



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 10.00am Tuesday 4 December 2018.

Rob Stewart
CHIEF EXECUTIVE OFFICER

Committee Members

Cr J Moir, Cr M O'Dea, Cr J Oldfield and Cr C Pavlovich (Council 222/17)

TABLE OF CONTENTS

ITEM	SUBJECT	PAGE NO
1	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS	3
2	RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE	3
3	CONFIRMATION OF MINUTES	3
4	DISCLOSURE OF INTEREST	3
5	TELECONFERENCE WITH AUDITOR – DAVID TOMASI	4
6	REPORTS OF COMMITTEE MEMBERS AND OFFICERS	5
6.1	ANNUAL REPORT - YEAR ENDING 30 JUNE 2018	5
6.2	AUDIT REPORT - YEAR ENDING 30 JUNE 2018	7
6.3	RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE – ORGANISATIONAL REVIEW	11
6.4	REVIEW OF SHIRE BUILDINGS	17
7	ORGANISATIONAL RISK MANAGEMENT	20
8	GENERAL BUSINESS	20
8.1	GUIDE TO LOCAL GOVERNMENT AUDITING REFORMS	20
8.2	JARDINE LLOYD THOMPSON KEY RISK INDICATOR SURVEY	21
9	NEXT MEETING	21
10	CLOSURE OF MEETING	21

Membership

Cr J Moir

Cr M O'Dea

Cr J Oldfield

Cr C Pavlovich

Cr B Lang (Deputy for any member)

1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

10.00am The Presiding Member declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

Members Present

Cr M O'Dea (Presiding Member)
Cr J Oldfield
Cr C Pavlovich
Cr B Lang (Deputy for Cr Moir)

Visitors

Cr L Handasyde
Cr B Lang

Apologies

Cr J Moir

Staff

Mr R Stewart - Chief Executive Officer
Mr J Fathers - Deputy Chief Executive Officer

3 CONFIRMATION OF MINUTES

Moved Cr J Oldfield, seconded Cr C Pavlovich:

That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 19 June 2018 as circulated, be taken as read and adopted as a correct record.

CARRIED

4 DISCLOSURE OF INTEREST

Cr B Lang

Item:	6.4
Type:	Financial/Indirect Financial Interest (Section 5.60 (A) and 5.61 LGA)
Nature:	Leases radio tower from the Shire of Plantagenet.
Extent:	N/A

5 TELECONFERENCE WITH AUDITOR – DAVID TOMASI

A conference call was held with the Shire's auditor, Mr David Tomasi.

Mr Tomasi advised that there was nothing pressing to raise in the audit report, apart from comments on statutory ratios. Fair value has been here for some years and treatment of revaluations and depreciation is being refined. The Shire's position is satisfactory and the financial position is quite sound.

However, the advent of the auditor general taking over audits is adding some complications, as the OAG has some differing interpretations and takes a strict view on movement in ratios and is less inclined to consider mitigating factors. The overall approach will also be more formal.

A query was raised in relation to a matter previously discussed with the auditor, namely the inadequate funds budgeted for the O'Neill Road (Albany Hwy - Slip Lane) and Langton Road (Lowood Road to Marmion Street) projects. Mr Tomasi indicated that the Shire's systems identified the issues. An audit process is more about determining whether allocations are correct, rather than identifying particular budget item deficiencies.

Following the conference call, the Chief Executive Officer added that while our systems are robust, from time to time mistakes and anomalies will occur. In these instances, our systems highlighted the inaccuracies, actions were taken and rectification undertaken.

6 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

6.1 ANNUAL REPORT - YEAR ENDING 30 JUNE 2018

File Ref:	N46853
Attachment:	Annual Report – Year End 30 June 2018 (Separate Attachment)
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	4 December 2018

PURPOSE

The purpose of this report is to accept the Shire of Plantagenet's 2017/2018 Annual Report.

BACKGROUND

The annual financial audit for 2017/2018 was conducted by representatives of the Council's auditors, Moore Stephens in October 2018.

