



## AUDIT AND RISK MANAGEMENT COMMITTEE MEETING

# MINUTES

SECTION 5.9(2)(a) LGA 1995

### Committee Brief

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

A meeting of the Audit and Risk Management Committee was held  
in the Committee Room, Lowood Road, Mount Barker WA 6324,  
at 2:00 pm Tuesday 30 May 2023.

**Gary Clark**  
**CHIEF EXECUTIVE OFFICER**

### Committee Members

*C Pavlovich, Cr A Fraser, Cr M O'Dea and Cr K Woltering (Council 171/21)*

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**Membership**

C Pavlovich (Presiding Member)

Cr A Fraser

Cr M O'Dea

Cr K Woltering

Cr J Oldfield (Deputy for any member)

## **1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**

2:00 pm The Chief Executive Officer declared the meeting open.

## **2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE**

### Members Present

Cr A Fraser – Acting Presiding Member  
Cr M O'Dea  
Cr K Woltering

### Visitors

Cr B Bell  
Cr L Handasyde  
Cr J Oldfield  
Cr S Etherington

### Staff

Mr G Clark – Chief Executive Officer  
Mrs V Hillman – Acting Deputy Chief Executive Officer

### Apologies

Cr C Pavlovich

## **3 ELECTION OF PRESIDING MEMBER**

The Chief Executive Officer called for nominations for the position of Acting Presiding Member.

Cr A Fraser was nominated for the position of Acting Presiding Member and he indicated his willingness to accept the position. There being no further nominations, the Chief Executive Officer declared Cr Fraser elected unopposed to the position of Acting Presiding Member.

## **4 CONFIRMATION OF MINUTES**

**Moved Cr K Woltering, seconded Cr O'Dea:**

**That the Minutes of the Ordinary meeting of the Audit and Risk Management Committee, held on 21 February 2023 as circulated, be taken as read and adopted as a correct record.**

**CARRIED**

## **5 DISCLOSURE OF INTEREST**

Part 5 Division 6 Local Government Act 1995

Nil

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## 6 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

### 6.1 ANNUAL REPORT - YEAR ENDING 30 JUNE 2022

<b>File Ref:</b>	<b>N59528</b>
<b>Attachment:</b>	<u>Annual Report – Year End 30 June 2022</u> (Separate Attachment)
<b>Responsible Officer:</b>	<b>Gary Clark</b> <b>Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>30 May 2023</b>

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#### PURPOSE

The purpose of this report is to accept the Shire of Plantagenet's 2021/2022 Annual Report.

#### BACKGROUND

The annual financial audit for 2021/2022 was conducted by representatives of the Council's auditors, Lincolns (on behalf of the Office of the Auditor General) in October 2022. The audit report was provided on 20 April 2023.

#### STATUTORY ENVIRONMENT

Local Government Act 1995

Section 5.54 states:

- (1) *Subject to subsection (2) the Annual Report for a financial year is to be accepted by the local government no later than 31 December after that financial year.'* (Absolute Majority required).
- (2) *If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.*

#### EXTERNAL CONSULTATION

Not applicable.

#### FINANCIAL IMPLICATIONS

There are no financial implications for this report.

#### BUDGET IMPLICATIONS

There are no budget implications for this report.

#### POLICY IMPLICATIONS

There are no policy implications for this report.

**LEGAL IMPLICATIONS**

There are no legal implications for this report.

**ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications as no assets are being created or acquired.

**STRATEGIC IMPLICATIONS**

There are no strategic implications for this report.

**STRATEGIC RISK IMPLICATIONS**

The Strategic Risk Register provides for a number of key controls in order to fulfil statutory and regulatory compliance requirements. Those controls are rated as either effective or adequate.

**REGIONAL IMPLICATIONS**

There are no regional implications for this report.

**OFFICER COMMENT**

The Annual Report notes the following:

Operational activity over the past year has focused on delivering projects, services and programs that respond to our community's needs, after undertaking extensive community consultation.

In May 2022, we commissioned an independent consultation to conduct a Community Scorecard. Thank you to the 540 residents who completed the scorecard and ranked Plantagenet as a place to live, and the Shire as a governing organisation. I am pleased the Shire rated 78 out of 100 as a place to live, which is above the industry standard of 76. The Shire as an organisation scored 68 out of 100, which is two points above the industry standard and an area we will work to improve in the years ahead.

The 2021-2022 budget comprised expenditure of \$25.7 million including operating expenditure of \$15.5 million and capital expenditure of \$10.2 million. Through responsible financial management, we have delivered some major projects this year to enhance the liveability of Plantagenet for our community and visitors to our region.

Highlights include a record \$4.2 million for road works, more than \$300,000 for footpath improvements, more than \$250,000 for improved drainage, \$150,000 for streetscape improvements and \$70,000 to light our heritage buildings and public open spaces, which together enhance the look and feel of our community.

