requested that the Shire provide the Department with evidence of the progress made towards implementing the recommendations within three months.

The actions taken to implement the key recommendations of the Department's report is to be recorded and reported to the ARG Committee. The key recommendations and status of progress is outlined in attachment ARG002.2/03/18. As all items have now been finalised, and the Department has acknowledged the completion, this report will no longer be presented to the Audit, Risk and Governance Committee.

Statutory Compliance Calendar

The SCC is based on the template from WALGA and is presented for consideration by the ARG Committee. It aims to provide a corporate calendar for all compliance requirements over the course of a year, including the next due date where an item is not carried out at least once per year.

The calendar's actions have been recorded and report from Responsible Officers, populating the relevant details as outlined in attachment ARG002.5/03/18.

Conclusion

In summary, the status reports provide the organisation with a comprehensive overview of business practices and continuous improvement activities that work towards increasing best practice standards across all Shire business units.

Attachments

[ARG002.1/03/18](#) – Audit Regulation 17 Improvement Plan – March 2018 (E18/1674)

[ARG002.2/03/18](#) – Department of Local Government Report (E18/1682)

[ARG002.3/03/18](#) – Financial Management Review Status Report – March 2018 (E18/1679)

[ARG002.4/03/18](#) – Governance Health Review Status Report – March 2018 (E18/1681)

[ARG002.5/03/18](#) – Statutory Compliance Calendar Status Report – March 2018 (E18/1683)

Alignment with our Strategic Community Plan

Outcome 4.1	A resilient, efficient and effective organisation
Strategy 4.1.1	Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources.
Strategy 4.1.2	Maximise the Shire's brand and reputation in the community



Outcome 4.2	A strategically focused Council
Strategy 4.2.1	Build and promote strategic relationships in the Shire's interest
Strategy 4.2.3	Provide clear strategic direction to the administration

Financial Implications

There are financial implications associated with some of the key recommendations in the GHR. These costs have been identified and are part of the 2017/18 budget.

There are no financial implications associated with the status reports for SCC, FMR.

Risk Implications

Risk has been assessed on the basis of the Officer's Recommendation.

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Not proceeding with key recommendations for the individual status reports	Unlikely (2)	Minor (2)	Low (1-4)	Compliance - 2 Minor - Regular noticeable temporary non-compliances	Control through improvements as identified in each status report

Risk Matrix

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

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 4 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.



Voting Requirements: Simple Majority

ARG002/03/17 AUDIT, RISK & GOVERNANCE COMMITTEE DECISION / Officer Recommendation:

Moved Cr Coales, seconded Cr McConkey

That the Audit, Risk and Governance Committee:

- 1. Receives the Audit Regulation 17 status report as contained in attachment ARG002.1/03/18 on the risk management, legislative compliance and internal controls.**
- 2. Receives the Department of Local Government Review status report as contained in attachment ARG002.2/03/18, and acknowledges that report is finalised.**
- 3. Receives the Financial Management Review Status report as contained in attachment ARG002.3/03/18.**
- 4. Receives the Governance Health Review Status report as contained in attachment ARG002.4/03/18.**
- 5. Receives the Statutory Compliance Calendar status report as contained in attachment ARG002.5/03/18.**

CARRIED UNANIMOUSLY 6/0

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.



ARG003/03/18 – 2017/2018 Interim Audit – Fraud and Error Assessment by the Audit Committee (SJ2196)	
Author:	Kellie Bartley – Manager Corporate Services
Senior Officer/s:	Frazer Sullivan – Director Corporate Services
Date of Report:	27 February 2018
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Introduction

This report presents the Fraud and Error Assessment by the Audit Committee letter from the Shire Auditors, Moore Stephens. The letter is required to be completed by the Audit Committee and returned to Moore Stephens as a part of their assessment during the interim audit

Relevant Previous Decisions of Council

There is no previous Council decision relating to this matter.

Background

Moore Stephens have been appointed by the Shire to conduct the Annual Audit and Financial Management Review (required every 4 years). In performing the audit engagement, the Australian Auditing Standards require the auditors to consider the risk that fraud or error could occur within the organisation for the year ended 30 June 2018. These standards require the auditors to make enquiries of those charged with governance of the risk of fraud or error within the organisation. This includes the Chief Executive Officer and the Audit Committee. The Assessment is to be completed and returned to the auditors prior to the interim audit

Community / Stakeholder Consultation

There are no community/stakeholder requirements relating to this matter.

