

**Audit and Risk
Management Committee**

AGENDA

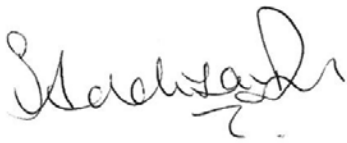
**FOR THE MEETING TO BE HELD
WEDNESDAY 24 JUNE 2020
IN COUNCIL CHAMBERS,
WALLCLIFFE ROAD, MARGARET RIVER
COMMENCING AT 4.30PM**

Meeting Notice

Dear Councillor

I advise that an Audit and Risk Management Committee Meeting of the Shire of Augusta Margaret River will be held in the Council Chambers, 41 Wallcliffe Road, Margaret River, on Wednesday 24 June 2020, commencing at 4.30pm.

Yours faithfully



STEPHANIE ADDISON-BROWN
CHIEF EXECUTIVE OFFICER

ATTENTION/DISCLAIMER

This agenda has yet to be dealt with by the Committee. The Recommendations shown at the foot of each item have yet to be considered by the Committee and are not to be interpreted as being the position of the Committee. The minutes of the meeting held to discuss this agenda should be read to ascertain the decision of the Committee.

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Audit and Risk Management Committee

1.0 DECLARATION OF OPENING

2.0 ATTENDANCE

3.0 DISCLOSURES OF INTERESTS

4.0 PUBLIC QUESTIONS

4.1 Public Question Time

5.0 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

5.1 Audit and Risk Management Committee Meeting held 11 March 2020

6.0 REPORTS

6.1 INTERIM AND END OF FINANCIAL YEAR AUDIT

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	N/A
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Manager Corporate Services
AUTHORISING OFFICER	James Shepherd, Director Corporate and Community Services

IN BRIEF

- The Committee are provided with an update of the results of the Interim Audit visit for 2019-20 and the scheduling of the end of financial year audit.

RECOMMENDATION

That the Audit and Risk Management Committee notes the information relating to these audits.

BACKGROUND

In accordance with legislation, the Shire has its financial records independently audited. In addition to an end of financial year audit, the Auditors contracted by the Office of the Auditor General (OAG) conduct an Interim Audit to ensure financial systems and procedures are in place, are being followed and to note any instances of non-compliance or areas where improvement is required.

DISCUSSION/ OFFICER COMMENTS

The Interim Audit was conducted from 4 to 6 March 2020 by 3 staff from Moore Stephens and their audit manager. The annual audit is now being undertaken by the OAG and has been contracted to Moore Stephens. In addition to the on-site visit audit processes include an audit entrance meeting, audit plan and a report documenting the results of the interim audit. This report is attached for reference and documented two findings. The provision of this report is not a legislative requirement and is provided for reference to ensure the local government is prepared for the annual audit. Staff were aware of both items included in the report and were already committed to ensuring the first finding, that was rated as significant, was completed for the 2019-20 Annual Financial Report.

The end of financial year audit is scheduled for 17 to 20 August 2020 and will be conducted by Moore Stephens under contract to the OAG.

The following is an extract from the report of the findings and associated management comment.

1. Revenue has not been recognised in accordance with AASB 15 or AASB 1058

Finding

Our sample testing of revenue transactions (rates, grants and fees and charges) noted some revenue has not been recognised in accordance with the new accounting standards for revenue, AASB 15: 'Revenue from Contracts with Customers' and AASB 1058: 'Income of Not-for-Profit Entities'.

Rating: Significant

Implication

As these standards result in delayed income recognition, the Shire's revenue may be overstated for the 2019-20 financial year. In addition, monthly financial information may not be accurate and financial decision making may be ill-informed.

Recommendation

The Shire should complete a detailed revenue recognition assessment of all revenue streams against the requirements of the new standards. This should conclude if a particular revenue stream or transaction arises from an enforceable contract with a customer and has sufficiently specific

performance obligations. This assessment will trigger the revenue recognition requirements under AASB 15, or if it falls outside this scope, under AASB 1058, so that revenue is not misstated for the 2019-20 financial year.

Management comment

The finding is accepted and it is advised the process of revenue recognition assessment will be completed during 2019-20.

Responsible person: Manager Corporate Services

Completion date: 30 June 2020

2. Expenditure was not always supported by a purchase order

Finding

Our sample testing of payment transactions noted 1 instance out of a total of 12 transactions tested (8%) where purchase orders were raised after the invoice was received.

Rating: Moderate

Implication

Purchases made without authorised purchase orders increases the risk of unauthorised expenditure occurring and going undetected.

