



Shire of
Katanning
Heart of the Great Southern

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

Minutes of the Shire of Katanning Audit & Risk Committee
held on Tuesday 23 March 2021 at the
Shire of Katanning Council Chambers.

PRESIDING MEMBER _____

DATE SIGNED _____



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1. DECLARATION OF OPENING

The Chairperson declared the meeting open at 1:01pm.

2. RECORD OF ATTENDANCE

PRESENT

Members:

Cr S Sandwell - Chairperson
 Cr J Goodheart – Deputy President
 Cr E Menghini
 Cr O Boxall (Proxy)

Council Officers:

Julian Murphy, Chief Executive Officer
 Denise Gobbart, Executive Manager Finance & Administration
 Taryn Human, Governance Executive Officer

Observer:

Cr Liz Guidera

Guests:

Apologies:

Cr K D'Aprile
 Cr M van Koldenhoven (Proxy)

3. DISCLOSURE OF FINANCIAL/IMPARTIALITY INTERESTS**4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING****4.1 Audit and Risk Committee Meeting – Tuesday 8 September 2020**
(SEE ATTACHED MINUTES)

MOVED: CR JOHN GOODHEART

SECONDED: CR OWEN BOXALL

ARC01/21 That the minutes of the Audit & Risk Committee Meeting held on Tuesday 8 September 2020 be confirmed as a true record of proceedings.

Voting Requirement: Simple Majority

CARRIED: 4/0

5. REPORTS**5.1 Meeting with the Shire of Katanning Auditors**

File Ref: FM.AU.2

Reporting Officer: Denise Gobbart, Executive Manager Finance & Administration

Date Report Prepared: 16 March 2021

Issue:

For the Audit & Risk Committee to recommend that Council notes the outcomes of the electronic meeting with the Council's Auditors, Nayna Raniga – Director Financial Audit Office of the Auditor General (OAG), Wen-Shien Chai – Partner Moore Australia (WA) and Hayley Platt – Audit Supervisor Moore Australia (WA).

Body/Background:

On appointment of the Audit & Risk Committee, the terms of reference provided the following:

f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcomes of those discussions.

The *Local Government Act 1995* does not require the Audit Committee to meet with the Auditor; rather the Local Government is to meet with the Auditor at least once each year.

It should be noted that there would be an additional fee involved for the auditor to visit the Shire of Katanning in person due to travel and time.

An electronic meeting was held at 1pm Thursday 4 March 2021 with Council's Auditors and the Audit and Risk Committee members in attendance. This meeting was intended to meet the requirements of Act.

Officer's Comment:

The comments below are the notes provided by Nayna Rangia – Director Financial Audit OAG to the Chief Executive Officer after the Audit Exit meeting had finished.

Key discussions points were:

- The timing of the audit and expected clearance and issuing of the audit opinion
Once we have received signed financial statements and management representation letters, we will aim to have the opinion issued within 5 working days. Council was keen to have this within the week. There are minor changes as of yesterday and we are hoping to have these cleared and signed by Monday 8 March.
- Adverse Trend – operating surplus ration
Council was concerned high audit fees were impacting on the ability of the Shire to reverse this trend and were unsure what if any actions were available to the Shire. We explained the most significant factor was the inability for the Shire to include Non-operating grant revenue (which is a significant revenue stream for the Shire and other regional LG's) into this calculation. It is a known issue, and the sector has queried the meaningfulness of this ration – particularly regional LG's. There was a discussion around the working group and lobbying the Department of Local Government. It was agreed to park this issue with further updates to be investigated internally on where the working group was at and future possible amendments to the relevant regulation.
- Discussed the Shire's Landfill provision and the need to raise a provision for contaminated sites where there are any remediation/ rehabilitation obligations residing with the Shire.
This requirement is driven by the accounting standards. We have raised the need to obtain a formal report or similar from the expert engaged to document the assumptions and inputs used in the calculation as part of our management letter. This will assist the Shire in having a good understanding of the detail behind the provision and prevent any additional cost in reviewing this provision – particularly if an alternate expert is engaged. It will be clear as to the inputs, assumptions and particular remediation, rehabilitation requirements that have been factored into this provision, so this work is not duplicated, and any movements are able to be tracked. These calculations are complex, and the adequacy of the provision should be reviewed annually.
- Council raised a concern why there was a need to engage experts and if this was required for all contaminated sites.
If the skills required in assessing the complex inputs are not available in house then external skills are required to assist you – similar to asset valuations. As a note the fair value of the rehabilitation asset should be considered for the year ahead – we understand that the Shire has done further works to the landfill site and that the useful life has been extended beyond the current license.
- Revised accounting standards
We suggested that ongoing need to ensure revenue streams are assessed and comply with revenue recognition requirements. Particularly around grant revenue. If there are specific performance obligations embedded within grant agreement that are measurable – revenue should be recognised as and when those obligations are met. We referenced to a

