



Shire of  
**Katanning**  
Heart of the Great Southern

**MINUTES OF AN  
AUDIT AND RISK COMMITTEE MEETING**

Minutes of the Shire of Katanning Audit & Risk Committee  
held on Tuesday 25 June 2019 at the  
Shire of Katanning Council Chambers, commencing at 3pm .

**1. DECLARATION OF OPENING**

The meeting was declared open at 3.00 pm.

**2. RECORD OF ATTENDANCE**

PRESENT

Members:

Cr Liz Guidera -President  
Cr John Goodheart - Deputy President  
Cr Owen Boxall  
Cr Kristy D'Aprile  
Cr Ernie Menghini

Council Officers:

Julian Murphy, Chief Executive Officer  
Lisa Hannagan, Executive Manager Finance & Administration  
Libby French, Manager Finance

Guests:

Apologies:

Cr Serena Sandwell  
Cr Danny McGrath  
Cr Martin van Koldenhoven  
Libby French

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**3. DISCLOSURE OF FINANCIAL/IMPARTIALITY INTERESTS****4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING****4.1 Audit and Risk Committee Meeting –Tuesday 12 March 2019**  
(SEE ATTACHED MINUTES)**MOVED: CR JOHN GOODHEART      SECONDED: CR ERNIE MENGHINI****ARC4/19      That the minutes of the Audit & Risk Committee Meeting held Tuesday 12 March 2019  
on be confirmed as a true record of proceedings.****Voting Requirement: Simple Majority**

CARRIED 5/0

**5. REPORTS****5.1 Interim Audit Findings Report 2019**

**File Ref:** FM.AU  
**Reporting Officer:** Lisa Hannagan, Executive Manager Finance & Administration  
**Date Report Prepared:** 16 June 2019

**Issue:**

At the conclusion of the Interim Audit conducted 1-3 April 2019 the Shire's Auditors provided to staff an Interim Audit Findings Report.

**Body/Background:**

The 2019 Interim Audit was the first financial audit conducted under the management of the Office of the Auditor General. Five (5) audit staff from Moore Stephens conducted the Shire of Katanning Interim Audit, on site, on behalf of the OAG in April 2019.

The conduct of the Audit was without issue with the Shire staff being well prepared and all requested documentation uploaded to the information portal well ahead of schedule.

6 issues rated between moderate and significant were originally noted in the Interim Audit Findings Report.

**Officer's Comment:**

The original Interim Audit Findings report contained 6 issues – with 4 being noted as significant and 2 being noted as moderate.

Subsequent to the Shire responses to our Auditor on the Interim Audit Findings, the Finance Manager had discussions with the Office of the Auditor General and two of the significant findings (3. Interest on Trust Funds and 4. Capitalisation of Fixed Assets) have now been withdrawn by the Office of the Auditor General as non-issues.

The Interim Audit Findings Report is attached to this Agenda and contains the Officer comment/responses to address matters raised.

**Statutory Environment:**

Local Government (Audit) Regulations 1996

**Policy Implications:**

Nil.

**Financial Implications:**

Nil.

**Risk Implications:**

This item has been evaluated against the Shire of Katanning's Risk Assessment and Acceptance Criteria. The perceived level of risk is considered to be "Low" risk and can be managed by routine procedures and with current resources.

**Strategic Implications:**

Shire of Katanning Strategic Community Plan 2017 – 2027

PRIORITY	LEADERSHIP	
ASPIRATION	L2	A collaborative, progressive and resilient local government which is sustainably resourced.
OBJECTIVE	L2.1	Optimise use of shire resources – improve organisational systems.

**Officer's Recommendation/Council Motion:**

**MOVED: CR JOHN GOODHEART      SECONDED: CR KRISTY D'APRILE**

**ARC5/19      That the Audit Committee recommends to Council that it notes the Interim Audit Findings Report and remediation actions taken by Officers to address those items.**

**Voting Requirement:** Simple Majority

CARRIED 5/0

## 5.2 Purchasing Policy – Compliance Monitoring

**File Ref:** FM.AU  
**Reporting Officer:** Lisa Hannagan, Executive Manager Finance & Administration  
**Date Report Prepared:** 16 June 2019

### **Issue:**

The Audit Report for the financial year 1 July 2017 to 30 June 2018 noted a high level of non-compliance in relation to the Shire's Purchasing Policy.

### **Body/Background:**

Compliance to Council Policies is mandatory for all employees. A limited number of employees have been given authority to purchase on behalf of the Shire and they are provided initial training on the correct processes for purchasing and a copy of the Purchasing Policy.

Shire creditors are paid weekly, and all payments are reviewed by either the Executive Manager of Finance & Administration or the Manager of Finance.

