



NOTICE OF AUDIT AND RISK MANAGEMENT COMMITTEE MEETING

To be held on

Tuesday 15 August 2023

Commencing at 3.00pm

Shire of Donnybrook Balingup Council Chamber, Donnybrook

A handwritten signature in black ink, appearing to read "BGR" followed by a stylized flourish.

Benjamin (Ben) Rose
Chief Executive Officer

8 August 2023

Disclaimer

Please note the items and recommendations in this document are not final and are subject to change or withdrawal.

TABLE OF CONTENTS

1	DECLARATION OF OPENING	3
2	ATTENDANCES.....	3
	2.1 APOLOGIES.....	4
	2.2 APPROVED LEAVE OF ABSENCE.....	4
3	ANNOUNCEMENTS FROM CHAIRPERSON.....	4
4	DECLARATIONS OF INTEREST	4
5	PUBLIC QUESTION TIME	4
	5.1 QUESTIONS TAKEN ON NOTICE.....	4
6	CONFIRMATIONS OF MINUTES	7
	6.1 AUDIT AND RISK MANAGEMENT COMMITTEE MEETING – 30 MAY 2023	7
7	REPORTS OF OFFICERS	8
	7.1 INTERIM AUDIT FOR THE YEAR ENDING 30 JUNE 2023	8
	7.2 AUDIT SURVEY ANALYSIS	14
7	CLOSURES.....	18

SHIRE OF DONNYBROOK BALINGUP
NOTICE OF AUDIT AND RISK MANAGEMENT COMMITTEE

To be held at the Council Chamber
15 August 2023 at 3.00pm

1 DECLARATION OF OPENING

The Chairperson to declare the meeting open and welcome the members of the Committee.

The Chairperson to request that a declaration be read aloud by Commissioner Gail McGowan who has been authorised to attend the meeting via electronic means (Microsoft Teams).

“Pursuant to Section 14CA(5) of the Local Government (Administration) Regulations 1996, I Gail McGowan declare that I am situated in a location where I can maintain confidentiality throughout the duration of the meeting.”

Chairperson – Acknowledgment of Country

The Chairperson to acknowledge the traditional custodians of the land, the Wardandi People of the Noongar Nation, paying respects to Elders, past, present, and emerging.

2 ATTENDANCES

MEMBERS PRESENT

MEMBERS	STAFF
Ian Telfer, Chairperson	Kim Dolzadelli, Director Corporate and Community
Vivienne MacCarthy	Belinda Richards, Manager Finance and Corporate
Gail McGowan, Commissioner	Loren Clifford, Acting Manager Executive Services

2.1 APOLOGIES

Ben Rose, Chief Executive Officer

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3 ANNOUNCEMENTS FROM CHAIRPERSON

4 DECLARATIONS OF INTEREST

Division 6: Sub-Division 1 of the *Local Government Act 1995*. Care should be taken by all Committee Members to ensure that a financial/impartiality interest is declared and that they refrain from voting on any matter, which is considered to come within the ambit of the *Act*.

5 PUBLIC QUESTION TIME

5.1 QUESTIONS TAKEN ON NOTICE

Question: Shane Sercombe

At the February 2022 Audit Committee meeting, it was explained how this Shire's depreciation could be reduced by \$2.3 million using a unconventional method of essentially not depreciating gravel. The result of this new method would be a significant improvement to the Shires operating surplus. The 21/22 Auditors report, presented at last night meeting stated the valuation and therefore the depreciation of roads was identified as a significant risk. The independent building valuation last year doubled the value of our buildings from \$13 million to \$26 million, while an internal valuation of roads found a \$0.00 increase. Can it be confirmed that the Shire cannot reduce depreciation on roads by \$2.3 million and in fact, once independently valued the depreciation of roads will likely increase significantly?

Response: Director Corporate and Community

In answering your question, I refer you to Page 14 of the Minutes from the ARMC meeting held 9 February 2022 which states the following:

“The below table (2019/2020) shows the potential for reduction in depreciation charges which would have a significant impact on this Ratio; note this does not yet include Buildings:”

**Non-Current Assets -
Depreciation**

Local Government	Property, Plant and Equipment and Infrastructure	Depn	Rate of Depn
Shire of Donnybrook	\$166,302,974	\$5,529,704	3.33%
Shire of Bridgetown-Greenbushes	\$204,667,616	\$3,570,493	1.74%
Shire of Capel	\$175,007,654	\$4,546,874	2.60%
Shire of Nannup	\$108,930,057	\$1,557,445	1.43%
Average Rate of Depreciation			2.27%
Average Rate of Depreciation Excluding Donnybrook			1.92%

Shire of Donnybrook	Average Rate of Depreciation Applied	\$3,782,344
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Potential Reduction in Depreciation	\$1,747,360
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Shire of Donnybrook	Average Rate of Depreciation Ex Donnybrook Applied	\$3,199,890
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Potential Reduction in Depreciation	\$2,329,814
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The above is the basis of the statements that were made and they are clearly supported by relevant comparative information that indicates *“potential for reduction in depreciation charges”*.