In line with convention and Delegation 1.1, the General Meeting of Electors will be held at 6.00pm on Tuesday 4 December 2018 to receive the 2017/2018 Annual Report.

STATUTORY ENVIRONMENT

Local Government Act 1995

Section 5.54 (1) states '*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).

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

POLICY IMPLICATIONS

There are no policy implications for this report.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.2 (Effective engagement with the community and stakeholders) the following Strategy:

Strategy 4.2.1:

'Keep the community well informed on Council initiatives'

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

OFFICER COMMENT

The Annual Report notes that a number of key items of infrastructure and plant were progressed during 2017/2018, including:

- \$2.3 million capital road works program.
- Completion of a new fire shed in Denbarker and improvements to the Narpyn fire shed.
- The Plantagenet District Hall Upgrade has been completed with the construction of porticos, finalising electrical work, paving and painting.
- The Mount Barker Memorial Swimming Pool bowl was fully renovated, including painting and tiling of the bowl, hand rails for better mobility access and new steps in the western end of the pool.
- The refurbishment of the Kendenup Agricultural Hall was completed with new windows overlooking the oval, concertina doors and kitchen refurbishment.
- Upgrades to Frost Pavilion have continued including a new front entrance and foyer with disabled access, new disabled toilet, air-conditioning and the carpark was line marked.
- Plant purchases included a Bobcat T650 Compact Track Loader with a 24" cold planer and wheel, a Bobcat E20L zero swing compactor excavator and an excavator/plant trailer and a Toro Reelmaster 5610 AWD wide area mower.

In terms of the Shire's financial situation, rate revenue increased from \$6.48 million in 2016/2017 to \$6.74 million in 2017/2018. Outstanding borrowings increased from \$2.66 million in 2016/2017 to \$2.81 million in 2017/2018. The increase was as a result of entering a short term liquidity lending facility with the Western Australian Treasury Corporation to maintain positive cash flow while undertaking storm damage works. A sum of \$500,000.00 was drawn down on 26 June 2018.

The Council spent \$752,806.00 on land and buildings and \$259,371.00 on parks and ovals and other infrastructure. A total of \$2,330,851.00 was spent on roads and footpaths with \$547,474.00 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$2,134,522.00 in 2016/2017 to \$2,336,867.00 in 2017/2018. The level of unrestricted cash at year end rose from minus \$749,557.00 to \$906,696.00.

The Council received grants and contributions for the development of assets of \$1.84 million in 2017/2018. Total grants and contributions received was \$3.95 million. Other activities carried out throughout the year have been reported on extensively within the Annual Report.

VOTING REQUIREMENTS

Absolute Majority

During discussion, members requested that future annual reports include information on the staff structure and employee length of service.

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr C Pavlovich, seconded Cr J Oldfield:

That it be a recommendation to the Council:

That the Annual Report for the year ended 30 June 2018 as attached, be accepted.

CARRIED

6.2 AUDIT REPORT - YEAR ENDING 30 JUNE 2018

File Ref:	N46854
Attachment:	2017/2018 End of Year Audit Report, Management Report and Concluding Memo
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	4 December 2018

PURPOSE

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2018.

BACKGROUND

In October 2018, representatives of Moore Stephens attended the Shire office to conduct an end of year audit for 2017/2018. 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) and (4) of the Act states the following:

- (3) *A local Government is to examine the report of the auditor prepared under section 7.9 (1), and any report prepared under section 7.9(3) forwarded to it, and is to -*
- (a) *determine if any matters raised by the report, or reports 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 is to -*
- (a) *prepare a report on any actions taken under subsection (3) in respect of an audit conducted in respect of a financial year; and*
 - (b) *forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.'*

EXTERNAL CONSULTATION

Consultation has occurred with the Shire's auditors in regard to this report.

