



MEETING AGENDA OF THE AUDIT AND FINANCE COMMITTEE OF THE SHIRE OF BOYUP BROOK TO BE HELD IN THE COUNCIL CHAMBERS, ABEL STREET, BOYUP BROOK ON 13 DECEMBER 2018 AT 1.00pm

1 RECORD OF ATTENDANCE / APOLOGIES

Committee

Cr Aird
Cr Walker
Cr Rear
Cr O'Connell
Cr Alexander

Staff

Mr Stephen Carstairs
Heather Aldridge (Minute Taker)

Auditor

Mr Timothy Partridge (Partner, AMD Chartered Accountants) will be attending by conference call.

Apologies

Cr Alexander

2 CONFIRMATION OF MINUTES

That the minutes of the Audit and Finance Committee meeting held on 15 March 2018 be confirmed as an accurate record.

3 REPORTS

3.1 2017-18 Audited Financial Statements and Auditor's Management Report

<i>Location:</i>	<i>Shire of Boyup Brook</i>
<i>Applicant:</i>	<i>Shire of Boyup Brook</i>
<i>File:</i>	<i>N/A</i>
<i>Disclosure of Officer Interest:</i>	<i>Nil</i>
<i>Date:</i>	<i>12 December 2018</i>

Authors: *Kay Raisin – Acting Finance and HR Manager and Stephen Carstairs – Acting CEO*

Authorizing Officer: *Stephen Carstairs – Acting CEO*

Attachments: *Yes – 2017-18 Audited Financial Statements, and Auditor's 2017-18 Management Report*

SUMMARY

The purpose of this report is for Council to receive the 2017-18 Audited Financial Statements and Auditor's 2016-17 Management Report (as attached), and to meet with the local government's auditor Mr Tim Partridge (Partner, AMD Chartered Accountants).

BACKGROUND

The *Local Government (Audit) Regulations 1996* sets out the requirements for the preparation of a report by Council's auditor(s) as follows:

- An auditor's report is to be forwarded to the President, CEO and the Minister within 30 days of completing the audit;
- The report is to give the auditor's opinion on -
- the financial position of the local government (LG);
- the results of the operations of the LG.
- The report is to include -
- any material matters that indicate significant adverse trends in the financial position of the LG;
- any matters indicating non-compliance with Part 6 of *the Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls in any other written law;
- details of whether information and explanations were obtained by the auditor;
- a report on the conduct of the report;
- the opinion of the auditor as to whether or not certain financial ratios are supported by verifiable information and reasonable assumptions
- Where it is considered by the auditor appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the President, CEO and Minister.

An auditor's management report is a discretionary report, as indicated in Regulation 10.(4) of the *Local Government (Audit) Regulations 1996* as follows:

"Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report."

Persons specified in section 7.9(1) include the President, CEO and Minister.

In the period 21 - 22 November 2018 Council's auditor's (AMD Chartered Accountants) conducted their on-site audit of the shire's 2017-18 Financial Statements. Then on 10 December 2018 the Acting CEO received from AMD a copy of the shire's finalised 30 June 2018 Financial Report and signed (Mr Tim Partridge Partner AMD Chartered Accountants) auditor's report, and a 30 June 2018 Management Report from the auditor.

CONSULTATION

Mr Tim Partridge (Partner, AMD Chartered Accountants)

STATUTORY OBLIGATIONS

Local Government Act 1995 as follows:

7.12A. Duties of local government with respect to audits

(1) A local government is to do everything in its power to —

(a) assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and

(b) ensure that audits are conducted successfully and expeditiously.

(2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.

(3) A local government must —

(aa) examine an audit report received by the local government; and

(a) determine if any matters raised by the audit 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.

COMMENT

When he meets with the local government (LG) at this meeting, it is to be expected that Mr Tim Partridge (partner at AMD, and Council's auditor) will give an overview of AMD's audit of the shire's 2017-18 Financial Statements, and address the various matters raised in his 30 June 2018 Audit and Management Reports.

POLICY IMPLICATIONS

There are no specific policy items in relation to the audit of the shire's financial statements.

BUDGET/FINANCIAL IMPLICATIONS

The costs associated with conducting the 2017-18 audit were provided for in the budget.

STRATEGIC IMPLICATIONS

Information contained in an auditor's report could cause a LG to make adjustments in their strategic direction.

SUSTAINABILITY IMPLICATIONS

See the section on *Strategic Implications*.

VOTING REQUIREMENTS

Simple Majority.

OFFICER RECOMMENDATIONS - Item 3.1

That the Audit and Finance Committee recommend that Council:

1. Receives the 30 June 2017 Financial Statements and auditor's report, and the auditor's 30 June 2017 Management Report.
2. Direct the CEO to have a copy of the shire's 30 June 2018 audited Annual Financial Statements and Mr Timothy Partridge's (Partner, AMD Chartered Accountants) 30 June 2018 Management Report forwarded to the Minister, and to also publish the statements on the shire website.

