



**AUDIT AND RISK MANAGEMENT COMMITTEE MEETING
MINUTES**

held on
Wednesday 9 February 2022

Commencing at 5.34pm

Shire of Donnybrook Balingup Council Chambers, Donnybrook

A handwritten signature in black ink, appearing to read 'BGR', with a long horizontal line extending to the right.

Ben Rose
Chief Executive Officer

14 February 2022

Disclaimer

Please note: These minutes are yet to be confirmed as a true record of proceedings

TABLE OF CONTENTS

1 DECLARATION OF OPENING 3

2 ATTENDANCE 3

2.1 APOLOGIES..... 3

2.2 APPROVED LEAVE OF ABSENCE..... 3

3 ANNOUNCEMENTS FROM CHAIRPERSON..... 3

4 DECLARATION OF INTEREST 11

5 CONFIRMATION OF MINUTES..... 11

6 REPORTS OF OFFICERS 12

6.1 ANNUAL FINANCIAL AUDIT 2020/21 - AUDIT CONCLUDING MEMORANDUM 12

7 CLOSURE 16

SHIRE OF DONNYBROOK BALINGUP
AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

held at the Council Chambers
9 February 2022 at 5.34pm

1 DECLARATION OF OPENING

Chairperson – Acknowledgment of Country

The Chairperson acknowledged the traditional custodians of the land, the Wardandi People of the Noongar Nation, paying respects to Elders, past and present and emerging.

The Chairperson declared the meeting open at 5:34pm and welcomed the members of the Committee and guests in the public gallery.

2 ATTENDANCE

MEMBERS PRESENT

COUNCILLORS	STAFF
Cr Leanne Wringe (Shire President) Cr Chaz Newman Cr Chris Smith	Mr Kim Dolzadelli – Director Corporate Community
EXTERNAL MEMBERS	GUESTS
Mr Ian Telfer – Chairperson	Mr Shane Sercombe Mr Simon McInnes Ms Lisa Glover Mr Peter Gubler

2.1 APOLOGIES

Ms Carly Anderson – External Member
Mr Ben Rose – Chief Executive Officer

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3 ANNOUNCEMENTS FROM CHAIRPERSON

The Chairperson noted a request from the Director of Corporate and Community Services to be able to table 2 new documents at the meeting.

The first document being “Tabled Document 1” – updated version of the Audit Concluding Memorandum, which was received at 2:35pm 9 February 2014 from the Assistant Director, Financial Audit Office of the Auditor General. It was noted that the change to the document was on Page 8 with the addition of the Note regarding “Discontinued Operations”.

The second document being “Tabled Document 2” copy of email from the Auditor General of Western Australia titled “2020-21 Annual Financial Audit Report Delay for Shire of Donnybrook Balingup”.

The Chairperson asked members if there was a mover to accept the Tabled documents.

Committee Resolution:

Committee Resolution

That the Audit and Risk Management Committee receive and note the two tabled documents being:

- **Tabled Document 1 – updated version of the Audit Concluding Memorandum,**
- **Tabled Document 2 – copy of email from the Auditor General of Western Australia titled “2020-21 Annual Financial Audit Report Delay for Shire of Donnybrook Balingup”.**

Moved Cr Leanne Wringe Seconded Cr Chris Smith

The Chairperson invited members of the Public Gallery to ask questions

Mr Sercombe handed a typed document containing questions to members of the Committee and Director of Corporate and Community.

Question: Shane Sercombe

- “In ongoing responses to items identified in red as having ‘Significant’ risk the shire continues to raise the lack of available resources. Would the Audit and Risk Committee consider helping to address this by formally requesting that council prioritise its resources to assist the administration address these ‘significant’ risks?”

Attachment 6.2

AUDIT REG. 17 REVIEW 2018 (Status Update - OCTOBER 2021)

Ref	Issue	Risk Rating	Update	Status
Internal Controls				
3.2.1	Procurement and Contract Management Currently no formal contract management framework in place resulting in an inconsistent approach implemented by those responsible for contract management.	Significant	The development of a framework would need to take into account the Performance Audits by the OAG released in May 2020 with regard to contract extensions and variations. Action on progressing this item is currently restricted due to current governance resources being allocated to implementing new legislation and operations resources being occupied on projects. External resources will be required to undertake this review in the future. On hold pending allocation of additional resources.	ONGOING
3.2.2	General Journals General Journals are not currently being independently reviewed and supporting documentation is not being retained with journal records.	Significant	All general Journals are reviewed by the EMCC and supporting information attached.	COMPLETED
Information Technology (IT)				
3.2.3	We identified various enhancements and improvement recommendations in relation to the Shire's IT.	Moderate	The review highlighted the lack of policies and strategies concerning IT systems and security. To implement these recommendations would require a comprehensive review of IT with dedicated project funding and also additional FTE employees to implement and maintain the recommended activities. This project is on hold pending the allocation of the additional financial resources.	ONGOING
4.2.3	Internal Audit Function Currently no formal internal audit function in place.	Moderate	To be reviewed by DCC as part of 2021-22 Budget. \$15k included in 2021-22 Budget.	ONGOING

