



MINUTES

Audit Committee Meeting

25th August 2021
Commencing at 4:15pm

Council Chambers
Yougenup Road, Gnowangerup WA 6335

COUNCIL'S VISION

Gnowangerup Shire – A progressive, inclusive and prosperous community built on opportunity

AUDIT COMMITTEE TERMS OF REFERENCE

Objectives of the Audit Committee

The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.

The committee is to facilitate:

- the enhancement of the credibility and objectivity of external financial reporting;
- compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
- the provision of an effective means of communication between the external auditor, the CEO and the Council.

Powers of the Audit Committee

The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.

The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

Membership

The committee will consist of all elected members of Council. All members shall have full voting rights.

The CEO and employees are not members of the committee.

The Deputy CEO will attend meetings, not as a member but to assist the Committee with any queries or requests for information.

The Executive Assistant or another nominated staff member will attend meetings to take the minutes.

The Presiding Member and Deputy Presiding Member must be elected in accordance with section 5.12 and Schedule 2.3 of the Act.

Meetings

The committee shall meet at least quarterly.

Additional meetings shall be convened at the discretion of the Presiding Member.

Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council and must be moved by the Presiding Member, or in his/her absence the Deputy Presiding Member, or in both their absences, any other member of the committee.

Functions of the Audit Committee

The functions of the committee, pursuant to Reg. 16 of the *Local Government (Audit) Regulations 1996* will be to:

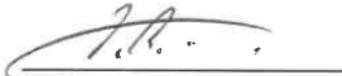
- a) guide and assist the local government in carrying out its functions:
 - i. under Part 6 (Financial Management) of the Act; and
 - ii. relating to other audits and other matters related to financial management;
- b) guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 (Audit) of the Act;
- c) 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) 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) 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) oversee the implementation of any action that the local government:
 - i. is required to take by section 7.12A(3) of the Act; and
 - ii. has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a) of the Act; 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) perform any other function conferred on the audit committee by these regulations or another written law.

Shire of Gnowangerup

NOTICE OF A COMMITTEE MEETING OF COUNCIL

Dear Committee Member

A meeting of the Audit Committee of the Shire of Gnowangerup will be held on Wednesday 25th August 2021, in the Council Chambers, 28 Yougenup Road, Gnowangerup, commencing at 4:15pm.

Signed: 

Ian Graham
DEPUTY CHIEF EXECUTIVE OFFICER

Meaning of and CAUTION concerning Council's "In Principle" support:

When Council uses this expression it means that:

- (a) Council is generally in favour of the proposal BUT is not yet willing to give its consent; and*
- (b) Importantly, Council reserves the right to (and may well) either decide against the proposal or to formally support it but with restrictive conditions or modifications.*

Therefore, whilst you can take some comfort from Council's "support" you are clearly at risk if you act upon it before Council makes its actual (and binding) decision and communicates that to you in writing.



DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Gnowangerup for any act, omission or statement or intimation occurring during Council or committee meetings.

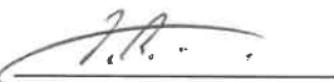
The Shire of Gnowangerup disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or committee meetings.

Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council or committee meeting does so at that person's or legal entity's own risk.

In particular and without detracting in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or intimation of approval made by any member or officer of the Shire of Gnowangerup during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of Gnowangerup.

