



Shire of  
Serpentine  
Jarrahdale

## **Audit Committee Meeting Minutes**

**Monday, 20 March 2017  
5.00pm**

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Minutes of the Audit Committee Meeting held in the Council Chambers, 6 Paterson Street, Mundijong on Monday 20 March 2017. The Presiding Member declared the meeting open at 5.03pm and welcomed Councillors, staff and members of the gallery 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.

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

### In Attendance:

**Councillors:** J Erren ..... Presiding Member  
S Hawkins  
J See  
M Rich  
K Ellis

**Officers:** Mr K Donohoe ..... Chief Executive Officer  
Mr A Schonfeldt ..... Director Planning  
Mr D Elkins ..... Director Engineering  
Mr P Kocian ..... Acting Director Corporate and Community  
Ms K Cornish ..... Governance Advisor (Minute Taker)

**Leave of Absence:** Nil

**Apologies:** Nil

**Observers:** Cr D Gossage (from 5.06pm)

Members of the Public – Nil

Members of the Press – Nil

## 2. Public Question Time:

Nil

## 3. Public Statement Time:

Nil

## 4. Petitions and Deputations:

Nil

## 5. President's Report:

Nil

## 6. Declarations of Councillors and Officers Interest:

Nil

## 7. Receipt of minutes or reports and consideration for recommendations:

AC001/03/17 2016/17 Budget Review (SJ1969)	
Author:	Stacey Hobbins – Management Accountant
Senior Officer/s:	Peter Kocian – Acting Director Corporate and Community
Date of Report:	8 March 2017
Disclosure of Officers Interest:	No officer involved in the preparation of this report is required to declare an interest in accordance with the provisions of the <i>Local Government Act</i>

### Introduction:

This report presents the statutory Budget Review of the 2016/17 Budget. A number of budget variations are proposed as part of this review, which results in an overall favourable change in projected net current assets of \$143k, resulting in a projected net current asset balance of \$184k, as at 30 June 2017.

Supplementary information has been presented to the Committee to provide further information regarding the Shire's activities.

### Background:

The budget review is a statutory review that is undertaken in accordance with the Local Government Act 1995 and Regulation 33 of the Local Government (Financial Management) Regulations 1996. The purpose of this review is to identify significant variations from the Annual Budget and to recommend any amendments that may be necessary.

Changes to the Annual Budget are required during the year as circumstances change from when the Annual Budget was adopted by Council at the beginning of the financial year. Amendments to the Annual Budget will ensure that tight fiscal control is maintained on the Shire's finances.

### Relevant Previous Decisions of Council:

There is no previous Council decision relating to this matter.

### Community / Stakeholder Consultation:

Meetings were held with all Responsible Officers to review their budgets and discuss any requests to change the original budget. After these adjustments had been incorporated into the Budget Review model, Managers were notified of pending changes to review and provide feedback.

### Comment:

The Budget Review for 2016/17 includes a number of significant variations. Significant variations for the purpose of the mid-year budget review are where the forecast budget differs from the original budget by \$5,000 or more.

In discussing proposed amendments in the commentary below, recommended budget variations are categorised as either Favourable (F); Unfavourable (U); or Contra (C). This status relates to their impact on the net current asset position. As an example, a project that is fully funded by Grants or Reserves would generally be a Contra entry – that is, it will have a nil impact on net current assets as the expenditure is fully supported by specific source funding. The balance of net current assets is a key indicator of the Shire's ability to meet its debts and obligations as and when they fall due, and its financial flexibility in responding to opportunities, such as dollar for dollar grants, as and when required.