Response: Chairperson

As Chairperson of the Audit and Risk Management I will request the Chief Executive Officer provide an update on the matter you have raised and provide advice to the Audit and Risk Management Committee.

Question: Shane Sercombe

- **“The Department of Local Government Audit Committee best practice states -“**

*Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.

https://www.dlgsc.wa.gov.au/docs/default-source/local-government/operational-guidelines/operational-guideline-9-the-appointment-function-and-responsibilities-of-audit-committeess.pdf?sfvrsn=77bf5a06_1audit

“If those requirements have not been met would the resolutions made by the Audit and Risk Committee since the LG elections in October be invalid?”

Response: Director Corporate and Community Services:

No, they would not be invalid. You are referencing a best practice guide not legislative requirement.

A public Expression of Interest for interested person to become a member of the Audit and Risk Committee has been advertised with the closing date being Friday 11 February 2022.

Question: Shane Sercombe

- In the email response as per below the OAG stated:

“The result of the annual audit and the auditor report was discussed in the exit meeting with the Shire of Donnybrook –Balingup last Thursday 10 December 2020. Both the President and the Audit Chair were invited to this meeting and we normally welcome other councillors to attend those meetings.”

“Has the Audit committee and council been invited the 2021 Audit Exit Meeting?”

From: Mahmoud Salahat [REDACTED]
Sent: Tuesday, December 15, 2020 5:18 pm
To: Shane Sercombe; Ian Telfer
Cc: Stuart Fraser; Narrell Lethorn; andrew.borrett [REDACTED]; Renuka Venkatraman; Tim Partridge
Subject: RE: Audit Concerns

Hi Shane,

This response might be late but unfortunately I am out of the office on leave this afternoon.

The result of the annual audit and the auditor report was discussed in the exit meeting with the Shire of Donnybrook –Balingup last Thursday 10 December 2020. Both the President and the Audit Chair were invited to this meeting and we normally welcome other councillors to attend those meetings. However, I would be happy to attend the next Audit Committee meeting and respond to any queries associated with the annual audit and the auditor report.

If you have further enquiries, please do not hesitate to me

Regards

Mahmoud Salahat
Assistant Director, Financial Audit
Office of the Auditor General for Western Australia

Response: Director Corporate and Community Services:

All Councillors have been formally invited to attend the Audit Exit meeting.

Question: Shane Sercombe

New Questions:

- Has the CEO received the Annual Financial Report?
- In Page 5 of the Audit Concluding Memorandum the Auditor states:

Depreciation and amortisation

- Reviewed depreciation policy for the various asset classes and assessed the reasonableness of rates used.
 - Documented and tested key financial controls around the calculation of depreciation/amortisation.
 - Performed depreciation recalculations based on our sampling approach.
-

The Shires response:

Management response:

1. The Shire's Operating Surplus Ratio is being adversely impacted by non-cash depreciation charges. A preliminary review of Depreciation Rates has been undertaken and points to a potential over calculation of depreciation as does the fact that Road Infrastructure Assets are not disaggregated therefore residual values cannot be put in place where appropriate.

Why are these two statements conflicting?

Potential Reduction in Depreciation	\$2,329,814
--------------------------------------------	--------------------

- After four finance Managers in four years is it likely that they have all over calculated the shires \$5.7m p/a depreciation by \$2.3m?

Response: Director Corporate and Community Services:

The Audited Annual Financial report has not yet been signed off by the Auditor General of Western Australia, this is expected to occur within the next few weeks.

The two statements referred to with respect to depreciation the views stated in the Audit Concluding Memorandum are based upon current treatment of Depreciation of Assets.

The management response refers to a change in the methodology and introduction of residual values.

The Director went into a detailed explanation of the reason as to why Residual Values, particularly on Road Assets, had potential to greatly reduce the amount of annual depreciation.