Key infrastructure projects included the next stage of the swimming pool redevelopment. Stage 1A of the Mount Barker Memorial Swimming Pool redevelopment was one of the major construction projects undertaken by the Shire. The new building includes, an entry, kiosk, changerooms and a function/club room. Despite the challenges of COVID and some associated delays, Practical Completion was achieved in April 2022. Financial support for the project came from the Commonwealth Drought Communities Program and the DLGSC Community Sport and Recreation Facilities Fund.

This was in addition to delivering our annual programs for sport and recreational facilities, the library which had its busiest year to date, specific events for youth and

seniors, community events and our every day services, such as administration, ranger services and waste services.

Other activities carried out throughout the year have been reported on extensively within the Annual Report.

The General Meeting of Electors has been scheduled for 6.30pm on Tuesday 30 May 2023.

### **VOTING REQUIREMENTS**

Absolute Majority

### **OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr M O'Dea, seconded Cr K Woltering:**

**That it be a recommendation to the Council:**

**That the Annual Report and Information Statement for the year ended 30 June 2022 as attached, be accepted.**

**CARRIED**

**6.2 AUDIT REPORT - YEAR ENDING 30 JUNE 2022**

<b>File Ref:</b>	<b>N59529</b>
<b>Attachment:</b>	<u>Independent Auditor's Report 2022 and Transmittal Letter</u> <u>Findings Identified During the Final Audit</u> <u>Findings Identified During the Interim Audit</u> <u>Report to the Audit Committee for the Year Ended 30 June 2022 – Lincolns</u> <u>Report on Significant Audit Finding</u>
<b>Responsible Officer:</b>	<b>Gary Clark</b> <b>Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>30 May 2023</b>

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**PURPOSE**

The purpose of this report is to present the Annual Financial Audit and Interim Management Report for the year ending 30 June 2022.

**BACKGROUND**

In October 2022, representatives of Lincolns (on behalf of the Office of the Auditor General) attended the Shire office to conduct an end of year audit for 2021/2022. It should be noted that the audit is designed primarily to enable the auditors to form an opinion on the financial statements and therefore does not extend to all of the Council's systems and procedures.

**STATUTORY ENVIRONMENT**

Local Government Act 1995

Section 7.12A (3), (4) and (5) of the Act states the following:

- '(3) A local government must –
  - (aa) examine an audit report received by the local government; and
  - (a) determine if any matters raised by the report, require action to be taken by the local government; and
  - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government must -
  - (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
  - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.



- (5) *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.'*

## **FINANCIAL IMPLICATIONS**

There are no financial implications for this report.

## **BUDGET IMPLICATIONS**

The 2022/2023 budget includes a sum of \$45,000.00 for end of year and interim audit costs.

## **POLICY IMPLICATIONS**

There are no policy implications for this report.

## **LEGAL IMPLICATIONS**

There are no legal implications for this report.

## **ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications as no assets are being created or acquired.

## **STRATEGIC IMPLICATIONS**

There are no strategic implications for this report.

## **STRATEGIC RISK IMPLICATIONS**

The Strategic Risk 'Project / Change Management' includes the key control of regular monitoring and reporting of capital works program.

## **REGIONAL IMPLICATIONS**

There are no regional implications for this report.

## **OFFICER COMMENT**

A copy of the audit report and management reports (interim and final) are attached.

## **Interim Audit**

The following summarised findings were made in the interim audit, conducted by Lincolns in June 2022. The detailed findings are shown on the attachments. A management comment is also included.

<b>Finding</b>	<b>Management Comment</b>
Rating - Moderate  It was noted during review of monthly sub-ledger reconciliations that the reconciliations for debtors, creditors and rates were not performed for July and August 2021.	At that point in time, the Shire had just implemented the new software for Synergysoft. We hadn't received training and templates from IT Vision on how to do them. As soon as we were provided with that information, monthly reconciliations were done and are already reviewed by an independent senior officer. The September 2021 reconciliations

	would have picked up any issues with the prior two months that were not done.
<p>Rating - Moderate</p> <p>It was noted during review of the payroll transactions that an employee who was carrying out higher duties continued to be paid at the higher rate of pay after she had returned to previous duties. This was due to the higher rate of pay being incorrectly set as the default rate.</p>	<p>The recommendation has been implemented. All higher duties roles will be set up with a specific pay rate as part of the position set up, including commencement and end dates, and not linked to the employee's default pay rate in any way. Higher duties set up to be sighted by the Senior Finance Officer and a screen shot to be signed by payroll and the SFO.</p>