Variations to the original budget are summarised below by nature and type:

REVENUE	Original Budget	Budget Review	Variance
Rates	19,901,753	20,309,384	(407,631)
Operating grants, subsidies and contributions	3,440,324	3,366,199	74,125
Fees and charges	5,483,809	5,804,845	(321,036)
Interest earnings	640,000	679,844	(39,844)
Other revenue	718,012	865,870	(147,858)
	<b>30,183,898</b>	<b>31,026,142</b>	<b>(842,244)</b>

- A budget increase of \$408K in additional rates. Interim rates are significantly higher than expected due to close off of rates in 2015/16 to allow for rates modelling – F
- Operating grants, subsidies and contributions decrease of \$74K. An increase in the MRWA Direct Grant offsets a decrease of the Financial Assistance Grant – untied roads. A reclassification of reimbursements from the YMCA to other revenue makes up most of the shortfall – C
- An increase in Fees & Charges collected of \$321K is primarily due to interim waste charges, which will be offset by the increase in waste collection expenditure – F / C
- An increase of \$40K to Interest Earnings attributable to additional earnings from DCP investments, due to the timing of Abernethy Road expenditure not being incurred as yet - F
- Other revenue increased by \$148K due to the reclassification of reimbursements from Fees & Charges, plus additional unbudgeted reimbursements received from insurance and workers compensation claims – C

EXPENDITURE	Original Budget	Budget Review	Variance
Employee costs	(13,678,632)	(13,723,627)	44,995
Materials and contracts	(12,805,437)	(13,560,353)	754,916
Utility charges	(1,083,456)	(1,094,309)	10,853
Depreciation on non-current assets	(9,099,827)	(5,269,825)	(3,830,002)
Interest expenses	(125,014)	(85,791)	(39,223)
Insurance expenses	(465,278)	(450,497)	(14,781)
Other expenditure	(91,239)	(131,365)	40,126
	<b>(37,348,883)</b>	<b>(34,315,767)</b>	<b>(3,033,116)</b>

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- Increase of \$45K in employee costs. Due to an industry position salary review, but offset by structural changes and position vacancies. Budgeted full time employees was 151, expected full time employees has increased to 155 – U
- Materials and contracts has increased by \$755K. Increases in waste collection costs (offset by waste charges collected), consultants engaged to assist with the Integrated Planning and Reporting Framework, \$70K for feasibility of the renewal of the gravel pit facility and increase in temporary staff to cover vacancies - U
- Small unfavourable variance to utility charges – U
- Depreciation has been recalculated to reflect actual depreciation costs for 16/17. This encompasses changes in the useful life of infrastructure assets that were adopted in the process of producing the 2015/16 Financial Report - Non cash item; no impact on surplus
- Interest expenses are less than predicted (39K) due to changes in loan expectations. See Loans Schedule – F
- Insurance expenses have been adjusted to reflect actual costs incurred, a favourable variation of \$15K – F
- Other expenditure has been increased by \$40K. This includes the return of a wi-fi grant to the Department of Infrastructure - U

CAPITAL EXPENDITURE	Original Budget	Budget Review	Variance
Profit on asset disposals	(24,330)	(6,941)	(17,389)
Loss on asset disposals	20,906	38,039	(17,133)
Proceeds from disposal of assets	493,000	364,013	128,987
Purchase property, plant and equipment	(1,485,063)	(1,644,076)	159,013
Purchase and construction of infrastructure	(10,992,370)	(12,394,221)	1,401,851

- There has been a decision made to delay the replacement of administration's light vehicle fleet until further investigation of efficiencies has been explored. This has led to a reduction in expected proceeds and profits. Losses have been incurred on most vehicles sold to date.
- Full details of the Capital Expenditure program can be found in the attached report, but major variances include;
  - Byford Skate Park; \$231K to be carried forward to 17/18 budget.
  - Jarrahdale RV Site; \$49K to be carried forward to 17/18 budget (transfer to Restricted Cash).
  - Serpentine Polocrosse Reticulation: \$75K to be transferred to Reserve.
  - Civic Centre Roof/Ceiling Repair: \$100K allocated to the repair and restoration of the damaged roof funded from Reserve.
  - Administration Building Renovation: \$141K allocated to the design and renovation of the administration staff offices funded from Reserve.