Statutory Environment

Section 7.9. of the *Local Government Act 1995* requires an Audit to be conducted.

s7.9. 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.
- (3) The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —
- (a) prepare a report thereon; and
 - (b) forward a copy of that report to the Minister, and that direction has effect according to its terms.
- (4) If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government to be dealt with under section 7.12A.

s7.10. Powers of auditor

- (1) An auditor —
- (a) has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are, in the opinion of the auditor, necessary to allow the audit to be conducted; and
 - (b) may require from a member or an employee of the local government —
 - (i) any book, account, document or asset of the local government; or
 - (ii) any information, assistance or explanation, necessary for the performance of the duty of the auditor in relation to the audit; and
 - (c) may, at the expense of the local government obtain and act upon a legal opinion on a question arising in the course of an audit.
- (2) In this section and in section 7.11 employee includes a person who has a contract for services with the local government.

Under regulation 5. (c) of the *Local Government (Financial Management) Regulations 1996* the CEO is required to 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 four years) and report to the local government the results of those reviews.

r5. CEO's duties as to financial management

- (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 4 financial years) and report to the local government the results of those reviews

Comment

Council has undertaken the following compliance checks in support of the Fraud and Error Assessment Checklist findings:

- Complete Policy Manual Review undertaken in December 2017, refer Council Report OCM179/12/17.



- Complete review of Delegations Manual undertaken in December 2017, refer Council Report SCM163/12/17.
- Governance Health Review, reported to Audit, Risk & Governance Committee on 31 July 2017 (ARG004/07/17).
- Compliance Audit Return, completed for 2017, by Gary Martin, Local Government Consultant. Any non-compliances have been addressed through new internal processes and the appointment of a Procurement Officer.
- The Four yearly Financial Management Review, in accordance with the *Local Government (Financial Management) Regulations 1996, Regulation 5* was completed by Moore Stephens in April 2017.

Attachments

ARG003.1/03/18 – Appendix 4 – Fraud and Error Assessment by the Audit Committee (E18/1843)

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions.
Outcome 4.2	A strategically focused Council
Strategy 4.2.3	Provide clear strategic direction to the administration.

Financial Implications

There are no financial implications in relation to this item.

Risk Implications

Risk has been assessed on the basis of the Officer's Recommendation.

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That Council does not accept this report	Unlikely (2)	Moderate (3)	Moderate (5-9)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Accept Officer Recommendation



Risk Matrix

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

Risk Ratings have been determined with respect to probability and or consequences of adverse outcomes if action is not taken. Potential adverse outcomes may be quantitative impact (for example financial loss) or qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 6 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk over 17 will require a specific risk treatment plan to be developed.

Voting Requirements: Simple Majority

AUDIT, RISK & GOVERNANCE COMMITTEE DECISION

Moved Cr Coales, seconded Cr Byas

That the Audit, Risk & Governance Committee suspend Standing Orders clause 9.5, 9.6, 10.7 and 10.13 at 5.54pm to discuss ARG003/03/18.

CARRIED UNANIMOUSLY 6/0

AUDIT, RISK & GOVERNANCE COMMITTEE DECISION

Moved Ms Newby; seconded Cr Byas

That the Audit, Risk & Governance Committee return to Standing Orders at 6.10pm.

CARRIED UNANIMOUSLY 6/0



ARG003.1/03/18 Officer Recommendation

That the Audit, Risk and Governance Committee reviews the Fraud and Error Assessment for the 2017/2018 Interim Audit as detailed in attachment ARG003.1/03/18 and authorises the Presiding Member of the Audit, Risk and Governance Committee to complete and sign the assessment.

ARG003.1/03/18 AUDIT, RISK & GOVERNANCE COMMITTEE DECISION / Alternate Recommendation

Moved Mr Casilli, seconded Cr McConkey

That the Audit, Risk and Governance Committee:

- 1. Reviews the Fraud and Error Assessment for the 2017/2018 Interim Audit as detailed in attachment ARG003.1/03/18, and**
- 2. Authorises the Presiding Member of the Audit, Risk and Governance Committee to complete and sign the assessment, and**
- 3. Requests the Chief Executive Officer prepare a discussion paper in relation to appointing an internal audit function in accordance with contemporary changes to risk management practices.**

CARRIED UNANIMOUSLY 6/0

Reason for difference to Officer Recommendation

The Committee believed there was merit in investigating the implementation of some form of Internal Audit.

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.

7. Motions of which notice has been given:

8. Urgent business:

9. Closure:

There being further business, the Presiding Member declared the meeting closed at 6.11pm.

I certify that these minutes were confirmed at the
Audit, Risk and Governance Committee Meeting held on 15 May 2018

.....
Presiding Member
..... Date