### Final Audit

Finding	Management Comment
<p>Rating - Significant</p> <p>The Shire carried out an in-house revaluation of its roads, footpaths, drainage, other infrastructure and parks and ovals for the year ended 30 June 2022. During this process the Shire recognised 71 Other Infrastructure and Parks and Ovals assets totalling \$2.6 million which were not recorded as Shire's assets in the previous years. These assets were included on the asset register for the financial year 30 June 2022. However, the in-house revaluation was not adopted due to a lack of evidence on the appropriateness of the unit rates applied to calculate the fair value of these assets and have been recognised at nil carrying value for 30 June 2022.</p>	<p>The Shire has done a lot of work over the past three years to assess the condition of infrastructure assets. This led to the identification of the carpark assets not previously listed the Shire's asset register. The Shire intends to carry on with this work, but to arrange for a suitably qualified person to verify the staff assessment and calculate the update values to be used in the financial records.</p>
<p>Rating - Moderate</p> <p>Regulation 5(2) of the Local Government (Financial Management) Regulations 1996 require the CEO to undertake a review of financial management systems and procedures every three years. The last FM Review was adopted by the Shire in June 2018.</p>	<p>The last Financial Management Review was actually adopted by the Council on 23 August 2022. It is acknowledged this was late, however there were severe time constraints with the implementation of new business system Synergysoft and loss of key finance staff around that time.</p>
<p>Rating - Moderate</p> <p>The Shire of Plantagenet has not performed an assessment to determine whether its infrastructure assets – roads, drainage and footpaths represent fair value at the end of the reporting period.</p> <p>AASB 116 'Property, plant and equipment' requires asset revaluations to be made with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period. When the fair value differs materially from the carrying amount, a further revaluation is required.</p>	<p>The Shire intends to carry on with the ongoing assessment of infrastructure condition and values and to consider the need for an annual assessment of prevailing market factors which may indicate that the fair value of those assets are likely to have been impacted to any significant / material extent from the prior year.</p>

<p>Regulations 17A(4)(a) and (b) of the Local Government (Financial Management) Regulations 1996 (the Regulations) require a local government to revalue its revalued assets with it is of the opinion that the fair value is likely to be materially different from the carrying amount, and in any event, no more than 5 years from the last revaluation.</p>	
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There were a number of corrections made to the Annual Financial Statements as a result of the audit, as detailed in Lincolns' Report to the Audit Committee. These relate to:

- *'A reclassification of cash, term deposits and financial assets.'*

This item relates to a possible reclassification of cash from term deposit to financial asset due to the length of the deposits (over 3 months). It was not communicated to the Shire prior to the Lincoln's report being received and the adjustment has therefore not been made. Action required will be confirmed by Lincolns, but if required it will be reflected as an adjustment in the 2022/2023 annual financial statement.

- *'A minor correction allocation between operating and non-operating grants.'*

This was an error where one grant was incorrectly classified as non-operating instead of operating.

- *'The reversal of an in-house infrastructure revaluation.'*

The original financial statements included a revaluation of all infrastructure assets. The roads, drainage and footpath asset revaluations were carried out internally, but this was not done to an evidential standard required by the OAG and was not peer reviewed by a qualified valuer.

The revaluation was done on a 'net' basis whereby the net value of assets are recorded, not the gross value and accumulated depreciation. This is why the 'correction' values shown in the report to the Audit Committee are so high. The differences between the before and after total values are comparatively small.

This reversal will be corrected in the 2022/2023 annual report, once the asset values are verified.

The Lincolns' Report to the Audit Committee further notes that *'although Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 requires the local government to revalue land, buildings, and infrastructures no more than 5 years after the last valuation, we recommend that management consider assessing whether there are trigger events that would indicate movement in these assets annually. Where indicators exist a robust fair value assessment should be performed capturing the requirements of AASB 13 Fair Value Movements. Where an entity undertakes the formal valuation internally it is recommended this assessment be peer reviewed (i.e. review the valuation methodology, inputs and model etc for reasonableness) by an approved independent valuer.'*

Following the provision of management comments to the auditors, it can be confirmed that a qualified valuer has been engaged to do a valuation of all carpark and accessway assets as at 30 June 2023. This will also involve a desktop re-evaluation of the Shire's Parks Infrastructure & Other Infrastructure assets as the carparks and

accessways are contained within those asset categories. Where any asset needs to be revalued, accounting standards require the entire asset class to be revalued.

Further, quotations are currently being sought from qualified valuers for formal verification of road, drainage and footpath assets as at 30 June 2023.

### **VOTING REQUIREMENTS**

Absolute Majority

### **OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr K Woltering, seconded Cr M O'Dea:**

**That it be a recommendation to the Council:**

**That:**

- 1. The Annual Financial Audit Opinion and Interim Management Report for the year ending 30 June 2022 as issued by the Office of the Auditor General be received.**
- 2. In accordance with Section 7.12A of the Local Government Act 1995, the attached report addressing matters identified as significant by the Shire's auditor in the 2021/2022 Audit Report, stating what action has and will be taken with respect to those matters, be endorsed.**
- 3. The report in clause 2 above be forwarded to the Minister for Local Government and be published on the Shire of Plantagenet website.**

**CARRIED**

## **7 GENERAL BUSINESS**

Cr Woltering asked about the Auditor's Report on page 2 where it stated '*I did not receive the other information prior to the date of this auditor's report. When I do receive it, I will read it and if I conclude that there is a material misstatement in this information, I am required to communicate the matter to the CEO....*'

The Administration was requested to clarify this statement.

## **8 NEXT MEETING**

To be advised.

## **9 CLOSURE OF MEETING**

2:15 pm          The Acting Presiding Member declared the meeting closed.

**CONFIRMED: PRESIDING MEMBER** \_\_\_\_\_ **DATE:** \_\_\_\_/\_\_\_\_/\_\_\_\_