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- Jarrahdale Road Bridge and Richardson Street Bridge; works undertaken and fully funded by Main Roads and Financial Assistance Grant under the Special Projects – Bridges Scheme.
- Projects funded by the 15/16 surplus addressed by OCM235.12.16.
- Hopeland Community Hall Water Storage Tank: increase of \$30K as approved at February OCM.
- Byford Dog Park Budget; Transfer of remaining budget \$32K to Restricted Cash, to be quarantined until after the 12 month trial period.
- Gravel Road Resheeting; \$345K funded from Reserve as part of the Asset Management Plan, to be deferred until issue of gravel pit is resolved.
- Footpath Asset Management Plan: \$100K increase in budget, transferred from operating budget. Most footpath works are deemed to be renewal in nature.
- Cancellation of Lowlands Road, and funds transferred to Elliot Road \$109K.
- Cancellation of Summerfield Road, and funds transferred to Gossage Road \$150K.

<b>RESERVES &amp; RESTRICTED CASH</b>	<b>Original Budget</b>	<b>Budget Review</b>	<b>Variance</b>
Transfers to cash backed reserves (Restricted assets)	(3,295,932)	(3,769,921)	473,989
Transfers from cash backed reserves (Restricted assets)	1,932,589	2,625,920	(693,331)
Transfers to restricted cash (Municipal)	(93,900)	(716,070)	622,170
Transfers from restricted cash (Municipal)	5,732,884	5,745,950	(13,066)

### Reserves

- Administration Building Reserve to fund the repair of Civic Centre roof and also the design and renovation of office space.
- Briggs Park Reserve increase of \$81K due to the 15/16 carry forward not needed in 16/17 budget. Hold in reserve until needed.
- Building Asset Management Reserve – transfer in reduced by \$100K, and transferred to Administration Building Reserve instead.
- Community Facilities Reserve not used in 15/16 as expected, opening balance higher than predicted in budget.
- Leave Reserve reduced to reflect actual liability.
- Light Fleet and Plant Acquisition: recommending to fund plant lease payments from here, as lease is in lieu of purchase.
- Serpentine Jarrahdale Sporting Precinct; increase in Reserve due to deferment of Polocrosse Reticulation project.
- Waste Reserve absorbing some of the increased cost of changing service providers.

### Restricted Cash

- Environmental Works – TTREE is not expecting any outflow this financial year, as predicted in original budget.
- Tourism WA grant for Jarrahdale RV site is not expected to be expended this financial year. Plans are in place for 17/18.
- Fire Contributions from Developers is to be used in part to fund the extra monies required for the Hopeland Water Storage Tank.
- Byford by the Scarp monies expected to be used this year to repair Benalla Crescent.

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- Developer Contributions receipted were unbudgeted, and interest higher than original budget due to expected expenditure of funds. Monies to be spent late this financial year after works begin.
- Carry forward projects identified in order to quarantine monies for future financial year;
  - Health promotions \$15K,
  - IT Systems Upgrade \$69K,
  - Communications – Outdoor Event \$50K,
  - Asbestos Audit \$35K,
  - Skate Park Byford \$231K, and
  - Byford Dog Park \$32K.

OTHER MATERIAL VARIANCES	Original Budget	Budget Review	Variance
Non-operating grants, subsidies and contributions	3,271,241	4,257,786	(986,545)
Repayment of debentures	(506,744)	(386,724)	(120,020)
Proceeds from new debentures	1,986,057	1,886,057	100,000

- Overall there has been an increase in non-operating grants, subsidies and contributions received, due to the Special Projects – Bridges program fully funded by Financial Assistance Grant \$917K and Main Roads contribution \$459K.
- Grants totalling \$658K relating to the Byford & Districts Country Club are to be removed from this year's budget as they were received late in the 15/16 financial year.
- Repayment of loans is lower than expected as the Shire has not yet drawn down on any additional funding to date.
- Expected proceeds from new loans has decreased as we are no longer seeking to fund development contribution schemes from loan funding.

