

AUDIT COMMITTEE MEETING

AGENDA



For the Audit Committee Meeting to be held on

16 August 2023

Dear Audit Committee Member,

The next Audit Committee Meeting of the Shire of Cranbrook will be held on Wednesday 16 August 2023 at the Frankland River Community Centre commencing at 1pm.

A handwritten signature in black ink that reads 'L Gray'. The signature is fluid and cursive, with the first letter 'L' being particularly large and stylized.

Linda Gray
Chief Executive Officer

DISCLAIMER

This agenda has yet to be dealt with by the Audit Committee. The recommendations shown at the foot of each item have yet to be considered by the Audit Committee and are not to be interpreted as being the position of the Audit Committee. The minutes of the meeting held to discuss this agenda should be read to ascertain the decision of the Audit Committee.

In certain circumstances members of the public are not entitled to inspect material, which in the opinion of the Chief Executive Officer is confidential, and relates to a meeting or a part of a meeting that is likely to be closed to members of the public.

No responsibility whatsoever is implied or accepted by the Shire of Cranbrook for any act, omission, statement or intimation occurring during Council or Committee meetings.

The Shire of Cranbrook disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement of intimation occurring during Council or Committee meetings.

Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council or Committee meeting does so at that person's or legal entity's own risk.

In particular and without derogating in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or intimation of approval made by any member or Officer of the Shire of Cranbrook during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of Cranbrook.

The Shire of Cranbrook advises that anyone who has any application lodged with the Shire of Cranbrook must obtain and should only rely on WRITTEN CONFIRMATION of the outcome of the application and any conditions attaching to the decision made by the Shire of Cranbrook in respect of the application.

The Shire of Cranbrook advises that any plans or documents contained within this agenda may be subject to copyright law provisions (Copyright Act 1968, as amended) and that the express permission of the copyright owner(s) should be sought prior to their reproduction. It should be noted that Copyright owners are entitled to take legal action against any persons who infringe their copyright. A reproduction of material that is protected by copyright may represent a copyright infringement.

Scope of Audit Committee

Regulation 16 of the Local Government (Audit) Regulations 1996 define the functions of the audit committee as follows:

“An audit committee –

- (a) is to provide guidance and assistance to the local government –
 - (i) as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and
 - (ii) as to the development of a process to be used to select and appoint a person to be an auditor; and
- (b) may provide guidance and assistance to the local government as to –
 - (i) matters to be audited;
 - (ii) the scope of audits;
 - (iii) its functions under Part 6 of the Act; and
 - (iv) the carrying out of its functions relating to other audits and other matters related to financial management.”
- (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.”

CONTENTS

1.	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS.....	4
2.	ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE	4
2.1	ATTENDANCE.....	4
2.2	APOLOGIES.....	4
2.3	APPROVED LEAVE OF ABSENCE	4
3.	PUBLIC QUESTION TIME	4
3.1	RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE	4
3.2	PUBLIC QUESTIONS.....	4
4.	CONFIRMATION OF MINUTES OF PREVIOUS MEETING	4
4.1	AUDIT COMMITTEE MEETING – 19 April 2023.....	4
5.	GENERAL BUSINESS	5
5.1	2022-2023 FINANCIAL AUDIT	5
5.2	FINANCIAL MANAGEMENT REVIEW	7
6.	MATTERS BEHIND CLOSED DOORS	11
6.1	REVIEW – POLICY 1.19 CYBER SECURITY	11
7.	CLOSURE OF MEETING	12

AGENDA

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chairperson, Cr Slater will declare the meeting open at _____pm. The Chairperson will alert the meeting to the procedures for emergencies including evacuation, designated exits and muster points.

2. ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

2.1 ATTENDANCE

Chairperson

Cr PW (Peter) Slater

Councillors

Cr PM (Peter) Beech

Cr RW (Robert) Johnson

Cr JA (Jen) Quick

Cr LM (Lee) Casson

Cr P (Perin) Mulcahy

Cr DM (Daisy) Egerton-Warburton

Cr PL (Phil) Horrocks

Cr G (George) Pollard

Chief Executive Officer

Ms LA (Linda) Gray

Manager of Finance & Administration

Mrs DE (Diana) Marsh

Manager of Works

Mr JE (Jeff) Alderton

Executive Officer

Ms JL (Jo) Scott

Members of the Public

2.2 APOLOGIES

2.3 APPROVED LEAVE OF ABSENCE

3. PUBLIC QUESTION TIME

3.1 RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

3.2 PUBLIC QUESTIONS

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

4.1 AUDIT COMMITTEE MEETING – 19 April 2023

That the minutes from the Audit Committee Meeting held on 19 April 2023, be confirmed as a true and correct record.