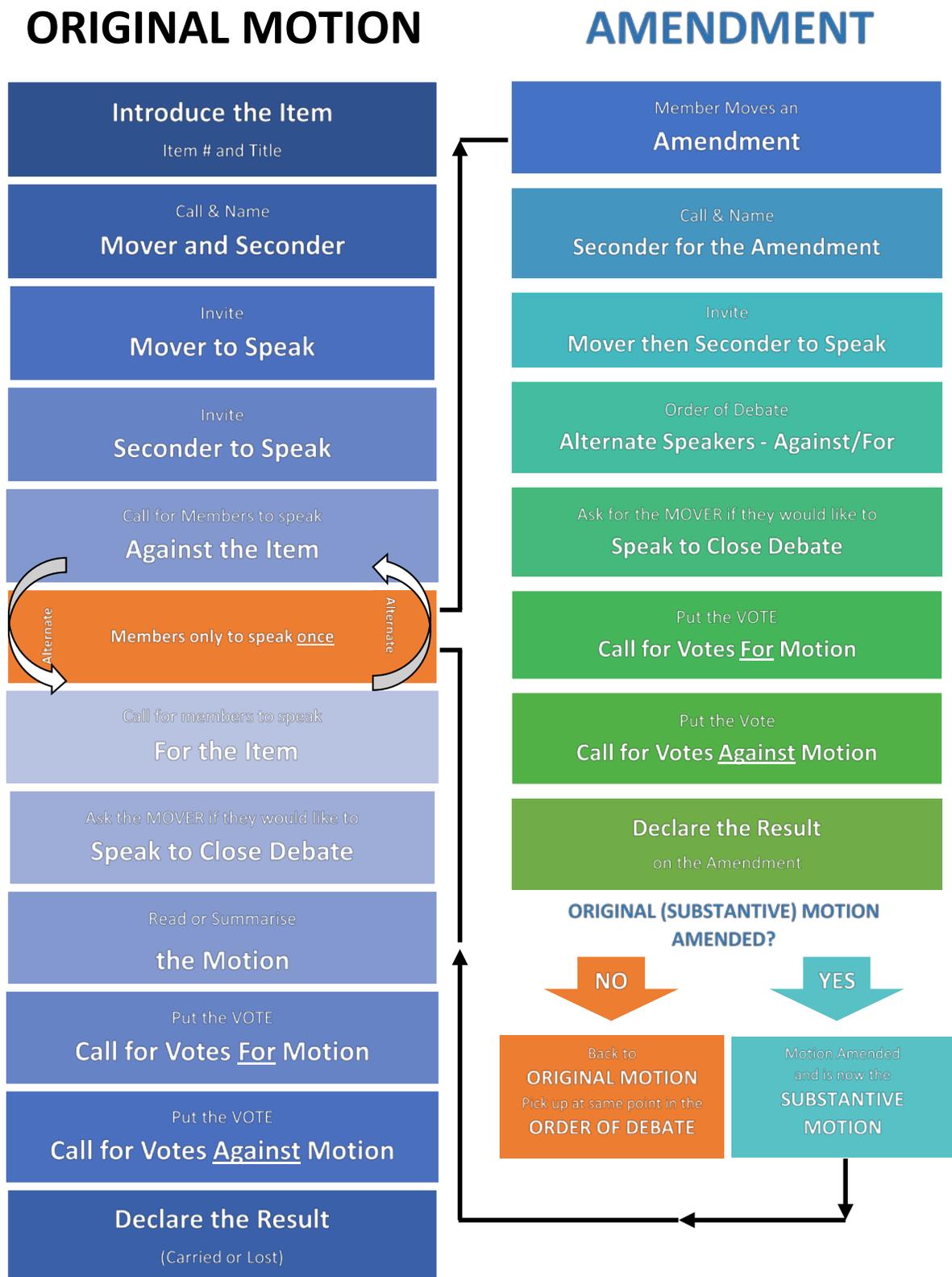
The Shire of Gnowangerup advises that anyone who has any application lodged with the Shire of Gnowangerup shall obtain and should only rely on **written confirmation** of the outcome of the application, and any conditions attaching to the decision made by the Shire of Gnowangerup in respect of the application.

These minutes are not a verbatim record but include the contents pursuant to Regulation 11 of Local Government (Administration) Regulations 1996.

Signed: 

Ian Graham
DEPUTY CHIEF EXECUTIVE OFFICER

Process of Motions



Slight clarification of wording of motion: A minor amendment of the motion can be done at any time through the President with the approval of the Mover and the Secnder. The Minor amendment must be minuted.