**Attachment:**

- [AC001.1/03/17](#) – 2016/17 Budget Review Report (E17/1690)

**Alignment with our Strategic Community Plan:**

Objective 1.1	Strong Leadership
Key Action 1.1.1	Drive a continuous improvement, 'can-do' and creative work culture.
Objective 1.2	Progressive Organisation
Key Action 1.2.4	Provide robust reporting that is relevant, transparent and easily accessible by staff and the community.
Key Action 1.2.6	Comply with all legislative and statutory requirements.

**Statutory Environment:**

Regulation 33A of the Local Government (Financial Management) Regulations 1996 requires that;

- (1) Between 1 January and 31 March in each year a local government is to carry out a review of its annual budget for that year.



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- (2A) The review of an annual budget for a financial year must —
- (a) consider the local government's financial performance in the period beginning on 1 July and ending no earlier than 31 December in that financial year; and
  - (b) consider the local government's financial position as at the date of the review;
- and
- (c) review the outcomes for the end of that financial year that are forecast in the budget.
- (2) Within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the council.
- (3) A council is to consider a review submitted to it and is to determine\* whether or not to adopt the review, any parts of the review or any recommendations made in the review.  
*\*Absolute majority required*
- (4) Within 30 days after a council has made a determination, a copy of the review and determination is to be provided to the Department.

**Financial Implications:**

The financial implications related to this review are outlined in this report. No additional funds are required from these adjustments. Based on the review there will be a budget surplus at 30 June 2017 of \$184,208.

Below is a summary of the variances that been identified and the recommended changes.

Description	Original Budget	Budget Review	Variance
Opening Surplus at 1 July 2016	1,064,265	2,235,294	(1,171,029)
Proceeds from sale of assets	493,000	364,013	128,987
Changes to net transfers to and from Reserves	(1,363,343)	(1,144,001)	(219,342)
Changes to net transfers to and from Restricted Cash	5,638,984	5,029,880	609,104
Loan Principal Drawdown (New loans)	1,986,057	1,886,057	100,000
Loan principal repayments	(506,744)	(386,724)	(120,020)
Capital expenditure	(12,477,433)	(14,038,297)	1,560,864
Capital revenue (cash items)	3,271,241	4,257,786	(986,545)
Operating revenue (cash items)	30,183,898	31,026,142	(842,245)
Operating expenditure (cash items)	(28,249,055)	(29,045,942)	796,887
	<b>40,870</b>	<b>184,208</b>	<b>(143,338)</b>

**Voting Requirements:** Absolute Majority

**AC001/03/17 AUDIT COMMITTEE DECISION / Officer Recommendation:**

Moved Cr Rich, seconded Cr See

That the Audit Committee:

1. Receives the 2016/17 budget review report as per attachment *AC001.1/03/17* and recommend to Council that it adopts the budget adjustments to the 2016/17 statutory budget.
2. Notes that the 2016/17 budget review results in a favourable improvement of \$143,338 in the budget surplus as at 30 June 2017, with a forecast surplus of \$184,208.
3. Notes the following projects/activities have been identified for carry over into 2017/18.

PROJECT / ACTIVITY	Original Budget	Allocation from 15/16 Surplus	Budget Review	Amount approved for carry over
Health Promotions	15,000	-	-	15,000
Systems Upgrade	119,050	-	50,000	69,050
Communications - Outdoor Event	143,000	-	93,000	50,000
Asbestos Expenses	45,000	-	10,000	35,000
Skate Park Byford	200,000	80,700	50,000	230,700
Dog Park	35,000	-	3,383	31,617
				<b>431,367</b>

**CARRIED BY ABSOLUTE MAJORITY 5/0**

<b>AC002/03/17 Audit, Risk and Governance Committee – Adopt Terms of Reference (SJ2195)</b>	
Author:	Karen Cornish – Governance Advisor
Senior Officer/s:	Peter Kocian – Acting Director Corporate and Community
Date of Report:	13 March 2017
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 Local Government Act

## Introduction

The Audit Committee are being asked to endorse and recommend to Council the adoption of a comprehensive Terms of Reference (ToR) for what is currently the Audit Committee. By adopting the ToR, Council also resolves to rename this Committee to the Audit, Risk and Governance (ARG) Committee.