5. GENERAL BUSINESS

5.1 2022-2023 FINANCIAL AUDIT

RESPONSIBLE OFFICER:	Diana Marsh – Manager of Finance and Administration
REPORT AUTHOR:	Diana Marsh – Manager of Finance and Administration
FILE REFERENCE:	FM9
APPLICANT:	N/A
DATE OF REPORT:	9 August 2023
ATTACHMENTS:	1. Shire of Cranbrook Audit Plan – year ending 30 June 2023 2. Interim Management Letter

Purpose

The purpose of this report is for the Audit and Risk Committee to acknowledge receipt of the Shire of Cranbrook audit plan for the year ending 30 June 2023, and the interim management letter.

Background

Local governments in Western Australia are audited by the Office of the Auditor General (OAG) or a Contract Auditor to the OAG. Lincolns have been engaged by the OAG to undertake the audit work for the 2022-2024 financial year.

Australian Auditing Standard ASA 260: *Communication of Audit Matters with those charged with Governance*, requires auditors to communicate with those responsible for ensuring the entity is achieving its objectives with regard to reliable financial reporting, effective and efficient operations, compliance with laws and regulations, and reporting to interested parties. To meet this requirement, Lincolns and the OAG communicate matters of governance with Council and/or management, as appropriate, starting with an audit entrance meeting at the time of the interim audit where they provide the plan for the audit with the objectives and scope of the audit.

Officer's Comment

The interim audit was conducted during May 2023 by Lincolns, and the findings for that audit are in the attached Interim Management Letter.

Unfortunately, due to the OAG and Lincolns not being available at the same time, the audit entrance meeting could not take place until June 2023. The audit entrance meeting occurred electronically, at short notice on 28 June 2023, attended by Subha Gunalan from the OAG, Chris Martain from Lincolns, Linda Gray Chief Executive Officer and myself as Manager of Finance and Administration. Due to the meeting only focussing on the availability of Lincolns and the OAG, attendance notice was not provided to the Chair of the Audit and Risk Committee, Cr Peter Slater, and an apology and report to him was provided shortly afterwards.

Statutory Environment

Regulation 7 of the Local Government (Audit) Regulations 1996 includes the requirement for an agreement between a local government and an auditor to include audit objectives, scope, and plan for the audit.

Policy Applicable – Implications

There is no Council policy applicable to this report.

Financial Implications

There are no financial implications for this report.

Risk Implications

The risks associated with matters in this report are:

- Misconduct
- Errors, Omissions and Delays
- Failure to fulfil Statutory, Regulatory or Compliance Requirements
- Inadequate Document Management Processes

The **impacts** of the risk are: Non-Compliance, Reputational

The **consequences** of these risks are considered to be: Minor

The **likelihood** is: Possible

Hence the **risk rating** for this report is: Medium

Risk mitigation includes ongoing communication with auditors, council and management staff.

Strategic Community Plan Reference

The 2021-2031 Shire of Cranbrook, Strategic Community Plan states that:

Outcome 16 – High Performing Shire: An accountable and respected Shire, investing in its people and structures.

Deliverable 16.1: A Shire and supporting entities are well-governed with delineated roles and accountabilities.

Consultation

Consultation was not required for this report.

Voting Requirements

Simple Majority

OFFICER'S RECOMMENDATION

That the Audit and Risk Committee recommends that the Council acknowledge receipt of the Shire of Cranbrook Audit Plan for the year ending 30 June 2023, and the interim management letter.

5.2	FINANCIAL MANAGEMENT REVIEW
RESPONSIBLE OFFICER:	Linda Gray – Chief Executive Officer
REPORT AUTHOR:	Linda Gray – Chief Executive Officer
FILE REFERENCE:	FM8
APPLICANT:	N/A
DATE OF REPORT:	10 August 2023
ATTACHMENTS:	1. Financial Management Review Document 2. Report addressing Recommendations

Purpose

The purpose of this report is for the Audit and Risk Committee to consider the Financial Management Review Document prepared by external consultant, Darren Long Consulting.