I further highlight the Minutes of the ARMC meeting held 3 March 2022 and specifically page 14, where in part the following is stated:

“Management Comment

The Shire’s Operating Surplus Ratio is being adversely impacted by non-cash depreciation charges. A preliminary review of Depreciation Rates has been undertaken and points to a potential over calculation of depreciation as does the fact that Road Infrastructure Assets are not disaggregated therefore residual values cannot be put in place where appropriate.

Officers note that the Department of Local Government, Sport and Cultural Industries (DLGSC), under direction from the Minister, has recently released its draft Model Financial Statements as part of the broader Local Government Reform currently being undertaken.

The following is contained in the current draft which if progressed would remove the current Ratio calculations:

- *“Prescribed financial ratios have been removed. Consequently, it should be assumed that financial data required to report useful financial ratios will be prescribed in the model accounts.”*

The methodologies of calculating the operating surplus ratio are generally recognized, within the Local Government sector, as being inappropriate to be used to determine a significant adverse trend.

Pending the final outcome of the Local Government Reform Officers will undertake a full review of Depreciation calculation and methodology.”

On the basis that the previously prescribed financial ratios having been removed and not yet replaced with new ratios, no further work on potential reduction of depreciation calculations has been undertaken to this point.

Unless a review of depreciation rates is undertaken, it is acknowledged that any revaluation of assets is likely to lead to a higher amount of depreciation being calculated, this is primarily due to the fact that the actual valuation of the assets has increased.

6 CONFIRMATIONS OF MINUTES

6.1 AUDIT AND RISK MANAGEMENT COMMITTEE MEETING – 30 MAY 2023

Minutes of the Audit and Risk Management Committee meeting held 30 May 2023 are attached (Attachment 6.1(1)).

EXECUTIVE RECOMMENDATION

That the Minutes of the Audit and Risk Management Committee Meeting held 30 May 2023 be confirmed as a true and correct record.

7 REPORTS OF OFFICERS

7.1 INTERIM AUDIT FOR THE YEAR ENDING 30 JUNE 2023

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Loren Clifford, Acting Manager Executive Services
Responsible Manager	Kim Dolzadelli, Director Corporate and Community
Attachments	7.1(1) Interim Audit Management Letter 7.1(2) Interim Audit Findings Report
Voting Requirements	Simple Majority

EXECUTIVE RECOMMENDATION

That the Audit and Risk Management Committee recommend to Council (the Commissioner) to:

- 1. Receive the Interim Audit Management Letter and Findings Report for the year ending 30 June 2023 in Attachments 7.1(1) and 7.1(2); and**
- 2. Notes the Management Comments provided, stating the actions the Chief Executive Officer intends to take with respect to the two matters identified in the Interim Audit Findings Report in Attachment 7.1(2).**

STRATEGIC ALIGNMENT

The following outcomes from the Council Plan 2022 – 2032 relate to this proposal:

Outcome	11	Strong, visionary leadership
Objective	11.1	Provide strategically focused, open and accountable governance
Outcome	12	A well respected, professionally run organisation
Objective	12.1	Deliver effective and efficient operations and service provision

EXECUTIVE SUMMARY

The Office of the Auditor General (OAG) provided the Interim Audit results for the year ending 30 June 2023. The focus of the interim audit was to primarily evaluate the Shire's financial control environment, and to obtain an understanding of the key business processes, risks, and internal controls relevant to the audit of the annual financial report.

The Audit and Risk Management Committee is asked to receive the Interim Audit Management Letter and Report on Findings.

BACKGROUND

Moore Australia were appointed on behalf of the OAG to conduct the annual Interim Audit, for the year ending 30 June 2023.

FINANCIAL IMPLICATIONS

The annual audit costs (Interim and Annual Audit) estimated by the OAG for the Shire of Donnybrook Balingup are \$41,750 (ex GST).

POLICY COMPLIANCE

Nil.