recent OAG report around grant administration performed across the State sector – but equally relevant to the LG sector for the Shire to consider.

- Fair Value of Assets
We advised that when fair value assessments are performed to ensure valuer's when assessing condition assessment do conduct physical/ site inspections. LG's have encountered issues where condition assessments are restricted to desktop valuations.

- Appointment of Contract Audit Firm for 30 June 2021
We are in the process of evaluating and recommending contract audit firms. We hope to inform you as soon as possible who the successful contract audit firm will be and be in touch to organise an audit entrance meeting for the 30 June 2021.

Statutory Environment:

Local Government Act 1995

Section 7.12A Duties of Local Government with Respect of 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.

Policy Implications:

There are no policy implications for this report.

Financial Implications:

There are no financial implications for this report.

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	L1	An inclusive community, recognised as a great place to live and visit.
OBJECTIVE	L1.1	Operate with high ethical and professional standards, being open, transparent and responsive to the community and other stakeholders.

Voting Requirement: Simple Majority**Officer's Recommendation/Council Motion:****MOVED: CR ERNIE MENGHINI****SECONDED: CR OWEN BOXALL**

ARC02/21 That the Audit & Risk Committee recommends that Council notes the outcomes of the meeting between the Audit and Risk Committee members and the Auditor held by electronic means on 4 March 2021 and determines that the meeting satisfies the requirement of Section 7.12A(2) of the Local Government Act 1995.

CARRIED: 4/0

5.2 Shire of Katanning Annual Report 2019/20 (ATTACHMENTS)

File Ref: FM.AU.2
Reporting Officer: Denise Gobbart, Executive Manager Finance & Administration
Date Report Prepared: 16 March 2021

Issue:

For the Audit & Risk Committee to recommend that Council adopts the Annual Report for the year ended 30 June 2020.

Body/Background:

The Annual Financial Report for the year ended 30 June 2020 was presented to the Shire of Katanning's auditor prior to 30 September 2020. The auditors undertook the annual site visit between the 15 and 18 September 2020. The Audit Exit meeting was held Thursday 4 March 2021 with the audit signed off Monday 8 March 2021.

Section 5.54 'Acceptance of Annual Reports' by the *Local Government Act 1995* requires an Annual Report to be accepted by Council by 31 December in each year unless the Auditor's Report is not available in time. The *Local Government Act 1995* Section 5.42(2) requires that if the Annual Report is not accepted by the Local Government by 31 December then it must be presented within two (2) months of the Auditors Report becoming available.

Officer's Comment:

The completion of the audit and the annual financial report confirms the financial data for the 2019/20 year including the carried forward position at the 30 June 2020.

This was the second year the shire was audited by the Office of Auditor General. The process was arduous and extensive. This was compounded by the changes to the *Local Government (Financial Management) Regulations 1996* proclaimed on 6 November 2020 and applied from 1 July 2019.