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

POLICY IMPLICATIONS

There are no policy implications for this report.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.6 (Effective and efficient corporate and administrative services) the following Strategy:

Strategy 4.6.1:

'Provide a full range of financial services to support Shire's operations and to meet planning, reporting and accountability requirements.'

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

OFFICER COMMENT

A copy of the Moore Stephens' Report is attached. The management report focuses on the Shire's current position with respect to three of the statutory financial ratios in Note 28.

The trend in regard to the ratios is shown in the table below:

Financial Ratios	2014	2015	2016	2017	2018
Current Ratio	0.650	1.020	0.792	0.962	0.741
Asset Sustainability Ratio	1.178	0.487	0.491	0.684	0.484
Debt Service Cover Ratio	4.250	6.921	3.562	7.248	3.851
Operating Surplus Ratio	-0.258	-0.319	-0.590	-0.294	-0.473
Own Source Revenue Coverage Ratio	0.677	0.579	0.547	0.602	0.581
Asset Consumption Ratio	0.188	0.620	0.466	0.524	0.538
Asset Renewal Funding Ratio	0.970	0.783	0.656	0.919	1.022

It should be noted that the four of the ratios disclosed above have been distorted by the early receipt of Financial Assistance Grants. In addition, three of the ratios were impacted by revenue and expenses associated with storm damage re-instatement from two separate events. The adjusted ratios are as follows:

Adjusted Financial Ratios	2016	2017	2018
Current Ratio	0.864	0.549	0.973
Debt Service Cover Ratio	3.903	7.624	6.683
Operating Surplus Ratio	(0.572)	(0.274)	(0.317)
Own Source Revenue Coverage Ratio	0.575	0.621	0.640

In regard to the matters raised by the auditor within the management report, the following comments are made.

- **Current Ratio**
$$\frac{\text{Current assets minus restricted assets}}{\text{Current liabilities minus liabilities associated with restricted assets}}$$

This ratio gives an indication of short term liquidity, or the ability to meet financial obligations when they fall due. The standard is met if the ratio is greater than 1. The 2017/2018 Current Ratio is 0.741. The receipt of half of the 2018/2019 Commonwealth financial assistance grant early (\$873,871) and expenditure totalling

\$1.4 million on rectification of storm damage without any recoup have both impacted on this ratio. The adjusted value is 0.973, which is marginally below the standard.

- Asset Sustainability Ratio
$$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expense}}$$

This ratio indicates that to what degree the Shire is replacing or renewing existing assets at the same rate that its overall asset stock is wearing out. A basic standard is met if the ratio is greater than 0.9 and the Standard is 'Improving' if the ratio is between 0.9 and 1.1.

The 2017/2018 Asset Sustainability Ratio of 0.484 is lower than the 2016/2017 figure of 0.684, but similar to the 2015/2016 result. The main difference is the reduced expenditure on road construction (renewal) in 2017/2018, due to the effort on storm damage rectification (maintenance), amounting to approximately \$1.4 million. The standard is set at 1.1, which is not currently achievable, assuming the depreciation figures are reliable.

The ratio would not be considered within acceptable limits in the long term. This ratio needs to be considered in determining future asset management programs and more work needs to be done to verify road infrastructure depreciation values.

The comments by the auditor on this ratio are particularly relevant, as follows:

'Interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) and the Asset Renewal Funding Ratio (ARFR). The ACR of 0.538 is slightly above its target level of 0.500 indicating Council's assets are in an acceptable condition and the ARFR of 1.022 is above its target of 0.750 indicating the planned renewal and replacement expenditure over the next 10 years is sufficient to meet the required renewal and replacement expenditure.'

- Operating Surplus Ratio
$$\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue}}$$

This ratio indicates an ability to cover operational costs and have revenues available for capital funding or other purposes. A basic standard is met between 0.01 and 0.15. An advanced standard is met over 0.15.