Question: Shane Sercombe

- **Page 3 of the Audit Concluding Memorandum the Auditor states:**

In addition, we noted the following matter to be reported in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

- There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.
- Non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law as there were instances where manual accounting entries had been prepared and posted without any evidence of review by a second officer. Accounting journals can represent significant adjustments to previously approved accounting transactions, and therefore should be appropriately reviewed and approved.
- The Shire has not reported the Asset Renewal Funding Ratio for 2021, 2020 or 2019 in the annual financial report as required by section 50(1) of the Local Government (Financial Management) Regulations 1996, as the Shire's adopted long term financial plan does not include the required information to calculate the ratio.
- **What policy can the Audit Committee recommend be ^{WP}updated to prevent accounting entries being posted without review?**
- **With the shire publicly raising awareness of Asset Management would the Audit Committee recommend the Long-term Financial Plan be reviewed by council prior to council budget preparations?**

Response: Director Corporate and Community Services:

As noted in the Agenda papers the Director of Corporate and Community has personally reviewed the 1148 general journals processed in the 2020/21 Financial Year and has

found a total of 6 that had no evidence of review by a senior staff member. This equates to a failure rate in the process of 0.52% with compliance standing at 99.48%. The 6 journals were also checked for legitimacy and supporting documentation with no adverse findings.

Staff appreciate the importance and significance of the process and will continue to strive for 100% compliance. There is no need for a "Policy to updated" as this is an administrative procedural matter.

An Item is being presented to Council at its February Ordinary Council meeting to, in part,:

"Requests the Chief Executive Officer present the 2021-22 reviews of the Long Term Financial Plan and the Rating Strategy to Council for consideration at the next Ordinary Council Meeting post-adoption of the Corporate Business Plan"

If Council resolves the above Officers will present the Long Term Financial Plan to Council for consideration prior to Budget Deliberations.

Question: Simon McInnes:

At the last meeting of the Audit and Risk Committee meeting I asked the following yet there still appears to be no response:

Question: Simon McInnes

In the attachment to the minutes of the meeting of 14 October 2021 under the section 3.2.1 "Procurement and Contract Management", page 3 of attachment 6.2 it states:

"Currently no formal contract management framework in place resulting in an inconsistent approach implemented by those responsible for contract management."

Noting that the status of this Item remains unchanged as "Ongoing" and that the Risk Rating is "Significant I would ask that the Audit and Risk Management Committee make recommendation to Council to ensure appropriate funds can be allocated to resolve this issue.

Response: Chairperson

As Chairperson of the Audit and Risk Management I will request the Chief Executive Officer provide an update on the matter you have raised and provide advice to the Audit and Risk Management Committee.

4 DECLARATION OF INTEREST

Division 6: Sub-Division 1 of the *Local Government Act 1995*. Care should be taken by all Committee Members to ensure that a financial/impartiality interest is declared and that they refrain from voting on any matter, which is considered to come within the ambit of the *Act*.

Nil

5 CONFIRMATION OF MINUTES

Minutes of the Audit and Risk Management Committee meeting held 7 December 2021 are attached (Attachment 5(1)).

Executive Recommendation

That the Minutes of the Audit and Risk Management Committee Meeting held 7 December 2021 be confirmed as a true and correct record.

COMMITTEE RESOLUTION

Moved Cr Chris Smith

Seconded Cr Chaz Newman

That the Minutes of the Audit and Risk Management Committee Meeting held 7 December 2021 be confirmed as a true and correct record.

Carried 4/0

6 REPORTS OF OFFICERS

6.1 ANNUAL FINANCIAL AUDIT 2020/21 - AUDIT CONCLUDING MEMORANDUM

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Kim Dolzadelli, Director Corporate and Community
Responsible Manager	Kim Dolzadelli, Director Corporate and Community
Attachments	Moore Australia – Audit Concluding Memorandum
Voting Requirements	Simple Majority

Executive Recommendation

That the Audit and Risk Management Committee receive and review the Audit Concluding Memorandum for the year ending 30 June 2021.

COMMITTEE RESOLUTION

Moved Cr Leanne Wringe

Seconded Cr Chaz Newman

That the Audit and Risk Management Committee:

- a) Receive the Audit Concluding Memorandum,
- b) Having reviewed the Audit Concluding Memorandum requests the Chief Executive Officer to report back to the committee in relation to Item 4.1 “Internal Controls Relevant to Audit”, and
- c) Supports the management responses as contained within the Agenda.

Carried 4/0

STRATEGIC ALIGNMENT

The following outcomes from the Corporate Business Plan relate to this proposal:

Outcome	4.2	A respected, professional and trusted organisation
Strategy	4.2.1	Effective and efficient operations and service provision
Action	4.2.1.3	Monitor and measure organisational performance

EXECUTIVE SUMMARY

Moore Australia was engaged by the Office of Auditor General (OAG) Western Australia to perform an audit of the Shire of Donnybrook Balingup (the Shire)’s annual financial report for the year ended 30 June 2021.