Recommendation

The Shire should ensure that authorised officers raise purchase orders prior to authorising works/services or ordering goods. This will help to ensure works/services or goods are valid, authorized appropriately and that expenditure is consistent with approved budgets.

Management comment

The finding is accepted. Although the sample size is small it does seem to be reflective of the current situation despite continued user education and reinforcement efforts. The process of user education will continue and audits will recommence once resources allow.

Responsible person: Manager Corporate Services

Completion date: Ongoing

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Regulation 16 of the *Local Government (Audit) Regulations 1996* states that:

“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.”

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Plan 2019-2023

Key Result Area 5: Effective leadership and governance

Community Outcome 2: Effective and integrated strategy, planning, financial and asset management

FINANCIAL IMPLICATIONS

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee notes the information relating to these audits.

ATTACHMENTS

1. Letter from Officer of the Auditor General – Interim Audit Results for the Year Ending June 2020

6.2 REPORT ON INTERNAL AUDIT REVIEW

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	N/A
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Manager Corporate Services
AUTHORISING OFFICER	James Shepherd, Director Corporate and Community Services

IN BRIEF

- *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c) requires the CEO to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures at least once every 4 years.
- The conduct of an internal audit review by an external auditing company allows the Shire to satisfy this requirement.
- AMD Chartered Accountants (AMD) were appointed to conduct this review and have prepared a report of their findings.
- The Committee are requested to consider and accept this report.

RECOMMENDATION

That the Audit and Risk Management Committee:

1. Accepts the report prepared by AMD Chartered Accountants reviewing the adequacy and effectiveness of the financial management systems and controls in place at the Shire;
 2. Notes the findings and recommendations of the review and management's comments relating to these recommendations; and
 3. Reports the finding and recommendations to Council.
-

BACKGROUND

Council's Audit and Risk Management Committee comprises the Shire President and three Councillors of the Shire of Augusta Margaret River and operates in accordance with the Augusta Margaret River Audit and Risk Management Committee Instrument of Appointment and Delegation. The Committee is required to discharge the legislative obligations outlined in the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*.

The *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c) requires the CEO to at least once in every 3 years conduct a review of the of the appropriateness and effectiveness of the Shire's financial management systems and procedures. The last review was completed in 2017-18 and although the next review is not required until next financial year it is considered good practice to schedule reviews more regularly than the legislative timeframe.

DISCUSSION/ OFFICER COMMENTS

AMD were appointed to conduct this review as one of the deliverables of the Strategic Internal Audit Plan for the 5 years ending 30 June 2022.

Field work was completed in February 2020. This field work included visits to and examination of financial records at the Shire's Administration Centre, the Margaret River Works Depot, Margaret River Library, Margaret River Recreation Centre, Augusta Shire Office, Turner Caravan Park and the Davis Road Waste Facility. The auditor's approach included review of records and procedures, discussion of processes with staff and verification of financial transactions against associated procedures and supporting records.

A draft report was provided on 28 February 2020 and it was requested management comments be provided in response to each of the recommendations. The document was updated with comments and returned to AMD on 18 March 2020. The final report was received on 24 March 2020 and is attached (Attachment 1) for the committee's review.

Overall, the report was very positive and identified 12 findings (11 were identified in the last report). The covering letter from AMD included the following sentences that provide a summary of their opinion. "The primary objective of our Internal Audit Review was to assess the adequacy and effectiveness of systems and controls in place within the Shire; in accordance with Section 5 of the Shire's Strategic Internal Audit Plan and related terms of reference. This report relates only to procedures and items specified within the 2018 to 2022 five year Strategic Internal Audit Plan and does not extend to any financial report of the Shire. We note that on an overall basis, we consider there to be relatively few findings to report based on Council's size and the nature of activities undertaken by Council."

An extract of Section 5 of the Strategic Internal Audit Plan as it relates to the completed review is included as Attachment 2 for reference and provides the Committee with an indication of the detailed nature of the review conducted.

The matters raised in the report, assessed on the basis of their risk are shown in the following summary. One compliance breach was identified and related to the delayed submission of the August monthly report due to no Ordinary meetings being scheduled in October. Two matters of high risk were identified, two of moderate risk and seven of low risk. No findings were identified in 1 of the 8 areas examined, compared to 3 areas last time. Procedures for the custody and security of money continue to be considered as strong while last time no findings were noted for the areas of collection of money and preparation of budgets.

	Compliance Breach	High Risk	Moderate Risk	Low Risk
Number of issues reported	1	2	2	7

For details on the review rating criteria, please refer to Section 10.