The Shire's 2017/2018 result is (0.473), however the adjusted figure is (0.317). This figure is worse than the adjusted 2016/2017 value of (0.274) but better than the adjusted 2015/2016 value of (0.572). It is well below the benchmark of 0.15. Recent year values reflect the large increases in depreciation due to asset revaluations.

Accounting guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain both its operational service level and asset base. This worsening situation is mainly due to increasing depreciation due to asset revaluations. To some degree, this ratio does not accurately represent the local government scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income.

Ideally, future long term plans should achieve a reversal of this trend. This will involve work on, in particular verifying the remaining useful life (RUL) of infrastructure and ensuring depreciation rates are reliable.

It has previously been noted that local government is still coming to grips with the full ramifications of depreciation and it will take time to fully filter through and for the figures to reflect the reality.

The Shire is implementing an Asset Management Improvement Plan and undertaking other activities to verify the remaining useful life of infrastructure and ensure depreciation rates are reliable. A visual condition survey of the Shire's sealed road network has been done and entry into the RAMM II roads database will help in verifying depreciation and remaining useful lives of road assets.

The Audit and Risk Committee has previously supported the probability that the asset ratios reporting below standard are likely to be mainly attributable to data integrity than legitimate financial management weaknesses. There will need to be additional work towards verifying data and maintaining assets at service levels that are appropriate and affordable by the community and it is anticipated that this effort will result in an improvement in the asset based ratios.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr J Oldfield, seconded Cr B Lang:

That it be a recommendation to the Council:

That the Annual Financial Audit and Management Report for the year ending 30 June 2018 as issued by Mr David Tomasi of Moore Stephens be received.

CARRIED

6.3 RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE – ORGANISATIONAL REVIEW

File Ref:	N46964
Attachment	Assessment Report
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	4 December 2018

PURPOSE

The purpose of this report is to note the results of a review of the appropriateness and effectiveness of organisational systems and procedures in relation to risk management, internal control and legislative compliance.

BACKGROUND

In February 2013, a new regulation (Section 17) of the Local Government (Audit) Regulations was promulgated. This regulation requires a review of the appropriateness and effectiveness of systems and procedures in relation to risk management, internal control and legislative compliance at least once every two calendar years and to report to the Audit Committee the results of that review.

The last such review was carried out in November 2016.

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996. Regulation 17 states as follows:

- ‘(1) The CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to —*
- (a) risk management; and*
 - (b) internal control; and*
 - (c) legislative compliance.*
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) The CEO is to report to the audit committee the results of that review.’*

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

POLICY IMPLICATIONS

The Council has the following policies in place:

- C/RM/1 Risk Management.
- C/IC/1 Internal Control.
- A/L/1 Legislative Compliance.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.6 (Effective and efficient corporate and administrative services) the following Strategy:

Strategy 4.6.1:

‘Provide a full range of financial services to support Shire’s operations and to meet planning, reporting and accountability requirements’

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

STRATEGIC RISK IMPLICATIONS

The Shire’s Strategic Risk Register forms part of the assessment.

OFFICER COMMENT

It is important to note that legislative compliance relates to all legislation, not just the Local Government Act 1995. It is also important to note the following words in the new regulation: *‘The CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures.’*

In terms of appropriateness, the Chief Executive Officer is to decide what processes, systems and controls are appropriate in the context of risk appetite, the internal / external environment and what is suitable for the Shire’s size and operations.

Effectiveness is assessed through monitoring events and testing controls. For systems and procedures to be effective, they must exist. In order to formally create these systems, policies and procedures have been established under each of the three categories.

A detailed review of each of these matters is in the attached Assessment Report. A summary of the results is as follows:

Risk Management

The Council has adopted a Risk Management Policy, the objectives being to:

- Adopt and implement a risk management framework that integrates risk management into the organisation and provides the mandate, resources and management systems.
- Foster and develop a risk management culture that influences all activities and decision making.
- Improve the way assets, functions and services are managed and delivered to achieve objectives and reduce potential harm to the Shire.