Regulation 16 was deleted:

- To legitimise the treatment relating to land under roads and other Crown / vested land under control.
- It removed the need to treat certain vested land assets, golf courses, differently. The vested land asset for the Shire of Katanning was the Forrest Hills Golf Course land.

Regulation 17A was amended to:

- Remove the confusion around assets and non-financial assets.
- Define Right-of-use assets and vested improvements.
- Allow Right-of-use assets to be treated as concessionary leases at zero cost on accordance with AASB16. It corrects inconsistency with AASB1051.
- Plant and equipment type assets and other right of use type assets are to revert to measurement at cost.
- It simplifies revaluation period to a maximum of five years.

During the current year the following new standards were applied, AASB15 Revenue from Contracts with Customers, AASB16 Leases and AASB1058 Income of Not-for-Profit Entities.

The 2019/20 end of year surplus of \$2,511,242 varies to the 2020/21 budget surplus estimate of \$2,475,548. The Surplus varied by \$35,694 due to minor adjustments in the treatment of transaction during the audit.

In the Independent Auditor's Report, the following was noted:

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:
 - a. The Operating Surplus Ratio has been below the DLGSCI standard and OAG threshold for the past three years.**
- (ii) The following material matters indicating non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:
 - a. Bank reconciliation for the period 30 June 2020 for the Municipal, Reserve and Trust bank accounts were not prepared and reviewed in a timely manner. In addition, the Municipal bank included uncleared reconciling items in excess of 6 months.*
 - b. We noted 2 of the purchase orders we sampled were dated after the dates of the corresponding supplier invoices. This practice increases the risk of unauthorized purchases occurring.**

Statutory Environment:

Local Government Act 1995

Section 5.53 Annual Reports

(1) The local government is to prepare an annual report for each financial year.

(2) The annual report is to contain —

- (a) a report from the mayor or president; and
- (b) a report from the CEO; and
- [(c), (d) deleted]
- (e) an overview of the plan for the future of the district made in accordance with section 5.56, including major initiatives that are proposed to commence or to continue in the next financial year; and
- (f) the financial report for the financial year; and
- (g) such information as may be prescribed in relation to the payments made to employees; and
- (h) the auditor's report prepared under section 7.9(1) or 7.12AD(1) for the financial year; and
- (ha) a matter on which a report must be made under section 29(2) of the Disability Services Act 1993; and
- (hb) details of entries made under section 5.121 during the financial year in the register of complaints, including —
 - (i) the number of complaints recorded in the register of complaints; and
 - (ii) how the recorded complaints were dealt with; and
 - (iii) any other details that the regulations may require; and
- (i) such other information as may be prescribed

Section 5.54 Acceptance of Annual Reports

(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.

Section 5.55 Notice of Annual Reports

The CEO is to give local public notice of the availability of the annual report as soon as practicable after the report has been accepted by the local government.

Section 5.55A Publication of Annual Reports

The CEO is to publish the annual report on the local government's official website within 14 days after the report has been accepted by the local government.

Policy Implications:

There are no policy implications for this report.

Financial Implications:

It is estimated that advertising costs of the availability of the Annual Report and the Annual Electors General meeting will be \$600 which will be charged to account 102140 Advertising & Promotion.

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	L1	An inclusive community, recognised as a great place to live and visit.
OBJECTIVE	L1.1	Operate with high ethical and professional standards, being open, transparent and responsive to the community and other stakeholders.

Voting Requirement: Absolute Majority

Officer's Recommendation/Council Motion:

MOVED: CR JOHN GOODHEART

SECONDED: CR OWEN BOXALL

ARC03/19 That the Audit & Risk Committee recommends that Council:

- 1. In accordance with Sections 5.53 and 5.54 of the Local Government Act 1995, accepts the Annual Report for the 2019/20 financial year; and**
- 2. In accordance with Section 5.55 of the Local Government Act 1995 authorise the Chief Executive Officer to give public notice of the availability of the Annual Report from Wednesday 7 April 2021.**

CARRIED: 4/0

5.3 2019/20 Annual Electors General Meeting

File Ref: FM.AU.2
Reporting Officer: Denise Gobbart, Executive Manager Finance & Administration
Date Report Prepared: 16 March 2021

Issue:

For the Audit & Risk Committee to recommend that Council endorse the date for the Annual General Meeting set by the Chief Executive Officer.