Ref	Issue	Risk Rating
1. Collection of money		
	Library Receipting	
2.2.1	<ul style="list-style-type: none"> • Banking and reconciliation of library receipts is only completed fortnightly; and • Instances identified where EFT was receipted as cash at the library. Instances whereby cash was received but not receipted into the accounting system. 	Low
2.2.2	Aged Sundry Debtors Various long outstanding sundry debtors identified.	Low
2. Custody and security of money		
We are pleased to note we have no findings to raise in respect to the custody and security of money.		
3. Maintenance and security of financial records		
4.2.1.	Disaster Recovery Plan Testing There is no formal process for testing the Shire's ICT Disaster Recovery Plan.	Moderate
4.2.2.	Key security and listing Depot Key Cabinet workshop is unlocked with the office unattended at times during the day. There is no register to record the daily use of plant and machinery, including check in and check out of keys.	Low
4. Accounting for municipal or trust transactions		
5.2.1.	Trust balances Review of trust balances required as some monies are being held in trust may no longer be considered trust funds.	High
5.2.2.	Waste Facility Rehabilitation Provision No assessment and/or provision has been calculated and recorded in relation to the Waste Facility rehabilitation and closure costs.	High
5. Authorisation for incurring liabilities and making payments		
6.2.1.	Purchase Orders Instances identified whereby purchase orders were dated after the invoice.	Low
6. Maintenance of payroll, stock control and costing records		
7.2.1.	Excessive leave Numerous employees with annual leave entitlements in excess of 6 weeks identified.	Low
7. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations		
8.2.1.	Monthly Financials to Council August 2019 monthly financials were not presented to Council within two months after month end as required by the Local Government (Financial Management) Regulations 1996.	Breach
8. Property, including vested land management, property and lease management		
9.2.1.	Lease Register and Lease Agreement Details Various updates are required to Council's published Lease Register.	Moderate

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AUDIT AND RISK MANAGEMENT COMMITTEE MEETING AGENDA 24 JUNE 2020

Ref	Issue	Risk Rating
9.2.2.	Playground inspections There is currently no formal register outlining the timeline/requirements for playground inspections within the Shire.	Low
9.2.3.	Heritage Listing Register The listing of heritage buildings owned by the Shire requires updating (last updated 2012).	Low

It is disappointing issues 4.2.2, 5.2.1, 7.2.1 and 9.2.1 were also identified in the previous review as the intention is to improve upon these reviews. Management comments relating to the recommendation for each finding have been provided and are included within the report. These comments generally accept the recommendations and a summary of these comments and the findings they relate to are included in the following table.

Number	Recommendation	Management comment
2.2.1	Library receipting We recommend: <input type="checkbox"/> <input type="checkbox"/> Banking is performed for library takings on a more regular basis; and <input type="checkbox"/> <input type="checkbox"/> Processes and controls are implemented put into place to ensure cash and EFT receipts are recorded and reconciled correctly	Recommendation accepted and has been discussed with Manager Library Services.
2.2.2	Aged sundry debtors Should Council deem individual sundry debtors may not be collected, they should be written off to ensure debtors are not overstated. We also recommend remaining overdue debtors are followed up on a timely basis with appropriate action taken accordingly.	Recommendation accepted. The value of outstanding debtors is low compared to debts that are raised and outstanding debtors are regularly reviewed in consultation with the Shire's contracted debt collection agency Ampac WA Pty Ltd, and written off if deemed uncollectable.
4.2.1	Disaster Recovery Plan testing We recommend the Shire implement a process to test and evaluate the ICT Disaster Recovery Plan to ensure it is current, adequate, and will effectively mitigate disruption in the event of unforeseen circumstances.	Recommendation accepted. IT Business Continuity has been included as a theme in the Information Communications and Technology Strategic Plan 2019-20 to 2023-24 that is currently being reviewed and amended. This theme includes a number of strategies and actions that will provide improved structure for this process.
4.2.2	Key security and listing We recommend: <input type="checkbox"/> <input type="checkbox"/> A key register be developed for the recording of daily usage activity of plant and machinery at the depot; and <input type="checkbox"/> <input type="checkbox"/> The key cabinet be locked when access is not required.	Recommendation accepted and has been provided to the acting Director Infrastructure Services and acting Manager Works to action and it is understood the task has been allocated.
5.2.1	Trust balances We recommend a detailed review of the trust ledger balances listing be completed as per OAG's position paper, with transfers made to the Municipal account accordingly.	Recommendation accepted. Monies which should no longer be held in trust in accordance with the Office of the Auditor General's directions will be moved to the municipal account in 2019-20. This approach has been confirmed with the Shire's external auditors.
5.2.2	Waste facility rehabilitation provision	Recommendation is noted and has been discussed with the Manager Waste and Health.