Since the audit report, a record is being kept of:

1. Number of creditors being paid;
2. Number of invoices being paid (because there can be multiple invoices being paid to a creditor); and
3. Number of failures in compliance, with the compliance issues being:
  - a. Purchase Order raised after Invoice received;
  - b. Authority/Signatures missing; and
  - c. Appropriate documentation for level of spending e.g. 3 written quotes for over \$5,000 etc.

### **Officer's Comment:**

The graph below shows the results of the continuing review.

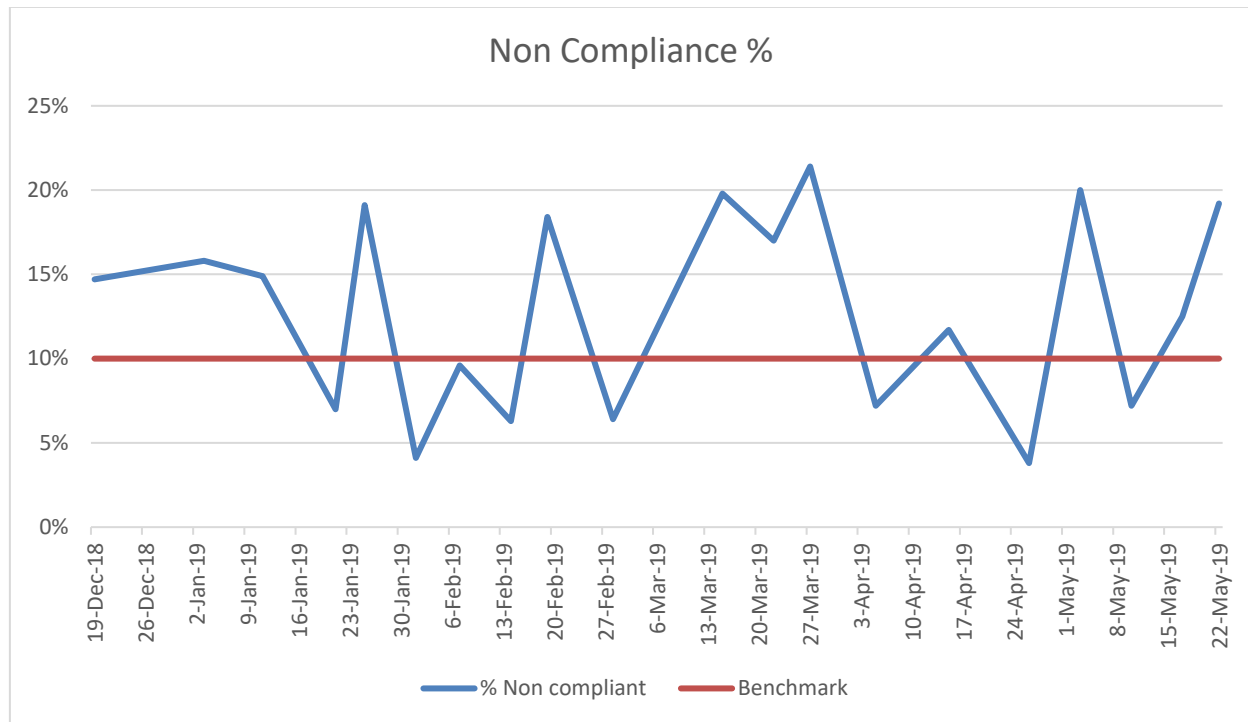
The Audit Report (17/18 financial year) noted a 50% non-compliance rate with the sample the Auditors reviewed. At the time, Finance Officers were concerned at the very small sample the auditors used.

While our testing has not demonstrated anywhere near the level of non-compliance as reported by the Auditors, it does demonstrate an unacceptable level of non-compliance which needs to be addressed.

To commence the strategy to improve this result, a benchmark of 10% has been used in the graph. So, the goal, in the first instance, is to see a consistent non-compliance level of less than 10%.

The CEO can review the authority of officers who do not demonstrate compliance and will remove their authority, if deemed necessary.

The updated graph shows a continuing trend of non-compliance that needs to be addressed.



**Statutory Environment:**

- Local Government Act 1995
- Local Government (Audit) Regulations 1996
- Local Government (Financial Management) Regulations 1996

**Policy Implications:**

Nil.

**Financial Implications:**

Nil.

**Risk Implications:**

Risk in local government procurement is generally low due to a very limited number of staff being authorised to conduct transactions and limits set for those who have been authorised. Routine procedures are considered sufficient to manage risks, with refresher training now being undertaken to consolidate initial training.

**Strategic Implications:**

Shire of Katanning Strategic Community Plan 2017 – 2027

PRIORITY	LEADERSHIP	
ASPIRATION	L2	A collaborative, progressive and resilient local government which is sustainably resourced.
OBJECTIVE	L2.1	Optimise use of shire resources – improve organisational systems.

