



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 1:00pm Tuesday 12 April 2016.

Rob Stewart
CHIEF EXECUTIVE OFFICER

Committee Members

Cr K Clements, Cr L Handasyde, Cr J Moir and Cr C Pavlovich (Council 223/15)

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Membership

Cr K Clements

Cr L Handasyde

Cr J Moir

Cr C Pavlovich (Presiding Member)

Cr J Hamblin (Deputy for any member)

1.02 pm The Presiding Member declared the meeting open.

Members Present

Cr C Pavlovich (Presiding Member)
Cr K Clements
Cr L Handasyde
Cr J Moir

Visitors

Cr M O'Dea

Staff

Mr R Stewart - Chief Executive Officer
Mr J Fathers - Deputy Chief Executive Officer
Mrs A Kendrick – Senior Administration Officer – Finance

RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

1 CONFIRMATION OF MINUTES

Moved Cr K Clements, seconded Cr L Handasyde:

That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 1 March 2016 as circulated, be taken as read and adopted as a correct record.

CARRIED

2 DISCLOSURE OF INTEREST

Part 5 Division 6 Local Government Act 1995

Nil

3 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

3.1 INTERIM AUDIT – YEAR ENDING 30 JUNE 2016

File No: N37386
Responsible Officer: Rob Stewart
Chief Executive Officer
Author: John Fathers
Deputy Chief Executive Officer
Proposed Meeting Date: 12 April 2016

PURPOSE

The purpose of this report is to consider the interim audit report conducted by the Shire's new auditor Moore Stephens in March 2016.

BACKGROUND

On 15-17 March 2016, representatives of Moore Stephens attended the Shire office to conduct an interim audit for the year ending 2015/2016. This particular audit verified a number of matters in the 2014/2015 annual report and reviewed internal processes.

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 2013-2023 provides at Outcome 4.1 (Effective governance and leadership) the following Strategy:

Strategy 4.1.6:

'Provide administrative support to Shire for Governance functions'.

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

The Shire of Plantagenet Corporate Business Plan 2015/2016 – 2019/2020 also includes Action 4.1.6.4 Maximise awareness of and compliance with relevant legislation.

OFFICER COMMENT

A formal audit report will not be issued, however a number of issues were raised informally as detailed below. These matters will be reviewed again by Moore Stephens at the end of year audit.

Matter Identified/Raised	Impact on Audit	Management Responses
A Councillor's (J Hamblin) primary return contained blank sections (Trust and interests and positions in corporations section contains blanks). It is a recommendation of the Dep't for all boxes on the Returns to be completed or marked N/A or have a line drawn through.	No major impact	We will require all returns to be completed fully as per Department advice in future.
For creditor details update, an Audit trail is only printed at the end of the financial year to check to tax invoices or creditor details update request and then reviewed by the SAOF to ensure that all changes are made as per creditors requested. Recommendation: The checking should be conducted on a more frequent basis (min-monthly basis) to ensure the changes have been properly supported by creditor update form and changes have been validated by an independent officer.	No major impact	A Report will be generated from Authority each month listing any changes to BSB or Account details and checked against supplier instructions. This is currently only done annually.
The tax invoices are attached to the credit card reconciliation and statement and processed by the AO however, there is no independent review by a responsible senior officer.	No major impact	The AO will now hand the completed expenditure sheet to SAOF for checking and signature and cardholder for verification and signature.
For employee banking details update, SAOF only prints out the audit trail report from the Authority system once a time at the year end and check the changes made against the forms signed by the employee. Recommendation: The checking should be conducted on a more frequent basis (fortnightly or monthly) to ensure that the changes are properly documented and authorised.	No impact	A report will be generated from Authority each month listing any changes to BSB or Account details and checked against alteration to Pay Instructions signed by employee. This is currently only done annually.
In terms of checking payroll reports to the payroll text file (ABA file), SAOF only checks whether the payment amount in the ABA file matches up with the payroll report not the accuracy of the pay run. No evidence of cross check of the accuracy of the Payroll.	No impact	Payroll is currently checked by SAOF and DCEO by reviewing the Authority generated list of payees and individual pay amounts and the overall value of payroll. Further checks will be done relating to variance from standard pays, ETP's and other unusual payments.
No evidence of independent review of monthly BAS reconciliation. The review should be signed and dated as evidence of review.	No major impact	A BAS reconciliation form has been developed by SAOF for signature and verification by DCEO.
Noted Trust bank reconciliation is only prepared on a quarterly basis. We recommend it be prepared on a more regular basis, at least monthly. Also during the review of the trust ledger, we noted Trust Fund includes unidentified receipts dating back several years. We recommend that, if the payer of this money cannot be identified, then the amounts be forwarded to the Registrar of Unclaimed Money. If the payer of the money can be identified, then it should be returned to the payer.	No major impact	A full review of the Trust account has now been completed. With the exception of an amount that has been included on the Treasury Unclaimed Money Register, there are no unidentified or unmonitored amounts within the Trust account.