The key purpose of the memorandum is to communicate the results of the audit with those charged with governance.

Moore Australia has requested management and the Audit Committee to review this document to ensure that:

- the Shire concurs with the matters raised, and
- there are no further significant considerations or matters that could impact the audit and the financial report.

BACKGROUND

The attached Audit Concluding Memorandum is marked as “CONFIDENTIAL” however the Director of Corporate and Community Services has sought and gained consent from Moore Australia to allow the document being attached to this Agenda as a non-confidential item, consent was obtained on 4 February 2022.

The Audit Concluding Memorandum will form the basis of discussions for the Audit Exit meeting.

The following matters contained within the Memorandum to be reported in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

1. There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.
2. Non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law as there were instances where manual accounting entries had been prepared and posted without any evidence of review by a second officer. Accounting journals can represent significant adjustments to previously approved accounting transactions, and therefore should be appropriately reviewed and approved.
3. The Shire has not reported the Asset Renewal Funding Ratio for 2021, 2020 or 2019 in the annual financial report as required by section 50(1) of the Local Government (Financial Management) Regulations 1996, as the Shire’s adopted long term financial plan does not include the required information to calculate the ratio.

Management response:

1. The Shire’s Operating Surplus Ratio is being adversely impacted by non-cash depreciation charges. A preliminary review of Depreciation Rates has been undertaken and points to a potential over calculation of depreciation as does the fact that Road Infrastructure Assets are not disaggregated therefore residual values cannot be put in place where appropriate.

Staff will continue to review this issue and implement appropriate actions.

The below table (2019/2020) shows the potential for reduction in depreciation charges which would have a significant impact on this Ratio; note this does not yet include Buildings:

Non-Current Assets - Depreciation			
Local Government	Property, Plant and Equipment and Infrastructure	Depn	Rate of Depn
Shire of Donnybrook	\$166,302,974	\$5,529,704	3.33%
Shire of Bridgetown-Greenbushes	\$204,667,616	\$3,570,493	1.74%
Shire of Capel	\$175,007,654	\$4,546,874	2.60%
Shire of Nannup	\$108,930,057	\$1,557,445	1.43%
Average Rate of Depreciation			2.27%
Average Rate of Depreciation Excluding Donnybrook			1.92%

Shire of Donnybrook	Average Rate of Depreciation Applied	\$3,782,344
---------------------	--------------------------------------	-------------

Potential Reduction in Depreciation	\$1,747,360
--------------------------------------------	--------------------

Shire of Donnybrook	Average Rate of Depreciation Ex Donnybrook Applied	\$3,199,890
---------------------	----------------------------------------------------	-------------

Potential Reduction in Depreciation	\$2,329,814
--------------------------------------------	--------------------

2. Management acknowledges this finding and notes that the above recommendation is already in operational practice.

The Director of Corporate and Community has personally reviewed the 1148 general journals processed in the 2020/21 Financial Year and has found a total of 6 that had no evidence of review by a senior staff member. This equates to a failure rate in the process of 0.52% with compliance standing at 99.48%. The 6 journals were also checked for legitimacy and supporting documentation with no adverse findings.

Staff appreciate the importance and significance of the process and will continue to strive for 100% compliance.

3. The current Long Term Financial Plan (LTFP) does not categorise Capital expenditure into type; that being New, Upgrade or Renewal, for this ratio to be calculated the Renewal component needs to be itemized in the LTFP.

Staff will be reviewing the LTFP and ensuring that all Capital expenditure is categorised such that this Ratio can be calculated into the future.

FINANCIAL IMPLICATIONS

Nil

POLICY COMPLIANCE

Not Applicable.

STATUTORY COMPLIANCE

Local Government Act 1995 Part – 7 Audit

Local Government (Audit) Regulations 1996

16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and*
 - (ii) its functions relating to other audits and other matters related to financial management;**
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) 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;**
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and*
 - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*
- (f) to oversee the implementation of any action that the local government —
 - (i) is required to take by section 7.12A(3); and*
 - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
 - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and**

- (iv) *has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (g) *to perform any other function conferred on the audit committee by these regulations or another written law.*

CONSULTATION

Not Applicable.

OFFICER CONCLUSION

The matters raised in the Audit Concluding Memorandum have been considered by Council officers and actions are to be put in place addressing issues raised.

7 CLOSURE

The Chairperson to declare the meeting closed at 6:54pm.