## Background:

The establishment of an Audit Committee is a requirement under section 7.1A of the *Local Government Act 1995* for all local governments.

The functions of an Audit Committee are set out in Regulation 16 of the *Local Government (Audit) Regulations 1996*:

*An Audit Committee —*

- (a) *is to provide guidance and assistance to the local government —*
  - (i) *as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*
  - (ii) *as to the development of a process to be used to select and appoint a person to be an auditor; and*
- (b) *may provide guidance and assistance to the local government as to —*
  - (i) *matters to be audited; and*
  - (ii) *the scope of audits; and*
  - (iii) *its functions under Part 6 of the Act; and*
  - (iv) *the carrying out of its functions relating to other audits and other matters related to financial management; and*
- (c) *is to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —*
  - (i) *report to the Council the results of that review; and*
  - (ii) *give a copy of the CEO's report to the Council.*

## Relevant Previous Decisions of Council:

There is no previous Council decision relating to this matter.

## Community / Stakeholder Consultation:

A workshop on the ToR was held with Councillors on 13 March 2017. Community consultation was not required in this instance.

## Comment:

### ARG Responsibilities

The ARG Committee will play an important role in supporting Council fulfil its responsibilities in 6 key areas:

1. Risk management systems.

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Agenda – Audit Committee Meeting

2. Internal control structure.
3. Financial reporting.
4. Compliance with laws and regulations.
5. Internal audit functions.
6. External audit functions.

Within each of the 6 key areas, there are numerous responsibilities the ARG Committee will oversee:

*Risk Management*

- Review risk management framework and associated procedures.
- Review process for fraud control arrangements.
- Review the Shire of Serpentine Jarrahdale Business Continuity Plan.

*Internal Control*

- Review the approach of the internal control framework.
- Review relevant policies and procedures.
- Assess at least once a year whether key policies, procedures and delegations are complied with.

*Financial Report*

- Review significant accounting and reporting issues.
- Review with management and the external auditor the results of the audit.
- Review annual financial report and performance report.
- Review the mid year budget review.

*Compliance*

- Review systems and processes to monitor compliance with legislation and regulations.

*Internal Audit*

- Review the terms of reference, activities and resourcing of the internal audit function.
- Review and recommend to Council for adoption the annual internal audit plan.
- Review all internal audit reports.
- Monitor the implementation of internal audit recommendations.

*External Audit*

- Develop and recommend a process for the selection and appointment of an external auditor.
- Develop and recommend to Council a written agreement for the appointment of an external auditor.
- Consider the findings and recommendations by the external auditor.
- Review the performance of the external auditor.

In carrying out these responsibilities, the ARG Committee will report regularly to Council on the Committee's activities, issues and related recommendations.

An annual review of the ARG Committee's ToR is recommended and contained within the ToR.

The Department of Local Government and Communities has a guideline on Local Government Audit Committees which was consulted during the drafting of the ToR.

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Composition

It is proposed the ARG Committee will consist of seven (7) members. This is made up of five (5) elected members and two (2) external members. The external members will be persons independent of the Shire of Serpentine Jarrahdale who can demonstrate sound knowledge in financial management, governance and audit. A public advertisement will call for expressions of interest and the CEO will evaluate the applicants and make a recommendation to Council.