**Officer's Recommendation/Council Motion:****MOVED: CR ERNIE MENGHINI    SECONDED: CR OWEN BOXALL****ARC6/19      That the Audit Committee notes the monitoring of compliance in relation to Purchasing.****Voting Requirement: Simple Majority****CARRIED 5/0**



### 5.3 Office of the Auditor General – Narrow Scope Audit (Approaches to Fraud Prevention) 2019

**File Ref:** FM.AU  
**Reporting Officer:** Lisa Hannagan, Executive Manager Finance & Administration  
**Date Report Prepared:** 16 June 2019

**Issue:**

The Shire was advised (28 February 2019) that the Office of the Auditor General intended to conduct a narrow scope performance audit of fraud prevention approaches in local government in Katanning in March 2019.

Two auditors from the Auditor General's office conducted a site visit at the Shire of Katanning's offices on 27-28 March 2019.

**Body/Background:**

The *Local Government Amendment (Auditing) Act 2017* makes the Auditor General responsible for local government financial and performance audits.

Performance audits focus on the economy, efficiency and effectiveness of activities, services and programs.

These audits can identify improvement opportunities for audited entities, that may also be of relevance across the broader local and state government sectors.

A final report, by the Auditor General will be tabled in Parliament late in 2019.

In this instance, the following local governments participated in the narrow scope audit:

- Shire of Katanning
- Shire of Serpentine-Jarrahdale
- City of Nedlands
- City of Vincent
- Shire of East Pilbara

**Officer's Comment:**

Information on what to expect in the narrow scope audit was provided to this Officer prior to the audit. Apart from this Officer, the CEO and HR Co-ordinator participated in extended interviews with the Auditors and then provided information to support discussions and demonstrate our fraud prevention strategies.

Attached to this agenda item is a diagram that demonstrates how we currently address fraud prevention.

It is worth noting that local governments primarily respond to Acts and Regulations and this audit compared our activities (in relation to Fraud Prevention) with Australian Standards.

While Australian Standards are an acceptable measure for the private sector, attempting to align them with Acts and Regulations will add an interesting dimension in the local and state government sectors.

While the Shire of Katanning is yet to receive any formal advice from the Auditor General, informal contact was made on 13 June 2019 to advise of high-level findings in respect to our audit and provide this Officer with an opportunity to hear some of the findings so far.

In general terms, the high-level findings provided no surprises in the matters raised.

For example:

- The Council's Code of Conduct was scored highly (the inclusion of case studies) and conflicts of interest were considered well managed from a Councillor/Senior officer perspective but found to be lacking for general staff.
- From a "Planning" perspective, the OAG does not consider the Council has a co-ordinated approach to fraud prevention.
- In relation to new suppliers, the OAG suggests we should not just check ASIC for the ABN, but also "google" to see what might be out there and research the suppliers past history.
- In relation to staff, the OAG believes we should be doing more to screen applicants eg. a copy of educational qualifications is not sufficient, we should be calling the educational institutes and checking.
- In relation to Fraud Detection the OAG notes we do not currently have any staff who have trained as Fraud Investigators and we don't currently have a mechanism to accept anonymous reports of suspected fraud.

NB. Cert IV in Government Investigations, approx. 450 hours of study, around \$2,000 per person.

It is hoped that formal advice will be received prior to publishing of this agenda.

**Statutory Environment:**

*Local Government Amendment (Auditing) Act 2017*

**Policy Implications:**

Council may consider addressing any issues raised with a Policy.

**Risk Implications:**

This item has been evaluated against the Shire of Katanning's Risk Assessment and Acceptance Criteria. The perceived level of risk is considered to be "Low" risk and can be managed by routine procedures and with current resources.

**Financial Implications:**

There was no cost to Council incurred due to the conduct of this audit. There are potential costs, as yet undetermined, in relation to staff levels and training, subject to the results of this audit and how Council may wish to address matters raised.

**Strategic Implications:**

Shire of Katanning Strategic Community Plan 2017 – 2027

PRIORITY	LEADERSHIP	
ASPIRATION	L2	A collaborative, progressive and resilient local government which is sustainably resourced.
OBJECTIVE	L2.1	Optimise use of shire resources – improve organisational systems.

**Officer's Recommendation/Council Motion:**

**MOVED: CR KRISTY D'APRILE SECONDED: CR OWEN BOXALL**

**ARC7/19 That the Audit and Risk Committee notes the Officer Report on the emerging findings of narrow scope audit of the Shire of Katanning approaches to fraud prevention conducted by the Office of the Auditor General.**

**Voting Requirement:** Simple Majority

CARRIED 5/0

**6. CLOSURE OF MEETING**

The Presiding Member declared the meeting closed at 3.40pm.