The policy notes that the Shire will manage risks continuously using a process involving the identification, analysis, evaluation, treatment, monitoring and review of risks. It will be applied to decision making through all levels of the organisation in relation to planning or executing any function, service or activity. In particular, it will be applied to:

- Strategic planning;
- Expenditure of large amounts of money;
- New strategies and procedures;
- Management of projects, tenders and proposals;

- Introducing significant change; and
- Management of sensitive issues.

The policy aims for risk management to become part of the Shire's culture, integrated into the Shire's corporate and business plans and everyday activities. Further, risk management must be the responsibility of every employee, contractor, volunteer and elected member of the Council.

The policy requires that the Shire will implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends.

In this regard, a risk register is being maintained for strategic risks. The register is permanently listed for meetings of the Audit and Risk Management Committee and that committee has conducted a detailed review of the register.

Some project and operational risks will also be considered and evaluated, however the Shire will adopt a relatively simple approach and only do a formal assessment of new projects and operational risks where deemed appropriate by the Chief Executive Officer or a Manager.

It is the opinion of the Chief Executive Officer that the policy and procedures in place for risk management are generally appropriate for an organisation of the size of the Shire of Plantagenet.

Effectiveness is assessed through monitoring events and testing controls and the following indicators are a guide:

- The Shire has developed a Strategic Community Plan and the Council regularly reviews its progress against strategic objectives.
- An analysis of events by risk category for the last two years has been carried out. The list of events is considered to represent a relatively small number of incidents. In dollar terms, the overall cost is considered to represent a minor impact on the Shire's resources.

The effectiveness of the current measures, which have recently been formalised by way of policy and procedures is considered to be quite robust.

Internal Control

The Shire's Internal Control Policy indicates that the following are considered to be fundamental characteristics of a good internal control system:

Staffing and segregation of duties

Ideally, the following three basic functions should be undertaken by different individuals:

- authorisation of transactions;
- recording of transactions; and
- custody of assets (money and other property).

If these duties are not separated then errors are more likely to go undiscovered, fraud is also much easier to conceal and mistakes are more likely to occur. In small local governments it is not always practical to maintain a strict separation of duties due to resource constraints. These circumstances require a greater degree of compensatory controls to be put in place. At the Shire of Plantagenet, some segregation of duties has been achieved, although not to the degree available in an ideal world due to the size of

the organisation. Other controls have been put in place to mitigate relevant risks as a result.

The smaller the organisation, the more difficult it is for adequate controls to be implemented. This emphasises the need for not only controls to be in place, but also for elected members to be vigilant and aware of what the controls should be.

An issue that arose in February 2018 was the budgeting processes for the O'Neill Road (Albany Hwy - Slip Lane) and Langton Road (Lowood Road to Marmion Street) projects. This matter was raised with the Shire's auditor, David Tomasi. It was noted that while our systems are robust, from time to time mistakes and anomalies will occur. In these instances, our systems highlighted the inaccuracies, actions were taken and rectification undertaken. It does highlight however, that some financial and project risks exist and this is largely dependent on the trust and professionalism of staff members.

The level of experience and qualification held by staff has a substantial impact on the effectiveness of internal controls. Experienced staff who know the processes and systems are more likely to identify errors and mistakes before they have a detrimental impact. Generally, at the Shire of Plantagenet, staff in key positions are well qualified and / or highly experienced.

High levels of staff turnover leading to inexperienced staff will place additional pressure on internal controls and reduce their reliability. At these times increased staff training is vital to reduce the risk of failure in documented internal controls. High staff turnover can also lead to a fall in staff recruitment standards resulting in false qualifications and experience levels going undetected. At the Shire of Plantagenet, staff turnover has been low for a number of years, particularly in key positions.