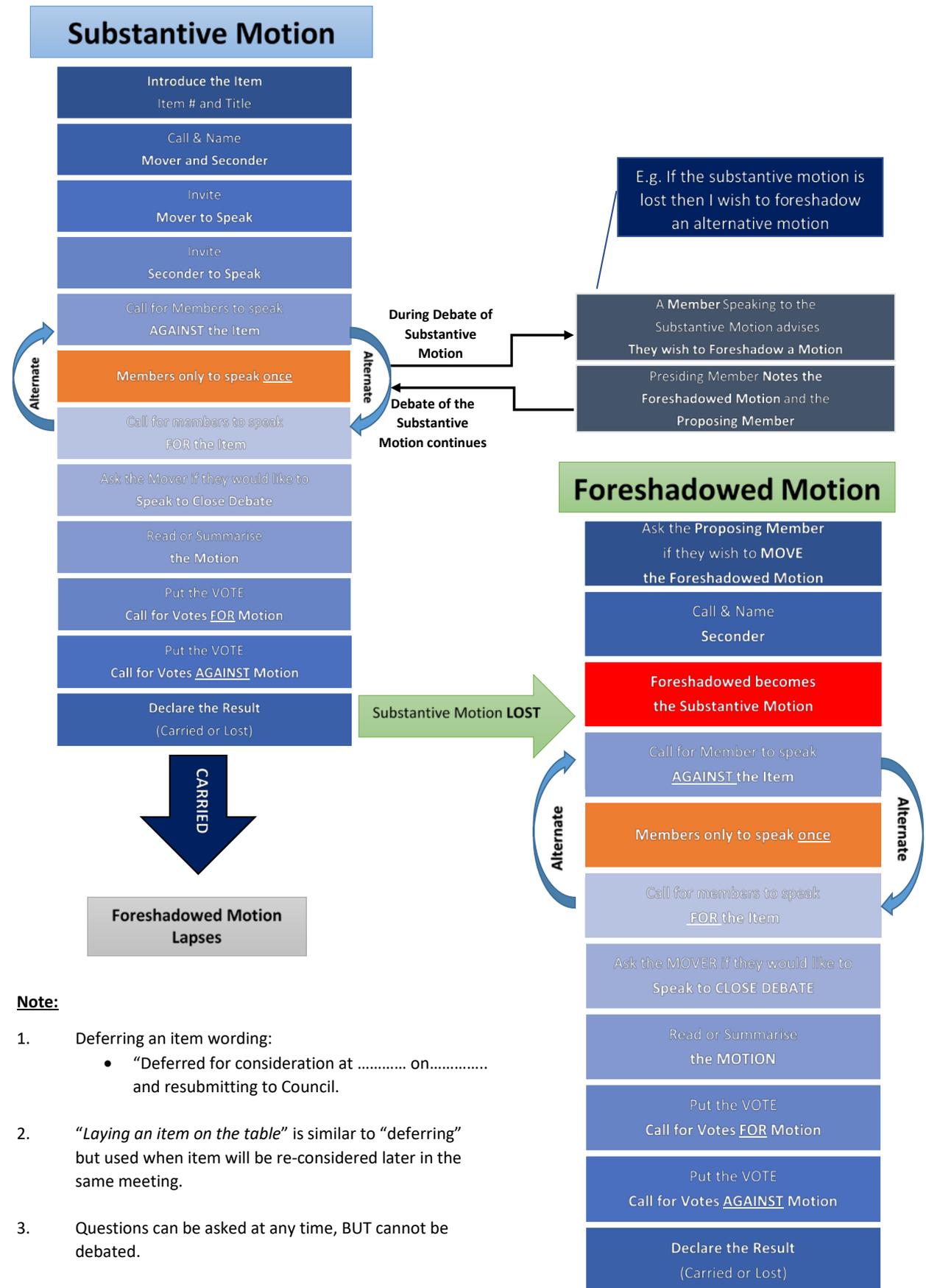


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OPENING PROCEDURES

1. OPENING AND ANNOUNCEMENT OF VISITORS

Presiding Member, Cr. Greg Stewart welcomed committee members and staff and opened the meeting at 4:18pm.

2. ACKNOWLEDGEMENT OF COUNTRY

The Shire of Gnowangerup would like to acknowledge the Goreng people who are the Traditional Custodians of this land. The Shire of Gnowangerup would also like to pay respect to the Elders both past and present of the Noongar Nation and extend that respect to other Aboriginals present.

3. ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

3.1 ATTENDANCE

| | |
|--------------------|---|
| Greg Stewart | Deputy Shire President/Presiding Member |
| Fiona Gaze | Shire President |
| Cr Shelley Hmeljak | |
| Cr Frank Hmeljak | |
| Cr Kate O’Keeffe | |
| Cr Keith House | |
| Cr Richard House | |

| | |
|------------|--------------------------------|
| Ian Graham | Deputy Chief Executive Officer |
| Anita Finn | Executive Assistant |

3.2 APOLOGIES

Cr Chris Thomas
Cr Michael Creagh

4. CONFIRMATION OF PREVIOUS MEETING MINUTES

4.1 AUDIT COMMITTEE MEETING MINUTES 23rd JUNE 2021

COMMITTEE RESOLUTION

Moved: Cr F Gaze

Seconded: Cr R House

AC0821.06 That the minutes of the Audit Committee Meeting held on 23rd June 2021 be confirmed as a true record of proceedings.