Background

The Local Government (Financial Management) Regulations 1996 5(2)(c) requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the Local Government regularly. See Statutory Environment section of this agenda item.

The previous Financial Management Review was done by Paul Gilbert FCPA MBA of Macleod Corporation Pty Ltd in 2019, and prior to that they have been undertaken internally. The Executive Management Team decided an external review should be undertaken as this is considered 'best practice'.

Officer's Comment

Two quotations were obtained to complete the Financial Management Review, Paul Gilbert FCPA MBA of Macleod Corporation Pty Ltd and Darren Long of Darren Long Consulting. Darren Long was successful and undertook the Financial Management Review in Cranbrook in May 2023, and forwarded the completed document in June 2023. There was considerable difference between the consultant's report of 2019; as the Macleod Corporation Pty Ltd document was approximately 18 pages whilst the final report received from Darren Long was 114 pages long. Perusal of the Darren Long Consulting report identified that flow charts amended to match recommendations, samples of policies and delegations were included, and the length of the recommendations matched the size of the document including a great deal of duplication.

As a result of the findings, the following improvement recommendations were suggested, these are not compulsory and must fit within our level of staffing and the high rate of part time employees. Some recommendations relate to improvements to our financial reporting (Annuals) and will be implemented. Others are against the improvements we have made regarding reducing printing and advancing to a paperless office (see No. 8 and 13). In most case we can ensure that there are different signatures on accounts payable but often the manager will initiate and receive the goods and then sign off as the authorised officer which is perfectly acceptable. Further comments are in the attached report.

The recommendations are as follows:

- (1) That the relevant information on rate payment incentives be collected so the appropriate disclosure can be made in the 2023/2024 annual budget.
- (2) That the relevant information on rate payment incentives be collected so the appropriate disclosure can be made in the 2022/2023 annual financial report.
- (3) That the relevant information on concessions on fees and charges provided under Delegation 1.90 be collected so the appropriate disclosure can be made in the 2022/2023 annual financial report.
- (4) That the relevant information on waivers of fees and charges provided for under Policy 4.12 be collected so the appropriate disclosure can be made in the 2022/2023 annual financial report.
- (5) That Council pass a separate resolution for the imposition of interest on money (other than rates and service charges) owed to the local government, under Section 6.13(2) of the *Local Government Act* as part of its budget adoption process.
- (6) That the rate of interest imposed on money owing to the Shire (other than rates and service charges) be listed in the Schedule of Fees and Charges.
- (7) That the CEO implement a register of rate exempt properties, with a procedure where periodic reviews are conducted every 2 years.
- (8) That the CEO implement new internal control procedures to ensure a copy of all debtor invoices are printed and filed along with debtor invoice supporting documentation.
- (9) That the CEO implement new internal control procedures for accounts receivable where the finance officer debtors signs and dates the debtor batch transaction listing report.
- (10) That the CEO implement new internal control procedures for accounts receivable to ensure a count of the administration office cash register float is performed each day as part of the End of Day Cash Register reconciliation by two employees. This approach provides for sound internal controls through good cash handling and cash hand-over procedures through verification by two officers.
- (11) That the CEO obtain regular reports from the external IT provider that data backups have been validated and ensure an annual test of a full system restore is performed.
- (12) That the CEO implement new internal control procedures for accounts payable to ensure the ordering officer certifies good/services have been rendered, and a separate officer authorises the supplier invoice for payment. This practice will provide adequate separation of roles.
- (13) That the CEO implement new internal control procedures for accounts payable requiring a copy of the purchase order to be attached to each supplier invoice.

- (14) That the CEO consider implementing new internal control procedures for accounts payable where the purchase order contains a summary table of the quotations obtained to show compliance with the purchasing thresholds in Council's purchasing policy 4.8.
- (15) That the CEO implement new internal control procedures for accounts payable where the finance officer creditors signs and dates the creditor batch transaction listing report.
- (16) That the CEO consider amending Delegation 1.32 to incorporate the positions/employees who are authorised signatories to approve electronic payments or sign cheques from the Municipal or Trust Funds, and the limit applicable to each position (if any).
- (17) That Council place a priority on the review of its informing strategies required under *Local Government (Administration) Regulation 19DA(3)(c)*.
- (18) That the CEO prepare a report for Council to consider what action, if any, needs to be taken to address the weaknesses identified in relation to the Internal Control Evaluation.
- (19) That Council consider the suitability of the model policies provided.