(Recent total FTE turnover figures are: 2009 - 16%, 2010 - 7%, 2011 - 7%, 2012 - 8%, 2013 - 11%, 2014 - 12.8%, 2015 - 8.9%, 2016 - 10.6%, 2017 - 8.9%, 2018 - 10.9%)

Information Technology (IT) Controls

As with other controls there are two types of controls which exist within the IT environment:

- General IT Controls - These are controls over the wider IT environment of the local government. They include such items as virus protection, backups, system password and access controls.
- Application IT Controls - These are controls within the specific IT applications and include such items as application password and access controls, data field validations, processing restrictions and reporting restrictions.

The extensive use of IT to record, validate, collate and report financial transactions makes it important to implement a number of financial process or application controls. However application controls may be significantly undermined by a lack of appropriate general controls.

Granting IT administrators administration rights to all applications, a lack of appropriate backups or the ability of someone to 'hack' into the IT system are all examples of general IT control risks which will undermine the effectiveness of the best application controls.

At the Shire of Plantagenet, IT controls within the Civica Authority system are robust and administrator roles are very limited.

However, it is important that the Shire protect its IT Infrastructure from computer viruses and theft, vandalism, or breach of confidentiality by computer hackers. In addition, to ensure that corporate electronic records are adequately backed up and protected and able to be restored and re-deployed if required.

While this is ongoing, it is difficult to be proactive with current staffing levels in that there is no dedicated IT resource in house. The Council's audit firm provides a new comprehensive cyber security service designed for local government, which involves ongoing testing/training and access to appropriate software and policy development. It is likely that a budget request will be included in the Shire's 2019/2020 budget to enable this solution to be implemented.

Documented procedures and processes covering the recording, reporting and authorisation of transactions

Documented procedures also support the rotation of duties which in turn reduces the potential for fraud. It is important the judgments made about appropriate internal controls are documented and evidenced in procedures. For example, if circumstances prevent the full segregation of duties then the alternate actions taken to lessen risk should be evidenced. If staff clearly understand what is expected of them and what they are required to do to maintain control, less errors are likely to occur.

At the Shire of Plantagenet, a culture of formal documentation exists and procedures are in place for a significant number of processes. In addition, a number of control activities should be undertaken in addition to the key monitoring activities. Out of the 85 controls ideally in place, 80 are being carried out (94%), as detailed in the assessment report. It is the opinion of the Chief Executive Officer that the policy and procedures in place for internal control are largely appropriate for an organisation of this size of the Shire of Plantagenet.

Effectiveness is assessed through monitoring events and testing controls. In recent times, the report of the auditor in respect to annual financial statements and interim audit results have been very good. A financial management review was undertaken by the external auditor in June 2018. Overall, the results of that review were also very good.

It is worth noting that Mr David Tomasi of Moore Stephens was appointed as the Council's auditor for the five year period starting with the 2015/2016 financial year. Moore Stephens is a leader in WA auditing, conducting annual workshops in financial management and providing budgeting and financial reporting templates to the industry. It is prudent to change auditors from time to time as differing companies are likely to identify other issues and different areas where improvements can be made.

The effectiveness of the current measures, which have recently been formalised by way of policy and procedures are considered to be very robust.

Legislative Compliance

The Shire's Legislative Compliance Policy indicates that the following are important elements of an appropriate legislative compliance framework:

- A legislative compliance risk register with a risk rating.
- A formal process to implement new legislation.
- Formal responsibility for monitoring legislative compliance.

- Communication and training of elected members, staff, contractors and volunteers in terms of their responsibility to comply with legislation in the workplace and report breaches.
- A formal process for reporting and recording breaches of legislation.
- Legislative compliance demonstrably supported by senior management.

All of these measures have been adopted. It is the opinion of the Chief Executive Officer that the policy and procedures in place for legislative compliance are entirely appropriate for an organisation of this size of the Shire of Plantagenet.

Effectiveness is assessed through monitoring events and testing controls. At this stage there have only been two incidents of non-compliance recorded in the register set up in 2015, namely the provision of School Holiday programs at Rec.Centre without having gained Provider/Service Approval from ACECQA and incorrect FBT returns in 2014 and 2015.