STATUTORY COMPLIANCE

Local Government Act 1995 Part – 7 Audit

Part 7, Section 7.12A. Duties of local government with respect to audits

- (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.*

Local Government (Audit) Regulations 1996

16. Functions of audit committee

An audit committee has the following functions —

- (a) *to guide and assist the local government in carrying out —*
 - (i) *its functions under Part 6 of the Act; and*
 - (ii) *its functions relating to other audits and other matters related to financial management;*
- (b) *to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) *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;*
- (d) *to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —*
 - (i) *regulation 17(1); and*
 - (ii) *the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (e) *to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*
- (f) *to oversee the implementation of any action that the local government —*
 - (i) *is required to take by section 7.12A(3); and*
 - (ii) *has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
 - (iii) *has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*

- (iv) *has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (g) *to perform any other function conferred on the audit committee by these regulations or another written law.*

CONSULTATION

On 15 May 2023, Directors from Moore Australia met with the Commissioner, the Chief Executive Officer, Director Corporate and Community, and Manager Finance and Corporate to discuss the scope required for the Interim Audit for the period ended 30 June 2023.

Moore Australia and the Shire’s Administration held an exit meeting after the conclusion of the Interim Audit to discuss the Interim Audit findings, and the action the Shire has taken or intends to take with respect to each of those matters. Management Comments have been provided in the table below.

OFFICER CONCLUSION

As shown in Attachment 7.1(2), The OAG identified two findings during the Interim Audit, details are provided below, neither finding will have any impact on the audit opinion:

Finding 1 - Segregation of Duties for Purchase Orders	
Our sample testing of expenditure internal controls noted an instance (out of nine transactions tested) where the purchase order was raised, approved, and matched to the supplier invoice by the same employee.	
Rating	Moderate
Implication	Purchases made without proper segregation of duties increases the risk of unauthorised purchases being made.
Recommendation	The Shire should review its current procurement processes by placing independent reviews to ensure appropriate segregation of duties.
Management Comment	
The Shire acknowledges the feedback received and in the vast majority of cases independent reviews are undertaken. The Shire will review its current practice with a view to ensuring independent reviews of all purchases are made.	

<p>The Shire’s adopted Purchasing Policy clearly defines process and purchasing thresholds for the organisation.</p> <p>Only authorised personnel can raise purchase orders with strict limits of the \$ value authorised for each person on the basis of need and risk.</p> <p>As part of the final payment authorisation for payment batches all invoices are checked for appropriate costing detail, appropriateness of purchase and pricing.</p>	
<p>Finding 2 - Borrowings Reconciliation</p> <p>We noted 5 instances between July 2022 and March 2023 where the borrowing reconciliations were performed over 30 days after the month end.</p>	
<p>Rating</p>	<p>Minor</p>
<p>Implication</p>	<p>Reconciliations are a key control for ensuring financial data is complete and accurate within the general ledger from which financial statements are prepared. Delay in the preparation and review of the reconciliations increases the risk of errors in the financial statements.</p>
<p>Recommendation</p>	<p>The reconciliations should be performed in a timely manner by the end of each month. This reconciliation should be reviewed by a senior officer independent of preparation and evidenced accordingly.</p>
<p>Management Comment</p> <p>The Shire acknowledges the feedback, and notes that all future borrowing reconciliations will be independently reviewed within 30 days.</p> <p>All borrowings are reported on a Monthly basis to Council through the Statements of Financial Activity.</p>	

The Ratings are based on the OAG audit team’s assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken.

Consideration is given to these outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

<p>Key to Ratings</p>
<p>Significant</p> <p>Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period</p>

if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.

Moderate

Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

Minor

Those findings that are not of primary concern but still warrant action being taken.

7.2 AUDIT SURVEY ANALYSIS

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Loren Clifford, Acting Manager Executive Services
Responsible Manager	Kim Dolzadelli, Director Corporate and Community
Attachments	7.2(1) Audit Survey Analysis
Voting Requirements	Simple Majority

EXECUTIVE RECOMMENDATION

That the Audit and Risk Management Committee receive the Audit Survey Analysis in Attachment 7.2(1), noting the key emerging issues identified in the analysis.

STRATEGIC ALIGNMENT

The following outcomes from the Council Plan 2022 – 2032 relate to this proposal:

Outcome	11	Strong, visionary leadership
Objective	11.1	Provide strategically focused, open and accountable governance
Outcome	12	A well respected, professionally run organisation
Objective	12.1	Deliver effective and efficient operations and service provision

EXECUTIVE SUMMARY

Local Government Professionals Australia WA and Western Australia Local Government Association (WALGA) conducted a survey of the sector to ascertain current issues and attitudes associated with the annual local government audit process. The Analysis provided outlines the key emerging issues identified by the 91 local governments that contributed feedback.