Conclusion

It is recommended the Audit Committee endorse and recommend to Council the adoption of the proposed ToR as contained in attachment AC002.1/03/17. This comprehensive ToR will support Council in discharging its legislative responsibility associated with governing the Shire's affairs and will positively promote transparency and accountability in the Shire's financial reporting. Effective and responsible management of risks will also ensure protection of the Shire's assets.

**Attachments:**

- [AC002.1/03/17](#) – Proposed Terms of Reference (E17/1739)

**Alignment with our Strategic Community Plan:**

Objective 1.2	Progressive Organisation
Key Action 1.2.6	Comply with all legislative and statutory requirements.
Objective 1.3	Capable Councillors
Key Action 1.3.2	Ensure Elected Members have a comprehensive understanding of Council's roles and responsibilities.

**Statutory Environment:**

The Audit Committee was established under section 7.1A of the *Local Government Act 1995*. The functions of an Audit Committee are outlined under regulation 16 of the *Local Government (Audit) Regulations 1996*.

Section 7.1A(2) of the *Local Government Act 1995* states the membership of an Audit Committee must be at least three of the members and the majority of members must be Council members. Members to the ARG Committee are appointed by an absolute majority vote by Council.

The ARG Committee does not have executive powers or authority. All recommendations of the ARG Committee are to be presented to Council for determination.

**Financial Implications:**

There are no financial implications associated with the adoption of the ToR.

**Voting Requirements:** Simple Majority

**AC002/03/17 AUDIT COMMITTEE DECISION / Officer Recommendation:**

**Moved Cr See, seconded Cr Rich**

**That the Audit Committee:**

1. **Endorses and recommends that Council adopt the change of name from Audit Committee to Audit, Risk & Governance Committee.**
2. **Endorses and recommends that Council adopt the Terms of Reference as contained in attachment AC002.1/03/17.**

**CARRIED UNANIMOUSLY**

<b>AC003/03/17</b>	<b>Review of Risk Management, Legislative Compliance and Internal Controls (SJ2196)</b>
Author:	Kellie Bartley – Manager Corporate Services
Senior Officer/s:	Peter Kocian – Acting Director Corporate and Community
Date of Report:	13 March 2017
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 Local Government Act

### Introduction

This report recommends that the Audit Committee receive the status report on risk management, legislative compliance and internal controls and makes recommendations to Council on priority actions.

### Background:

A status report has been prepared reporting against identified issues with respect to risk management, legislative compliance and internal controls. The status report is not an exhaustive listing and will be a living document and updated as issues are identified. It is presented to the Audit Committee to assist in their role to report to Council and provide advice and recommendations on matters relevant to its terms of reference.

### Relevant Previous Decisions of Council:

OCM234/12/16 – Report on review of Risk Management, Legislative Compliance and Internal Controls

### Community / Stakeholder Consultation:

Internal stakeholder consultation has occurred with Responsible Officers as designated in the status report attached to this item.

### Comment:

The Department of Local Government and Communities developed an Operational Guideline on Audit in Local Government. Appendix 3 of this Guideline lists a number of issues that should be presented to an Audit Committee for review and monitoring:

#### Risk Management:

- Reviewing whether the local government has an effective risk management system;
- Reviewing whether the local government has a current and effective business continuity plan;
- Reviewing areas of potential non-compliance with legislation, regulations and standards and local governments policies;
- Reviewing the following; litigation and claims, misconduct, and significant business risks;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local governments internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.

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Internal Control Systems:

- Separation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;
- Limit of direct physical access to assets and records;
- Control of computer applications and information system standards;
- Regular maintenance and review of financial control accounts and trial balances;
- Comparison and analysis of financial results with budgeted amounts;
- Report, review and approval of financial payments and reconciliations;
- Comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review managements plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Considering the internal auditors role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.