The final comment from the consulting firm was that the review of the Financial Management Systems and Procedures developed by the Shire of Cranbrook indicates that, except for those matters identified in the findings and recommendations section of this report, were appropriate and effective for the particular operations and size of the Shire. In addition, the review has concluded that, except where indicated in this report, the Shire has observed the requirements of the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996*.

Statutory Environment

The Local Government (Financial Management) Regulations 1996 5(2)(c) states that:

"The Chief Executive Officer is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews."

Policy Applicable – Implications

There is no Council policy applicable to this report.

Financial Implications

The cost to have this review conducted by an external consultant was \$8,250.

Risk Implications

The risks associated with matters in this report are:

- Misconduct
- Errors, Omissions and Delays
- Failure to fulfil Statutory, Regulatory or Compliance Requirements
- Inadequate Document Management Processes

The **impacts** of the risk are: Non-Compliance, Reputational

The **consequences** of these risks are considered to be: Minor

The **likelihood** is: Possible

Hence the **risk rating** for this report is: Medium

Risk mitigation includes ongoing communication with the consultant and both administration and management staff.

Strategic Community Plan Reference

The 2021-2031 Shire of Cranbrook, Strategic Community Plan states that:

Outcome 16 – High Performing Shire: An accountable and respected Shire, investing in its people and structures.

Deliverable 16.1: A Shire and supporting entities are well-governed with delineated roles and accountabilities.

Consultation

Consultation was not required for this report.

Voting Requirements

Simple Majority

OFFICER'S RECOMMENDATION

That the Audit Committee recommends to the Council, that the attached Financial Management Review and Report be received in accordance with Financial Management Regulation 5(2)(c).

6. MATTERS BEHIND CLOSED DOORS

*** CONFIDENTIAL ***

6.1 REVIEW – POLICY 1.19 CYBER SECURITY

RESPONSIBLE OFFICER: Linda Gray – Chief Executive Officer
REPORT AUTHOR: Linda Gray – Chief Executive Officer
FILE REFERENCE: AD201
APPLICANT: N/A
DATE OF REPORT: 31 July 2023
ATTACHMENTS: Nil

Statutory Environment

Section 5.23 of the Local Government Act 1995 allows the Council to close all or part of a Council Meeting to members of the public if the meeting or the part of the meeting deals with a range of issues, dealing with any of the following; (a) a matter affecting an employee or employees; (b) the personal affairs of any person; (c) a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting; (d) legal advice obtained, or which may be obtained, by the local government and which relates to a matter to be discussed at the meeting; (e) a matter that if disclosed, would reveal — (i) a trade secret; (ii) information that has a commercial value to a person; or (iii) information about the business, professional, commercial or financial affairs of a person, where the trade secret or information is held by, or is about, a person other than the local government; (f) a matter that if disclosed, could be reasonably expected to — (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety; (g) information which is the subject of a direction given under section 23(1a) of the Parliamentary Commissioner Act 1971; and (h) such other matters as may be prescribed.

As such it is recommended that the meeting be closed to the public in order deal with these items.

A decision to close a meeting or part of a meeting and the reason for the decision are to be recorded in the minutes of the meeting.

Voting Requirements

Simple Majority

OFFICER'S RECOMMENDATION:

That the meeting be closed to members of the public in accordance with section 5.23 (f) a matter that if disclosed, could be reasonably expected to — (ii) endanger the security of the local government's property.

The meeting was closed to the public at ____pm.

Voting Requirements

Absolute Majority

OFFICER'S RECOMMENDATION:

The Audit and Risk Committee recommends that Council adopt the revised Policy 1.19 Cyber Security as per the confidential attachment.

OFFICER'S RECOMMENDATION:

That the meeting be re-opened to members of the public.

7. CLOSURE OF MEETING

There being no further business to discuss the Chairperson, Cr Slater will declare the meeting closed at _____pm.