The Audit and Risk Management Committee are asked to receive the Audit Survey Analysis noting the key emerging issues identified in the analysis.

BACKGROUND

Responsibility for financial auditing of Western Australia's local governments transitioned from the Department of Local Government, Sport, and Cultural Industries to the Office of the Auditor General with the proclamation of the *Local Government Amendment (Auditing) Act 2017*.

Since this time there has been a range of comments and criticisms of the audit that needed to be corralled and formalised in discussions with the OAG to get clarity and better understand how to improve the audit performance and outcomes for local governments.

Local Government Professionals WA partnered with WALGA during April to conduct a survey of the sector to ascertain current issues and attitudes associated with the annual local government audit process.

The survey was jointly designed to enable the Associations to provide consistent and constructive advice to the Office of the Auditor General. The OAG is supportive of the process and welcomes this contribution from the peak bodies to inform their continued improvement.

91 local governments provided feedback. The data and quotations from the respondents of the survey can be found in Attachment 7.2(1)

FINANCIAL IMPLICATIONS

Nil.

POLICY COMPLIANCE

Nil.

STATUTORY COMPLIANCE

Nil.

CONSULTATION

Nil.

OFFICER CONCLUSION

The results and comments from the survey highlight five key areas to address in the annual audit process. These key emerging issues are as follows:

Timeframe and delays

Over **50%** of respondents either disagreed or strongly disagreed that *“the audit was completed in the scheduled timeframe”*. Comments from respondents suggested disruptions to the timeframe were caused by things like; consecutive periods of leave taken by the Auditors and OAG staff; difficulties with asset valuations, and; collection of information. One respondent noted that the Auditors continually asked for more information from Local Government staff but refused to acknowledge the delays these requests were causing or allowing for any flexibility in the times allocated.

Additional workload on Local Government staff

60% of respondents either agreed or strongly agreed that *“there was additional workload placed on Local Government staff during the conduct of the audit, beyond the tasks anticipated in the pre-audit preparation advice”*. Only **15%** of respondents disagreed or strongly disagreed with this statement. Respondents noted that the tasks expected of Local Government staff *“far exceeded”* what was anticipated, and this led to a *“very high workload”* for staff and a strain on resources. Unclear instructions, poor communication and being asked to answer the same question multiple times were cited by respondents as causes for the additional workload.

Cost

Almost half of respondents either disagreed or strongly disagreed with the statement that *“the estimated audit costs were reasonable, given the Audit Brief and the comparative cost of previous audits”*. Comments from some respondents reported that the costs were more than twice that incurred prior to the OAG assuming responsibility for Local Government auditing. There was also feedback about a lack of transparency from the OAG in its failure to provide a cost breakdown.

In terms of the actual cost of the audit, only two respondents indicated that the final cost was less than the estimated cost, with a significant amount of respondents indicating the actual cost was higher than the estimate. The average difference between the estimated and actual was an increase of around \$12,000, with the biggest difference being \$40,000.

Inconsistent advice from contract Auditors and OAG

Whilst a majority of respondents either agreed or strongly agreed that “*consistent advice was received from both contract Auditors and the OAG*”, several comments indicated that when inconsistent advice was received it led to confusion, delays, and frustration. One respondent suggested that “*requiring the Local Government to only communicate with the contract auditors, and not also the OAG, would avoid these outcomes*”. In this scenario, it would be up to the contract Auditors and the OAG to be on the same page in terms of the advice given, and this in turn would reduce “*inconsistent advice or information from both parties*”.

Asset Valuation Requirements

There were a number of comments throughout the survey raising the need for simplification and clarification of the Fair Value asset valuation requirements. In response to question 11 about the consistency of advice from the contract auditors and the OAG, one respondent noted that the advice received was good “*apart from the issue of the valuation of assets*”.

A similar comment appears in question 14 where a respondent has sought clarification and guidance about “*the timing of infrastructure revaluation and what mechanisms, beside management judgement, [are] in place to show how we have made the decision*”. Feedback on the handling of the asset valuation process can also be seen in a comment in question 8 which suggests that “*more thought needs to be given between the LG Sector and the OAG.*”

7 CLOSURES

The Chairperson to declare the meeting closed at _____.