UHY Haines Norton (now Moore Stephens) were engaged in 2014/2015 to provide the following services to the Shire in relation to the requirements of Regulation 17 of the Local Government (Audit) Regulations 1996:

- Undertake a high level review of the risk management systems, policies, procedures and plans in place;
- Evaluate the financial internal control systems and procedures at the Shire;
- Evaluate the operational internal control systems and procedures at the Shire including a review of the probity of the Shire's procurement framework;
- Assess systems and processes for maintaining legislative compliance including an assessment of the reliability of the Shire's latest compliance audit return;
- Develop a gap analysis of any improvements identified during the assessment;
- Provide recommendations to assist the CEO to assess the appropriateness and effectiveness of the relevant systems and procedures.

The scope of this review was therefore consistent with the Regulations and the matters recommended in the Operational Guideline. Council received and then considered the report at the Ordinary Meeting of 19 December 2016. An Improvement Plan was presented to this meeting; which now forms the basis of the status report presented as Attachment AC003.1/03/17.

The status report will be a standing item and presented to the Audit Committee on a quarterly basis.

**Attachments:**

- [AC003.1/03/17](#) - Improvement Plan - Review of Risk Management, Legislative Compliance and Internal Audit Controls (E17/1934)



### Alignment with our Strategic Community Plan:

Objective 1.2	Progressive Organisation
Key Action 1.2.6	Comply with all legislative and statutory requirements.

### Statutory Environment:

Section 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a 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.

Section 16(c) of the *Local Government (Audit) Regulations 1996* requires the CEO to report to Council the results of that review and give a copy of the CEO's report to the Council.

### Financial Implications:

There are no financial implications directly relevant to this item. However, additional resources may be required for the implementation of the Improvement Plan and associated process and systems in a timely manner.

Risk ratings have been determined with respect to probability and or consequence 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).

**Voting Requirements:** Simple Majority

**Cr Gossage entered the chambers at 5.06pm to observe the Audit Committee meeting.**

### AC003/03/17 AUDIT COMMITTEE DECISION / Officer Recommendation:

Moved Cr rich, seconded Cr Hawkins

That the Audit Committee:

1. Receives the status report on risk management, legislative compliance and internal controls;
2. Recommends to Council that the following priority actions be considered:

**CARRIED UNANIMOUSLY**

**Audit Committee Note:** The Audit Committee did not determine any priority actions from the status report and is satisfied that this be determined by the Director Corporate & Community.



<b>AC004/03/17 Compliance Audit Return 2016 (SJ893)</b>	
Author:	Karen Cornish – Governance Advisor
Senior Officer/s:	Peter Kocian – Acting Director Corporate and Community
Date of Report:	13 March 2017
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 Local Government Act

### Introduction

The Audit Committee are requested to endorse the Department of Local Government and Communities' 2016 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 Committee, 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.

### Background:

The Shire's Audit Committee is requested to review the completed CAR. The recommendation of the Audit Committee will then be presented to the Ordinary Council meeting on the 27 March 2016. Following adoption by Council, the CAR will be submitted to the Department of Local Government and Communities by the required closing date of 31 March 2017.

### Relevant Previous Decisions of Council:

The previous CAR was presented to Council for endorsement as AC001/03/16 on the 29 March 2016.

### 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.

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

The 2016 Compliance Return focuses on the following:

- a) Commercial Enterprises by Local Governments;
- b) Delegation of Power/Duty;
- c) Disclosure of Interest;

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- d) Disposal of Property;
- e) Elections;
- f) Finance;
- g) Local Government Employees;
- h) Official Conduct; and
- i) Tenders for Providing Goods and Services.

Regulation 14 requires the Audit 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.

In previous years, the Shire has engaged an independent consultant to peer review the Compliance Audit Return. Effective peer reviews provide an independent perspective and judgments of professionals who are knowledgeable in the subject area being reviewed. This has been at a cost of approximately \$2,200 per annum. Due consideration should be given to establishing an internal audit process that undertakes a peer review of the Shire's CAR. This could be undertaken by an external source following completion of the CAR with the results being reported back to the Audit Committee.