The Compliance Audit required pursuant to Section 7.13 of the Local Government Act 1995 has only recorded one area of non-compliance since the 2008 return. The effectiveness of the current measures, which has recently been formalised by way of policy and procedures can therefore be assumed to be robust.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr J Oldfield, seconded Cr B Lang:

That it be a recommendation to the Council:

That the results of a review of the appropriateness and effectiveness of organisational systems and procedures in relation to risk management, internal control and legislative compliance be noted.

CARRIED

6.4 REVIEW OF SHIRE BUILDINGS

Cr B Lang

Item: 6.4
 Type: Financial/Indirect Financial Interest (Section 5.60 (A) and 5.61 LGA)
 Nature: Leases radio tower from the Shire of Plantagenet.
 Extent: N/A

11.23am Cr B Lang requested that he be allowed to participate pursuant to S5.68 and withdrew from the meeting

Permission to Participate pursuant to S5.68 of the Local Government Act 1995

Moved Cr C Pavlovich, seconded Cr J Oldfield:

That as the nature and extent of the interest declared by Cr B Lang is so trivial or insignificant as to be unlikely to influence his conduct in relation to the matter, he be permitted to participate pursuant to S5.68 of the Local Government Act 1995 in the discussion and decision making procedures relating to that matter.

CARRIED

11.25am Cr B Lang returned to the meeting.

File Ref: N47077
Attachment [List of Shire Buildings](#)
Responsible Officer: Rob Stewart
 Chief Executive Officer
Author: John Fathers
 Deputy Chief Executive Officer
Proposed Meeting Date: 4 December 2018

PURPOSE

The purpose of this report is to present a review of the strategic intention of the Shire's buildings.

BACKGROUND

At the meeting of the Audit and Risk Committee held on 19 June 2018, the Committee noted that there is a lack of policy direction with regard to the strategic intention for many leased buildings, in terms of maintenance responsibility and future ownership.

The Committee resolved that the Chief Executive Officer be requested to present information to the Committee regarding leased Council assets, with a view to identifying the strategic intent of particular buildings.

STATUTORY ENVIRONMENT

There are no statutory implications for this report'

FINANCIAL IMPLICATIONS

There are no immediate financial implications for this report.

POLICY IMPLICATIONS

The Council has the following policies in place:

- A/PA/17 Community Halls and Buildings

'OBJECTIVE:

To clarify the Council's position with regard to Community Halls.

POLICY:

The Council is of the opinion that community halls within the District should be:

- 1. Wherever possible, operated by an appropriate incorporated community body;*
- 2. 'Operated' in part 1. can include ownership or leasing;*
- 3. If sale or lease cannot be effected for Community Hall purposes the closure of the hall and subsequent sale and removal of the subject structure may be pursued.'*

- A/I/1 - Insurance of Buildings on Council Controlled Land

'OBJECTIVE:

To clarify the Council's position on the responsibility for insurance costs of buildings erected on land owned by or under the care, control and management of the Council.

POLICY:

The Council will not accept responsibility for the cost of insurance of buildings erected by other organisations on land under Council control unless the Council has an insurable interest due to building ownership or legal agreement.'

- A/PA/15 Asset Management

Clause 2 states that *'where possible, rationalising assets that are no longer used or do not provide the necessary level of service defined for that asset.'*

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 2.5 (Council buildings and facilities that meet community needs) the following Strategy:

Strategy 2.5.3:

'Continue to investigate opportunities to rationalise or devolve obsolete buildings and other assets'

Further, at Outcome 2.6 (Assets and infrastructure managed over the long term to meet current and future needs) the following Strategy:

Strategy 2.6.1:

'Implement maintenance, servicing and renewal of Council assets in a timely manner that maximises its life and performance, with a focus on infrastructure and core buildings'

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

STRATEGIC RISK IMPLICATIONS

The Shire's Strategic Risk Register forms part of the assessment.