UNANIMOUSLY CARRIED: 7/0

5. OFFICER ITEMS

5.1 STRATEGIC RISK PROFILES STATUS REPORT SELF-ASSESSMENT CHECKLIST

| | |
|--------------------------------|---|
| Location: | N/A |
| Proponent: | N/A |
| Date of Report: | 11 th August 2021 |
| Business Unit: | Corporate and Community Services |
| Officer: | Ian Graham - Deputy Chief Executive Officer |
| Disclosure of Interest: | Nil |

ATTACHMENT

- Attachment 1 – Strategic Risk Profiles Dashboard

PURPOSE OF THE REPORT

To provide Council's Audit Committee with an update on the organisation's strategic risk management status.

BACKGROUND

Officers presented a new Risk Management Policy and Procedure to Council at its ordinary meeting of 27 September 2018. The policy was adopted at this meeting. The procedure document states:

"...the Risk Management dashboard for Strategic Risk Profiles should be presented to the Audit Committee on at least a 6-monthly basis."

Officers have provided the dashboard report to comply with this statement.

COMMENTS

Executive staff identified a number of strategic risks and a profile was created for each. The Dashboard report provides the following information for each risk profile:

- A brief description of the risk.
- A list of current actions to mitigate the risk.
- A rating as to what degree the risk can be influenced.
- A risk rating.
- A rating of how successful existing controls are.

CONSULTATION

Nil

LEGAL AND STATUTORY REQUIREMENTS

Nil

POLICY IMPLICATIONS

Risk Management Policy

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Nil

STRATEGIC RISK MANAGEMENT CONSIDERATIONS:

See Comments section above.

IMPACT ON CAPACITY

Nil

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

Nil

CONCLUSION

The Strategic Risk Profile Dashboard update report is provided for noting by the Audit Committee.

VOTING REQUIREMENTS

Simple Majority

COMMITTEE RESOLUTION

Moved: Cr F Gaze

Seconded: Cr S Hmeljak

AC0821.07 That the Audit Committee:

Notes the Strategic Risk Profiles Dashboard, updated as at 30th June 2021.

UNANIMOUSLY CARRIED: 7/0

**Shire of Gnowangerup
Risk Dashboard Report
June 2021**

Strategic Risks

| <u>Population Decline</u> | Influence | Risk | Control |
|---|-----------|-----------------|----------|
| | Low | Extreme | Adequate |
| Inability to control or stem a decline in the Shire's population. | | | |
| Actions | Due Date | Responsibility | |
| Resource sharing through membership of VROC | Jul-20 | CEO | |
| Investigate / lobby for improved internet service | Mar-21 | CEO | |
| Review land zoning to meet demand | Ongoing | CEO / Council | |
| Review of all Council Land, Buildings and Reserves | Dec-20 | CEO | |
| Encourage new businesses and existing businesses to expand | Ongoing | Manex / Council | |
| Finalise the build of two staff homes | Completed | DCEO | |

| <u>Adverse Regulatory Change</u> | Influence | Risk | Control |
|--|-----------|----------------|-----------|
| | Low | High | Effective |
| Potential changes to the regulatory landscape that will have an adverse effect on the Shire's ability maintain adequate compliance. The main area of concern (at present) is the potential legislative obligations on local governments from changes to the Local Government Act and other relevant legislation. | | | |
| Actions | Due Date | Responsibility | |
| Continue lobbying activities | Ongoing | CEO / Council | |
| Training for senior and Executive staff | Ongoing | CEO / DCEO | |
| Mandatory training for Elected Members | Completed | CEO / Council | |

| <u>Leadership</u> | Influence | Risk | Control |
|--|-----------|----------------|-----------|
| | High | Moderate | Effective |
| Risk of ineffective strategic leadership of Council. This includes the relationship between Council and the CEO. | | | |
| Actions | Due Date | Responsibility | |
| Recruitment of new qualified and experienced CEO and DCEO | Completed | CEO / Council | |
| Mandatory training for Councillors | Completed | CEO / Council | |
| Ongoing training and development for Executive staff | Ongoing | CEO / DCEO | |

| <u>Financial Sustainability</u> | Influence | Risk | Control |
|--|-----------|----------------|----------|
| | Medium | Moderate | Adequate |
| Inability to maintain service and infrastructure levels for the Shire. | | | |
| Actions | Due Date | Responsibility | |
| Complete Asset Management Plans - staged approach | Completed | DCEO | |
| Facilitate a budget workshop for Councillors | Completed | DCEO | |
| Consider options for resource sharing with neighbouring Shires | Ongoing | CEO | |
| Training for staff | Ongoing | CEO / DCEO | |