#### Non-compliance reported

In undertaking the 2016 CAR there was one non-compliance recorded in the section titled Delegation of Power/Duty. This non-compliance involves the keeping of a written record when exercising a delegated power or authority. At various times during 2016, a register was not maintained to record instances of the CEO exercising a delegated power or duty. In order to rectify this, a process is being developed that will identify when a delegated power or duty is exercised and a register being set up to record these instances. Exercising of delegations is currently reported in the Councillor Information Bulletin and this will continue to be the case.

The Council has appointed a new CEO who has a strong governance and compliance background, and it is not expected that such instances of non-compliance will occur going forward.

#### **Attachments:**

- [AC004.1/03/17](#) - Draft Compliance Audit Return 2016 (E17/1937)

#### **Alignment with our Strategic Community Plan:**

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

Objective 1.2	Progressive Organisation
Key Action 1.2.6	Comply with all legislative and statutory requirements.

#### **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 ended 1 January to 31 December in 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 next following the period to which the return relates.

**Financial Implications:**

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

**Voting Requirements:** Simple Majority

**AC004/03/17 AUDIT COMMITTEE DECISION / Officer Recommendation:**

**Moved Cr Hawkins, seconded Cr Ellis**

**That the Audit Committee:**

- 1. Endorses the Local Government Compliance Audit Return for the period 1 January to 31 December 2016 as contained in attachment AC004.1/03/17.**
- 2. Authorises the Shire President and Chief Executive Officer to sign the joint certification and lodge with the Director General of the Department of Local Government and Communities by 31 March 2017.**
- 3. Notes the non-compliances and requests the Chief Executive Officer to address the areas of non-compliance and report back to a future Audit Committee meeting on the measures taken to mitigate the non-compliances.**
- 4. Gives consideration to an independent peer review being undertaken for the 2017 Compliance Audit Return, with the results from this review to be reported to the Audit Committee.**

**CARRIED UNANIMOUSLY**

<b>AC005/03/17</b>	<b>2016/17 Interim Audit – Fraud and Error Assessment by the Audit Committee</b>
Author:	Kelli Hayward – Manager Finance
Senior Officer/s:	Peter Kocian – Acting Director Corporate and Community
Date of Report:	17 March 2017
Disclosure of Officers Interest:	No officer involved in the preparation of this report is required to declare an interest 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.

### 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 2017.

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.

### Relevant Previous Decisions of Council:

There is no previous Council decision relating to this matter.

### Community / Stakeholder Consultation:

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

### Comment:

### Attachment:

- [AC005.1/03/17](#) – Appendix 4 – Fraud and Error Assessment by the Audit Committee (E17/2008)

### Alignment with our Strategic Community Plan:

Objective 2.1	Responsible Management
Key Action 2.1.1	Undertake best practice financial and asset management.

### 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

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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

### **Financial Implications:**

There are no financial implications in relation to this item.

**Voting Requirements:** Simple Majority

### **AC005/03/17 AUDIT COMMITTEE DECISION / Officer Recommendation:**

**Moved Cr See, seconded Cr Rich**

**That the Audit Committee reviews the Fraud and Error Assessment for the 2016/17 Interim Audit and authorises the Presiding Member of the Audit Committee to complete and sign the assessment.**

**CARRIED UNANIMOUSLY**

**Audit Committee Note: Cr Rich requested a note of appreciation be recorded congratulating the Director Corporate and Community and his staff for the quality of the reports presented in this agenda.**

## **8. Motion of which notice has been given:**

Nil

## **9. Urgent Business:**

Nil

## **10. Councillors' questions of which notice has been given:**

Nil

## **11. Closure:**

There being no further business the Presiding Member declared the meeting closed at 5.09pm.

I certify that these minutes were confirmed at the  
Ordinary Council Meeting held on 27 March 2017

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Presiding Member

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Date