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AUDIT AND RISK MANAGEMENT COMMITTEE MEETING AGENDA 24 JUNE 2020

	We recommend an assessment be completed in relation to the Davis Road and Wallis Road waste facilities, including consideration whether a provision is required should present obligation for rehabilitation costs exist.	
6.2.1	Purchase orders We recommend purchase orders are raised and approved prior to expenditure being incurred in accordance with Council's Procurement Guide.	Recommendation accepted. Staff training, education and reinforcement of purchasing procedures is an ongoing process.
7.2.1	Excessive leave We recommend leave balances continue to be managed to reduce the number of employees with excessive leave entitlements due.	Recommendation accepted. An excessive leave procedure is in place and reinforced with staff on a regular basis. Reports of excessive leave balances by employee are provided to the executive leadership team on a quarterly basis for review as part of this process.
8.2.1	Monthly financials to Council We recommend all monthly financial activity reports are presented to Council within two months of month end as required by Regulation 34 of the <i>Local Government (Financial Management) Regulations 1996</i> .	Recommendation noted. Our objective is to always provide the monthly financial report to Council within 2 months of the end of the month in accordance with legislative requirements. In our view there were extenuating circumstance that did not allow this to occur for the August 2019 monthly financial report. Specifically, Council had earlier agreed that no meetings would be held during school holidays which resulted in one meeting be scheduled for October. This meeting then became a Special Meeting with the sole purpose of swearing in Councillors after the October 2019 election. The August 2019 financial report had been prepared and was able to be provided to Council in October but changed circumstances did not allow this to occur.
9.2.1	Lease register and lease agreement details We recommend the lease register be updated periodically to ensure all details are current to ensure Lessee's hold appropriate insurance coverage as required by the Lease Agreement.	Recommendation noted. Although the lease register is updated regularly this matter will be brought to the attention of the Manager Legal and Governance Services.
9.2.2	Playground inspections We recommend a formal process be developed to ensure all Shire owned playgrounds are regularly inspected and assessed for any required maintenance. We further recommend the process is documented and a checklist developed to ensure all requirements are considered during inspections.	Recommendation noted and has been discussed with the acting Manager Works. It has been advised inspections are undertaken quarterly with the June inspection undertaken by an independent contractor. However, it is recognised the process can be improved.
9.2.3	Heritage listing register We recommend the heritage listed buildings register be updated to ensure current and complete.	Recommendation noted. A review of the Municipal Heritage Inventory is scheduled to commence in 2019-20.

It is anticipated the next review of this type will be undertaken during the 2021-22 financial year.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Section 6.10 *Local Government Act 1995* states that:

Regulations may provide for —

- (a) the security and banking of money received by a local government; and
- (b) the keeping of financial records by a local government; and
- (c) the management by a local government of its assets, liabilities and revenue; and
- (d) the general management of, and the authorisation of payments out of —
 - (i) the municipal fund; and
 - (ii) the trust fund, of a local government.

Regulation 5 (CEO's duties as to financial management) of the Local Government (Financial Management) Regulations 1996 states that:

(1) Efficient systems and procedures are to be established by the CEO of a local government —

- (a) for the proper collection of all money owing to the local government; and
 - (b) for the safe custody and security of all money collected or held by the local government; and
-

(2) The CEO is to —

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

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 5: Effective leadership and governance

Community Outcome 2: Effective and integrated strategy, planning, financial and asset management

Strategic Response: Ensure the Shire's financial performance is well managed and leads to a strong financial position

FINANCIAL IMPLICATIONS

A budget of \$12,000 was included in job CEO03 in the 2019-20 Budget for the conduct of this review by an external organisation. The cost of the review was \$11,250 (excluding GST).

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee:

1. Accepts the report prepared by AMD Chartered Accountants reviewing the adequacy and effectiveness of the financial management systems and controls in place at the Shire;
2. Notes the findings and recommendations of the review and management's comments relating to these recommendations; and
3. Reports the finding and recommendations to Council.

ATTACHMENTS

1. Internal Audit Review 2020 prepared by AMD Chartered Accountants
2. Extract from Strategic Audit Plan

6.3 VERBAL UPDATE OF RISK MANAGEMENT ACTIONS

Manager Legal and Governance, Ian McLeod, and Governance and Risk Officer, Emma Rogers, will provide a verbal update of Risk Management Actions from the last quarter.

7 CONFIDENTIAL BUSINESS

8 CLOSURE OF MEETING