Body/Background:

The Annual Electors General Meeting is to be held within 56 days of the local government accepting the Annual Report.

A requirement of setting the date is that 14 days local public notice is required for advertising the meeting. Providing the Annual Report is endorsed at the Special Council Meeting proposed on 30 March 2021, it is recommended that this be held after the April Council Meeting which is scheduled on 27 April 2021.

Officer's Comment:

Council is requested to endorse the date proposed, in accordance with the *Local Government Act*, for the Annual Electors Meeting.

Statutory Environment:

Local Government Act 1995

5.27 Electors' general meetings

- (1) A general meeting of the electors of a district is to be held once every financial year.
- (2) A general meeting is to be held on a day selected by the local government but not more than 56 days after the local government accepts the annual report for the previous financial year.
- (3) The matters to be discussed at general electors' meetings are to be those prescribed.

Local Government (Administration) Regulation 1996

15 Matters to be discussed at general meeting (Act s. 5.27(3))

For the purposes of section 5.27(3), the matters to be discussed at a general electors' meeting are, firstly, the contents of the annual report for the previous financial year and then any other general business.

Local Government Act 1995

5.29 Convening electors' meetings

- (1) The CEO is to convene an electors' meeting by giving —
 - (a) at least 14 days' local public notice; and
 - (b) each council member at least 14 days' notice, of the date, time, place and purpose of the meeting.
- (2) The local public notice referred to in subsection (1)(a) is to be treated as having commenced at the time the notice is first given and is to continue in the prescribed way until the meeting has been held.

Policy Implications:

There are no policy implications for this report.

Financial Implications:

It is estimated that advertising costs of the availability of the Annual Report and the Annual Electors General meeting will be \$600 which will be charged to account 102140 Advertising & Promotion.

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	L1	An inclusive community, recognised as a great place to live and visit.
OBJECTIVE	L1.1	Operate with high ethical and professional standards, being open, transparent and responsive to the community and other stakeholders.

Voting Requirement: Simple Majority

Officer's Recommendation:

That the Audit & Risk Committee recommends that Council holds the Annual General Meeting of Electors on Tuesday 27 April 2020 at 7.30pm at the Katanning Leisure Centre Pioneer Room.

Council Motion:

MOVED: CR ERNIE MENGHINI

SECONDED: CR OWEN BOXALL

ARC04/21 That the Audit & Risk Committee recommends that Council holds the Annual General Meeting of Electors on Tuesday 27 April 2021 at 7.00pm at the Shire of Katanning Council Chambers.

CARRIED: 4/0

REASON FOR DECISION

The Committee amended that time and location of the proposed Annual General Meeting of Electors to better coordinate with the Ordinary Council Meeting to be held on the same day.

5.4 Compliance Audit Return 2020

File Ref: FM.AU.4
Reporting Officer: Denise Gobbart, Executive Manager Finance & Administration
Date Report Prepared: 16 March 2021

Issue:

For the Audit & Risk Committee to recommend that Council adopts the Compliance Audit Return (CAR) for the year ending 31 December 2020.

Body/Background:

A Local Government is required to carry out a Compliance Audit for the period 1 January to 31 December each year. The compliance review process provides the CEO and Council with an additional element of accountability through a rigorous check on internal management systems, procedures and record keeping.

The Compliance Audit Return is to be completed with a certified copy signed by the CEO and President and submitted to the Director General, Department of Local Government and Regional Development by 31 March.

The Compliance Audit Return must:

1. initially be presented to the Audit Committee,
2. be presented to Council at the Ordinary Council meeting,
3. be adopted by the Council; and
4. be recorded in the minutes of the meeting at which it is adopted.