| <u>Community disruption</u> | Influence | Risk | Control |
|---|-------------|----------------|----------|
| | Low | High | Adequate |
| Failure to adequately prepare and respond to events that cause disruption to the local community. | | | |
| Actions | Due Date | Responsibility | |
| Review currency of Bushfire Risk Management Plan | In progress | DCEO | |
| Investigate options for Incident Management Training for Senior Shire Staff (CEO / DCEO) | In progress | CEO | |
| Effective road asset monitoring in place to ensure WANDRAA funding (if required following an event) | Ongoing | CEO | |
| Investigate employment of CESM | Completed | CEO | |

| | |
|--------------------------------|---|
| 5.2 | 2020/21 INTERIM AUDIT MANAGEMENT LETTER REPORT 30th JUNE 2021 |
| Proponent: | Butler Settineri |
| Date of Report: | 11 th August 2021 |
| Business Unit: | Corporate and Community Services |
| Officer: | Ian Graham - Deputy Chief Executive Officer |
| Disclosure of Interest: | Nil |

ATTACHMENTS

- Interim Audit Management Letter Report 30th June 2021

PURPOSE OF THE REPORT

For the Audit Committee to note the results of the 2020/21 interim audit and recommend that Council accepts the Interim Audit Management Letter Report 30th June 2021 and management responses.

BACKGROUND

The *Local Government Act 1995* (LGA) requires the accounts and annual financial report of a local government for each financial year to be audited by an auditor appointed by the Office of the Auditor General (OAG). The annual audit is conducted in two parts – an interim audit undertaken prior to the end of the financial year and the final audit which is undertaken on the completion of the draft annual financial statement.

The focus of the interim audit is to evaluate the Shire's overall control environment, and to obtain an understanding of the key business processes, risks and internal controls relevant to the forthcoming audit of the Shire's annual financial report.

COMMENTS

Butler Settineri undertook the 2020/21 interim audit on behalf of the OAG. Details of the findings and subsequent responses from management can be found in the attached Interim Audit Management Letter 30th June 2021 Report.

One (1) Significant finding and four (4) Moderate findings were raised by the auditor in the 2020/21 interim audit report as follows:

| INDEX OF FINDINGS | RATING | | |
|---------------------------------------|-------------|----------|-------|
| | Significant | Moderate | Minor |
| 1. Revenue Recognition | ✓ | | |
| 2. Purchase Orders | | ✓ | |
| 3. Review of Supplier Payment Batches | | ✓ | |
| 4. Payroll Entry Error | | ✓ | |
| 5. Employment Contracts | | ✓ | |

Management has addressed the findings in their management responses as included in the Report.

CONSULTATION

Nil

LEGAL AND STATUTORY REQUIREMENTS

Local Government Act 1995

Section 7.2. Audit

POLICY IMPLICATIONS

Policy 2.13 Internal Control Policy

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Strategic Community Plan

Theme: Our Organisation

Objective: Forward planning and implementation of plans to achieve strategic objectives

STRATEGIC RISK MANAGEMENT CONSIDERATIONS:

Nil

IMPACT ON CAPACITY

Nil

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

Nil

CONCLUSION

The recommendation has been made to ensure compliance with the LG Act and Regulations.

VOTING REQUIREMENTS

Simple Majority

COMMITTEE RESOLUTION

Moved: Cr F Gaze

Seconded: Cr S Hmeljak

AC0821.08 That the Audit Committee:

Notes the results of the 2020/21 interim audit and recommends that Council accepts the Interim Audit Management Letter Report 30th June 2021 from Butler Settineri and the management responses as included.

UNANIMOUSLY CARRIED: 7/0

SHIRE OF GNOWANGERUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

| INDEX OF FINDINGS | RATING | | |
|---------------------------------------|-------------|----------|-------|
| | Significant | Moderate | Minor |
| 1. Revenue Recognition | ✓ | | |
| 2. Purchase Orders | | ✓ | |
| 3. Review of Supplier Payment Batches | | ✓ | |
| 4. Payroll Entry Error | | ✓ | |
| 5. Employment Contracts | | ✓ | |

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

SHIRE OF GNOWANGERUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****1. Revenue Recognition****Finding**

New Australian accounting standards, AASB 15 *Revenue from contracts with customers* and AASB 1058 *Income of not-for-profit entities*, came into effect on 1 July 2019 superseding previous accounting standards. While the Shire has applied the accounting standards for the financial year ended 30 June 2020, during our interim audit we noted that from 1 July 2020 the Shire has recognised revenue in relation to grant income on receipt of the funds and not when performance obligations have been satisfied in relation to grants with specific performance obligations under the various contracts.