3.2 Regulation 17 of the Audit Regulations – Review Certain Systems
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Location:	Shire Boyup Brook
Applicant:	N/A
File:	FM 60 Regulation 17
Disclosure of Officer Interest:	None
Date:	09 December 2018
Author:	Stephen Carstairs (Acting CEO)
Authorising Officer:	Stephen Carstairs (Acting CEO)
Attachments:	Yes: AMD Chartered Accountant's Regulation 17 Review – December 2017

SUMMARY

For the Audit and Finance Committee to review AMD's Regulation 17 Review (i.e. the Acting CEO's Regulation 17 Review) and in turn report to Council the results of that report, and give a copy of the report to Council.

BACKGROUND

An effective system of internal controls provides a level of assurance that financial information is reliable and the local government is meeting compliance with applicable regulations and internal procedures. Achieving regulatory compliance should be viewed as the fundamental goal of an effective internal control system with further enhancement being ongoing as part of an overall organisational risk management process. Developing the appropriate internal controls to minimise the risks, fraud or error to an acceptable level is achieved through a sound understanding of both the legislative framework and risk management practices.

The custodial role played by a local government in managing public assets brings with it a high expectation of public accountability and transparency. Ensuring this high level of accountability and transparency requires the maintenance of a compliance culture and promotion of a sound internal control environment developed within a risk management framework. A key element of risk management and internal control is the communication of risks to both internal and external stakeholders.

Accountability and transparency within organisations is heavily influenced by a 'top down' approach. The actions of the CEO in requiring compliance with the legislative framework and internal policies and procedures are crucial to maintaining accountability and transparency.

There are three main types of accountability in the local government environment namely:

1. Public accountability - the mechanisms for assuring stakeholders of the local government behave responsibly.
2. Legal and corporate accountability - covering the obligations of the local government to comply with various legal frameworks.
3. Community accountability - ensuring the council and executive perform functions in line with the wishes and expectations of the local community.

COMMENT

Risk Management

The coordination of activities to direct and control an organisation with regard to risk is known as risk management. When local governments set objectives under their budget, for example, they are exposed to risks or ‘uncertainties’ which need to be managed in order to meet the objectives set out in their budget or plan.

The International Risk Management Standard *AS/NZS ISO 31000 Risk Management-Principles and guidelines* defines risk as follows:

Risk as the “Effect of uncertainty on objectives”

Within this definition, effect is any deviation from the expected either positive and/or negative, and while risk might be in the form of “hazards”, it relates more to the uncertainty in achieving an objective.

AMD recognised seven (7) Risk management matters for the administration to address as follows:

Risk management		
	Risk Management Framework	
2.2.1	Currently no organisational-wide risk register in place which identifies risks, assesses the impact of the risks and controls to mitigate risk.	Significant Due 28/06/2019
	Business Continuity Plan	
2.2.2	Current Business Continuity Plan dated 15 June 2009 and states “Draft” and no dedicated IT Disaster Recovery Plan in place. Neither plan(s) have been tested for effectiveness.	Moderate Due 28/06/2019
	Emergency Risk Management	
2.2.3	The current Local Recovery Plan was last reviewed January 2010 and has not been tested for effectiveness.	Moderate Due 28/06/2019
	Tenders and Procurement	
2.2.4	Suggestions for further enhancement in respect to risk management relating to tendering process.	Moderate Due 28/01/2019
	Lease Management	
2.2.5	No formal procedure in place to monitors lessee compliance with terms of the Council leased properties.	Minor Due 28/02/2019
	Risk Management Policies and Procedures	
2.2.6	We noted that the Shire does not currently have a litigation / claims policy, social media policy and whistle-blower / public interest disclosure policy in place.	Minor Due 26/04/2019
	Risk Management Plan	
2.2.7	Suggestions for further enhancement of the Risk Management Plan template and associated	Minor Due 26/04/2019

practices used to manage project risks.

and the administration has proposed the due dates for addressing the shortfalls.

Internal Control

Internal control environments may be viewed as five interrelated elements which impact on the Financial Reporting objectives of the local government. These five elements comprise:

- Control environment, which is the attitude, awareness and actions of council and staff towards internal controls and good governance;
- Risk assessment, since the purpose of internal control is to mitigate business risks including error and fraud;
- Information systems, which usually combine manual operations and computerised activity, and these systems should provide the appropriate records for maintaining accountability;
- Control activities, include the day to day operational policies and procedures which help to ensure management directives are carried out; and
- Monitoring controls, is the ongoing assessment of the design and operating effectiveness of controls along with any corrective actions.

AMD recognised 3 Internal Controls management matters for the administration to address as follows:

Internal controls		
3.2.1	Contract Management Currently no contract management framework in place (outside of the Purchasing Policy).	Moderate Due 26/04/2019
3.2.2	ATO Reporting Requirements The Shire was late lodging a sample of BAS returns and the March 2017 return with the ATO.	Moderate Due 28/12/2018
3.2.3	Grant Funding Plan Currently no grant funding plan in place which sets out the Shire's plan in managing funds.	Minor Due 28/02/2019

and the administration has proposed the due dates for addressing the shortfalls.