OFFICER COMMENT

Following the Committee's comments on 19 June 2018, a review of the strategic intention of the Shire's buildings has been undertaken by Council staff. Comments have been included against each building on the attached spreadsheet.

The majority of the buildings on this list have been recommended to remain as per the current use. This is the case for leased buildings, particularly while there are multiple uses or users of a facility.

For single user buildings, policy direction may be appropriate in regard to whether any of these can be disposed of to those users. Also, perhaps the lessee should reimburse the Council for the annual insurance costs if they want the building replaced in the event of destruction.

In regard to the historical buildings, we need to keep these insured, however in the event of significant damage, they may not be able to be replaced entirely.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION

That the results of a review of the strategic intention of the Shire's buildings be noted.

During discussion, members considered that this matter should be considered by all councillors at a workshop, with some additional information on how each building, as follows:

- *How the building meets strategic aims;*
- *Building priority; would a building be rebuilt if severely damaged or destroyed?;*
- *Strategic long term interest and community need; could buildings be gifted to others?*

COMMITTEE DECISION

Moved Cr C Pavlovich, seconded Cr B Lang:

That:

- 1. The results of a review of the strategic intention with relation to the Shire's buildings be noted.**
- 2. The Chief Executive Officer be requested to present the Council buildings analysis to a Council workshop for further consideration.**

CARRIED

7 ORGANISATIONAL RISK MANAGEMENT

In line with a previous Committee request, this item is listed as a permanent fixture on the agenda. The current Organisational Risk Register is attached for information.

During discussion, the reduction of fuel loads north of Frost Park was raised (in item 2.1.1) and the CEO advised that he had previously discussed this matter with the former Chief Bush Fire Control Officer. It was noted that both the Shire and Main Roads had responsibilities, depending on where the townsite boundary is located. The residual risk score of moderate was raised for item 3.2.1. It was noted that senior staff would confirm the rating of this item.

8 GENERAL BUSINESS

8.1 GUIDE TO LOCAL GOVERNMENT AUDITING REFORMS

The Department of Local Government, Sport and Cultural Industries has revised the Guide to Local Government Auditing Reforms which includes a number of amendments that affect local governments.

The amendments result from the transition of responsibility for oversight of local government audits to the Office of the Auditor General.

The proposed amendments to the Local Government (Financial Management) Regulations 1996 and Local Government (Audit Regulations) 1996 were revised and gazetted on Tuesday, 26 June 2018.

The key changes affecting local government are as follows:

- From 1 July 2018, an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition is under \$5,000. CEOs must take all reasonable steps to prevent the theft or loss of non-consumable portable and attractive items valued under \$5,000.
- From 27 June 2018, local governments will be required to conduct a review of their audit systems and procedures, and their financial management systems no less than every three years. Previously local governments were required to conduct these reviews no less than every two years and four years respectively.
- From 27 June 2018 local governments will be required to revalue an asset whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and in any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued.
- From 27 June 2018, the role of the audit committee has been strengthened to assist the CEO to carry out the reviews of audit systems. The Audit Committee's responsibilities have also been extended to 'monitor and advise' the CEO in reviews conducted into financial management systems and audit systems and procedures. The Audit Committee will also support the auditor as required and have functions to oversee the implementation of audit recommendations made by the auditor, which have been accepted by council; and accepted recommendations arising from reviews of local government systems and procedures.

The June 2018 Guide to Local Government Auditing Reforms is attached for information.

8.2 JARDINE LLOYD THOMPSON KEY RISK INDICATOR SURVEY

JLT is a leading provider of insurance and other risk solutions in Australia. It has recently provided a copy of its inaugural key risk indicator survey of local government CEOs. This research (attached) '*captures the insights of councils nationally and identifies key risks facing local government today.*'

9 NEXT MEETING

To be advised.

10 CLOSURE OF MEETING

12.03pm The Presiding Member declared the meeting closed.

CONFIRMED: PRESIDING MEMBER _____ **DATE:** ____ / ____ / ____