Local Government (Financial Management) Regulations 1996, Section 5A requires local governments to comply with Australian Accounting Standards when preparing the annual budget, annual financial report and other financial reports. Other financial reports would include the monthly Financial Activity Statements.

**Rating: Significant
Implication**

Grant income has not been accounted for in accordance with accounting standards and local government regulations from 1 July 2020.

Recommendation

The Shire should implement a financial process to recognise grant income in accordance with the Australian Accounting Standards for financial reporting.

Management Comment

The Shire will implement a financial process to recognise grant income in accordance with the Australian Accounting Standards for financial reporting.

(Please note however, we do not believe that this accounting standard adds any value to the monthly financial reports produced for Council and public information. In fact, we believe it will result in confusion from the users of the financial reports, who are likely to question why grant monies that have been received are not recorded as revenue.)

Responsible Person: Deputy CEO
Completion Date: 31 August 2021

SHIRE OF GNOWANGERUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

2. Purchase Orders

Finding

We noted 2 purchase orders out of a sample of 49 purchases tested were made without approved purchase orders. The purchase orders were subsequently raised after the receipt of the supplier invoices. This is not compliance with the Shire's Purchasing Policy.

Rating: Moderate

Implication

Ordering goods and services without approved purchase orders increased the risk of fraud and inappropriate purchases being committed by the Shire.

Recommendation

Review the Shire's processes to ensure approved purchase orders are in place prior to ordering goods and services.

Management Comment

The Shire will review processes to ensure that approved purchase orders are in place prior to ordering goods and services.

Staff with purchase order authority will be reminded of this requirement.

Responsible person: Deputy CEO

Completion date: 31 August 2021

SHIRE OF GNOWANGERUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Review of Supplier Payment Batches

Finding:

We noted that 8 supplier payment batches of a sample of 18 were not signed by the Financial Officer and 3 supplier payment batches were not signed by the Deputy Chief Executive Officer. Consequently, we were unable to confirm that the supplier payment batches were reviewed by a person independent of the preparation process before payments were made.

Rating: Moderate

Implication

Error and omissions may go undetected if supplier payment batches are not reviewed by an officer independent of the preparation.

Recommendation

We recommend that management ensure that the review and authorisation of creditor batches be evidenced either by way of manual or digital signature by the Financial Officer and the Deputy Chief Executive Officer.

Management Comment

Management will ensure that the review and authorisation of creditor batches is evidenced either by way of manual (or digital) signature by the Senior Finance Officer and the Deputy Chief Executive Officer.

Responsible Person: Deputy CEO

Completion Date: 31 August 2021

SHIRE OF GNOWANGERUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

4. Payroll Entry Error

Finding

We noted that 1 employee out of a sample of 24 employees sampled in a selected pay run, had 3 hours recorded incorrectly to normal time worked instead of personal leave.

Rating: Moderate

Implication

Without accurate recording leave hours there is an increased the risk of misstatement employees leave entitlements balances.

Recommendation

Management should rectify the error and ensure that adequate controls are in place to prevent errors being made in the payroll preparation process.

Management Comment

Management will rectify the error and ensure that adequate controls are in place to prevent errors being made in the payroll preparation process.

Responsible Person: Deputy CEO

Completion Date: 31 August 2021

SHIRE OF GNOWANGERUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

5. Employment Contracts

Finding

We noted that the employment contract for 1 employee that was appointed in 2019 out of a sample of 24 employment contracts, was not available for inspection and another employment contract for an employee appointed in 2018 was not signed by the Chief Executive Officer.

Rating: Moderate

Implication

Ineffective management of employment contracts increase the risk of inappropriate appointments and potential future employment liabilities.

Recommendation

Management should ensure that all employment contracts are authorised and retained appropriately. Re-establish and present copy of signed employment contracts noted in the finding for audit inspection.

Management Comment

Management will ensure that all employment contracts are authorised and retained appropriately. Management will re-establish and present copies of signed employment contracts noted in the finding for audit inspection.

Responsible Person: Deputy CEO

Completion Date: 31 August 2021

7. CLOSURE

There being no further business, Presiding Member Cr. Greg Stewart thanked committee members and staff and closed the meeting at 4:28pm.