The CAR process provides both the CEO and the Council with an additional element of accountability through a check on internal management systems, procedures and record keeping and demonstrates the Shire's emphasis on improving good governance, compliance and best practice.

Officer's Comment:

The CAR was completed internally by the Executive Manager Corporate & Community and reviewed by the Chief Executive Officer.

This year there were eleven (11) categories with a total of one hundred and two (102) questions.

1. Commercial Enterprises (5 questions) – No matters raised.
2. Delegation of Power/Duty (13 questions) – s5.44(2) two employees did not have delegations in writing.
3. Disclosure of Interest (21 questions) – s5.75 and s5.76 an employee with delegation under Division 4 had not completed a Primary or Annual return. S5.89A(6) details were not removed from the gift register when a person ceased to be a person required to make a disclosure.
4. Disposal of Property (2 questions) – No matters raised.
5. Elections (3 questions) – Electoral gift register had not been published on the website.
6. Finance (11 questions) – No matters raised.
7. Integrated Planning and Reporting (3 questions) – Corporate Business Plan has not been reviewed annually.
8. Local Government Employees (6 questions) – no matters raised.
9. Official Conduct (4 questions) – no matters raised.

10. Optional Questions (10 questions) – FM Reg 5 the Financial Management Review had not been reviewed within three (3) years. S5.96A Local laws and committee meeting documents not published on the website.
11. Tenders for Providing Goods and Services (24 questions) – F&G Reg 11A(1) evidence is not available to show we are meeting our record keeping requirements. F&G Regs 15, 16 & 17 adverts and tender register not on website. F&G Reg 24E & 24F Regional Price Preference was advertised, but not presented back to Council for adoption.

There were twelve (12) areas of non-compliance identified in the CAR. They have identified areas where improved record keeping, and awareness of legislative changes is required. Procedures for staff will be enhanced to enable improved awareness to meet our compliance needs.

Statutory Environment:

Local Government Act 1995

Local Government (Administration) Regulations 1996

Local Government (Audit) Regulations 1996

Local Government (Elections) Regulations 1997

Local Government (Functions and General) Regulations 1996

Local Government (Audit) Regulation 1996

13. Prescribed statutory requirements for which compliance audit needed (Act s7.13(1)(i))

14. Compliance audits by local governments

- (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.
- (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.
- (3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.
- (3) After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be —
 - (a) presented to the council at a meeting of the council; and
 - (b) adopted by the council; and
 - (c) recorded in the minutes of the meeting at which it is adopted.

15. Certified copy of compliance audit return and other documents to be given to Departmental CEO

- (1) After the compliance audit return has been presented to the council in accordance with regulation 14(3) a certified copy of the return together with —
 - (a) a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and
 - (b) any additional information explaining or qualifying the compliance audit, is to be submitted to the Departmental CEO by 31 March next following the period to which the return relates.
- (2) In this regulation — certified in relation to a compliance audit return means signed by —
 - (a) the mayor or president; and
 - (b) the CEO.

Policy Implications:

There are no policy implications for this report.

Financial Implications:

There are no financial implications for this report.

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	L1	An inclusive community, recognised as a great place to live and visit.
OBJECTIVE	L1.1	Operate with high ethical and professional standards, being open, transparent and responsive to the community and other stakeholders.

Voting Requirement: Simple Majority

Officer's Recommendation/Council Motion:

MOVED: CR JOHN GOODHEART

SECONDED: CR ERNIE MENGHINI

- ARC05/21** That the Audit & Risk Committee recommends that Council:
- 1. Adopts the Shire of Katanning Compliance Audit Return for the period 1 January 2020 to 31 December 2020; and**
 - 2. Authorises the Shire President and Chief Executive Officer to endorse the certification contained within the Compliance Audit Return 2020.**

CARRIED: 4/0

6. CLOSURE OF MEETING

The Presiding Member declared the meeting closed at 1:45pm.