Matter Identified/Raised	Impact on Audit	Management Responses
Fixed asset reconciliation is only prepared at the YE. This is recommended to be prepared on a more regular basis (at least quarterly)	No major impact	This has previously been attempted, but it is a very time consuming task. Nevertheless, the SAOF and DCEO will aim to carry out two other Asset reconciliations per year. There is no point doing a check in September as no changes to the asset register are done until after the EOY audit, so we will aim at reconciliations in December and March.
Our sample Testing of 2015/16 Dep'n charges in Authority on all Fixed Assets revalued in 2013, 2014 & 2015 revealed some discrepancies. As discussed in detail with John (DCEO) we suggest a thorough review be carried out on the Authority system methodology of calculating depreciation and amend/adjust the records accordingly. This will help ensure dep'n charges are correctly not only in 2015/16 but in future years as well, given all asset classes will continuously be revalued every 3 years.	Impacts on annual dep'n charge if not resolved	Checks done to date reveal that depreciation recalculates potentially incorrectly when assets are increased in value during the year (recapitalised). When these recapitalisations are carried out, full checks will be done on the accuracy of the resulting depreciation rate. Discussions will also take place with the consultants engaged to re-value the Shire's infrastructure to assess whether a residual value can be adopted. This will result in the ability to adopt a lower depreciation rate and hence improve depreciation based statutory ratios.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr L Handasyde, seconded Cr J Moir:

That the report relating to the Interim Audit for the Year Ending 30 June 2016 be received.

CARRIED

4 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, which has now been split into the various departments.

During discussion at the Audit and Risk Management Committee meeting held on 2 February 2016, the administration was requested to provide a copy of the risk matrix used in determining risk scores. This information is shown below:

Shire Appetite and Risk Tolerance Table

This table is to be used when assessing the potential impact of an activity, issue or strategy. A further risk assessment that may include specialist consultation or research should be conducted in a more formal manner for any element of the above that is perceived to be Major – Extreme.

DESCRIPTION	FINANCIAL	HEALTH	REPUTATION	OPERATION	ENVIRONMENT	COMPLIANCE	PROJECT
Insignificant	<Less than \$20,000	No injuries or illness	Unsubstantiated, low impact, low profile or "no news" item	Little impact	Little impact	Minor breach of policy, or process requiring approval or variance	Small variation to cost , timelines, scope or quality of objectives and required outcomes
Minor	\$20,000 – 100,000	First Aid treatment	Substantiated, low impact, low news item	Inconvenient delays	Minor damage or contamination	Breach of policy, process or legislative requirement requiring attention of minimal damage control	5-10% increase in time or cost or variation to scope or objective requiring managers approval
Major	\$100,000- \$500,000	Medical treatment	Substantiated, public embarrassment, moderate impact, moderate news profile	Significant delays to major deliverables	Environmental damage requiring restitution or internal cleanup	Breach requiring internal investigation, treatment or moderate damage control	10 -20 % increase in time or cost or variation to scope or objective requiring Senior Management approval
Critical	\$500,000 - \$1,000,000	Extensive injuries or disabilities	Substantiated, organisational embarrassment, high impact news profile, third party actions	Non-achievement of major deliverables	Minor Breach of legislation / significant contamination or damage requiring third party assistance	Breach resulting in external investigation or third party actions resulting in tangible loss and some damage to reputation	20 — 50 % increase in time or cost or significant variation to scope or objective requiring restructure of project and Senior Management or Council approval
Extreme	More than \$1,000,000	Death or permanent disabilities	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Non-achievement of major deliverables	Major breach of legislation or extensive contamination and environmental damage requiring third party intervention	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	>50% increase in cost or timeline, or inability to meet project objectives requiring the project to be abandoned or redeveloped.