Legislative Compliance

AMD recognised 6 Internal Controls management matters for the administration to address as follows:

Legislative compliance		
4.2.1	Overarching Compliance Timeline Currently the Shire does not have a documented legislative compliance timeline in place.	Moderate Due 28/03/2019
4.2.2	Integrated Strategy Planning Key integrated strategy planning documents are due for review.	Moderate Due 28/06/2019
4.2.3	Audit & Finance Committee Charter	Moderate

	Currently no detailed Audit & Finance Committee Charter in place.	Due 28/02/2019
	Complaints Handling	Moderate
4.2.4	No Complaints Handling procedure in place and the current register captures complaints made against Councillors only.	Due 26/04/2019
	Conflicts of Interest Register	Minor
4.2.5	Although required to be disclosed there is currently no centralised register which records conflicts of interest disclosures.	Due 26/04/2019
	Internal Audit Function	Minor
4.2.6	Currently no formal internal audit function in place.	Due 28/03/2019

and the administration has proposed the due dates for addressing the shortfalls.

CONSULTATION

AMD Chartered Accountants

STATUTORY OBLIGATIONS

Regulations 16 and 17 of the Local Government (Audit) Regulations 1996 apply as follows:

16. Audit committee, functions of

An audit committee —

- (c) is to review a report given to it by the CEO under regulation 17(3) (the CEO’s report) and is to —*
- (i) report to the council the results of that review; and*
- (ii) give a copy of the CEO’s report to the council.*

17. CEO to review certain systems and procedures

- (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 at least once every 2 calendar years.*
- (3) The CEO is to report to the audit committee the results of that review.*

POLICY IMPLICATIONS

Finance Policy policy F.06 Risk Management has relevance to this report.

BUDGET/FINANCIAL IMPLICATIONS

Nil.

STRATEGIC IMPLICATIONS

Nil.

SUSTAINABILITY IMPLICATIONS

Nil.

VOTING REQUIREMENTS

Simple majority

OFFICER RECOMMENDATION

That the Audit and Finance Committee:

1. Report to Council the results of the December 2017 Regulation 17 Review as follows:

Ref	Issue	Risk Rating
Risk management		
	Risk Management Framework	
2.2.1	Currently no organisational-wide risk register in place which identifies risks, assesses the impact of the risks and controls to mitigate risk.	Significant
	Business Continuity Plan	
2.2.2	Current Business Continuity Plan dated 15 June 2009 and states "Draft" and no dedicated IT Disaster Recovery Plan in place. Neither plan(s) have been tested for effectiveness.	Moderate
	Emergency Risk Management	
2.2.3	The current Local Recovery Plan was last reviewed January 2010 and has not been tested for effectiveness.	Moderate
	Tenders and Procurement	
2.2.4	Suggestions for further enhancement in respect to risk management relating to tendering process.	Moderate
	Lease Management	
2.2.5	No formal procedure in place to monitor lessee compliance with terms of the Council leased properties.	Minor
	Risk Management Policies and Procedures	
2.2.6	We noted that the Shire does not currently have a litigation / claims policy, social media policy and whistle-blower / public interest disclosure policy in place.	Minor
	Risk Management Plan	
2.2.7	Suggestions for further enhancement of the Risk Management Plan template and associated practices used to manage project risks.	Minor
Internal controls		
	Contract Management	
3.2.1	Currently no contract management framework in place (outside of the Purchasing Policy).	Moderate
	ATO Reporting Requirements	
3.2.2	The Shire was late lodging a sample of BAS returns and the March 2017 return with the ATO.	Moderate
	Grant Funding Plan	
3.2.3	Currently no grant funding plan in place which sets out the Shire's plan in managing funds.	Minor
Legislative compliance		
	Overarching Compliance Timeline	
4.2.1	Currently the Shire does not have a documented legislative compliance timeline in place.	Moderate
	Integrated Strategy Planning	
4.2.2	Key integrated strategy planning documents are due for review.	Moderate
	Audit & Finance Committee Charter	
4.2.3	Currently no detailed Audit & Finance Committee Charter in place.	Moderate
	Complaints Handling	
4.2.4	No Complaints Handling procedure in place and the current register captures complaints made against Councillors only.	Moderate
	Conflicts of Interest Register	
4.2.5	Although required to be disclosed there is currently no centralised register which records conflicts of interest disclosures.	Minor

Ref	Issue	Risk Rating
4.2.6	<p>Internal Audit Function Currently no formal internal audit function in place.</p>	Minor

2. Give a copy of the CEO's (AMD Chartered Accountant's December 2017 Regulation 17 Review) report to Council, as attached.

4 CLOSURE OF MEETING

There being no further business the Presiding Member thanked all for their attendance and declared the meeting closed at ____pm.