Likelihood

The following likelihood table assists you to prioritise risk management activities and should be used in conjunction with this risk tolerance table.

RISK LEVEL	DESCRIPTION	PRESUMPTIONS	FREQUENCY
A	Almost Certain	Expected to occur in most circumstances	More than once per year
B	Likely	Will probably occur in most circumstances	At least once per year
C	Possible	Should occur at some time	At least once in three years.
D	Unlikely	Could occur at some time	At least once in ten years
E	Rare	May occur, only in exceptional circumstances	Less than once in fifteen years.

Analysis Matrix

This table takes the findings from the Likelihood and Consequences tables and allows you to calculate a potential risk rating. Once treatments are in place, the same process takes place taking into account those treatments being in place. This gives you the residual risk that goes into a risk register, and assists in determining priorities and informs decision making.

Consequence \ Likelihood		Insignificant 1	Minor 2	Major 3	Critical 4	Extreme 5
		Almost Certain A	H	H	E	E
Likely B	M	H	H	E	E	
Possible C	L	M	H	E	E	
Unlikely D	L	L	M	H	E	
Rare E	L	L	M	H	H	

Responsibility Legend

- E** - **Extreme Risk** – **Audit and Risk Committee (ARC) Attention**
H - **High risk** – **Senior management attention ARC awareness**
M - **Moderate Risk** – **Management responsibility must be specified**
L - **Low Risk** - **Manage by routine procedures at operational level**

At its meeting held on 1 March 2016, the Committee agreed to hold a meeting to consider the Strategic Risk Register, with a separation of items into categories, including responsible person identified. The documentation is attached, including changes to risk register items identified at that meeting. It was considered that the main points of discussion should include planning, finance, emergency services and assets.

During discussion at the meeting held on 12 April 2016, the Committee reviewed the following risks and made determinations on their inclusion or otherwise in the Strategic Risk Register:

Financial Management Risks	Include/Exclude
• <i>Inappropriate use of resources</i>	<i>Include</i>
• <i>Budget blow-out or overpayments</i>	<i>Include</i>
• <i>Fraud or theft</i>	<i>Include</i>
• <i>Loss of funds from virus, hacking or other means</i>	<i>Include</i>
Asset Risks	
• <i>Theft, vandalism, fire</i>	<i>Include</i>
• <i>Water or vehicle damage</i>	<i>Exclude</i>
• <i>Computer virus, power or water outage</i>	<i>Exclude</i>
• <i>Footpath and road hazards</i>	<i>Exclude</i>
• <i>Failure to adequately insure buildings, property and contents</i>	<i>Include</i>
• <i>Failure to plan and manage the financial lifecycle of the asset</i>	<i>Include</i>
Community Health, Safety and Wellbeing Risks	
• <i>Natural disaster or terrorist attack</i>	<i>Include</i>
• <i>Criminal activity, civil unrest</i>	<i>Include</i>
• <i>Fuel / energy crisis</i>	<i>Exclude</i>
• <i>Injuries to public on / in public buildings / equipment</i>	<i>Exclude</i>
• <i>Transmission of airborne contaminants hazardous to health</i>	<i>Include</i>
Corporate Governance / Planning Risks	
• <i>Not providing lawful services or functions</i>	<i>Include</i>
• <i>Not fulfilling operational goals</i>	<i>Exclude</i>
• <i>Electoral campaign breaches</i>	<i>Exclude</i>
• <i>Failure to uphold local laws</i>	<i>Include</i>
• <i>Corruption and bribery</i>	<i>Include</i>
• <i>Misuse of confidential information</i>	<i>Include</i>
• <i>Non-compliance with lawful orders</i>	<i>Include</i>
• <i>Failure to declare interests</i>	<i>Include</i>
• <i>Effective project planning and management</i>	<i>Include</i>
• <i>Failure to be informed of relevant changes to legislation</i>	<i>Include</i>
• <i>Appointment / retention of key Staff</i>	<i>Include</i>
• <i>Conduct of Members and key staff</i>	<i>Include</i>

5 NEXT MEETING

10 May 2016.

6 CLOSURE OF MEETING

2.35pm The Presiding Member declared the meeting closed.

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