SHIRE OF MERREDIN

Minutes of Audit Committee Meeting

Held in Council Chambers
Corner King & Barrack Street's, Merredin

Common Acronyms Used in this Document	
WEROC	Wheatbelt East Regional Organisation of Councils
GECZ	Great Eastern Country Zone
WALGA	Western Australian Local Government Association
CEACA	Central East Aged Care Alliance
CEO	Chief Executive Officer
DCEO	Deputy CEO
EMDS	Executive Manager of Development Services
EMES	Executive Manager of Engineering Services
EMCS	Executive Manager of Corporate Services
EA	Executive Assistant to CEO
LPS	Local Planning Scheme
LGIS	Local Government Insurance Services
AMP	Asset Management Plan
LTFP	Long Term Financial Plan
MRC&LC	Merredin Regional Community and Leisure Centre
CWVC	Central Wheatbelt Visitors Centre
UCL	Unallocated Crown Land
MoU	Memorandum of Understanding
LHAG	Local Health Advisory Group
NEWROC	North Eastern Wheatbelt Regional Organisation of Councils

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	Shire of Merredin Minutes of Audit Committee Meeting 16 December 2014	
1.	**Official Opening**	

The Chief Executive Officer declared the meeting open at 11.38am and called for nominations of a Chairperson.

2.	**Election of Chairperson**

Councillor Young nominated Councillor Hooper as Chairperson. Councillor Hooper accepted the nomination and took the Chair.

3.	**Public Question Time**

Nil

4.	**Record of Attendance / Apologies and Leave of Absence**

4.1 **Councillors:**

Cr KA Hooper	Shire President
Cr RM Crees	Deputy President
Cr JP Flockart	
Cr ML Young	

4.2 **Executive:**

G Powell	CEO
V Green	Executive Assistant to CEO

4.3 **Members of the Gallery:** Nil

4.4 **Apologies:** Cr BJ Anderson; R McCall, Deputy CEO

4.5 **Approved Leave of Absence:** Nil

5.	**Disclosure of Interest**

Nil

6.	Confirmation of Minutes of the Previous Meeting

6.1   Audit Committee Meeting held on 19 August 2014
       Attachment 6.1A

Officer's Recommendation / Resolution

Moved: Cr Crees   **Seconded:**   Cr Young

81475   **That the Minutes of the Audit Committee Meeting held on 19 August 2014 be confirmed as a true and accurate record of proceedings.**

CARRIED 4/0

7.	**Officer's Reports – Corporate Services**

7.1	**CEO's Review of Risk Management, Internal Control and Legislative Compliance and Risk Management Governance Framework**

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Corporate Services

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Reporting Officer:	DCEO
Author:	Rebecca McCall
Legislation:	Local Government Act 1995
File Reference:	CM/20/1
Disclosure of Interest:	Nil
Attachments:	CEO's Review of Risk Management, Internal Control and Legislative Compliance; Shire of Merredin Risk Profile Summary; Risk Management Governance Framework
Maps / Diagrams:	Nil

Purpose of Report

☐   Executive Decision   ■   Legislative Requirement

Background

A new Regulation was inserted into the Local Government (Audit) Regulations 1996, that requires the CEO to review the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislation compliance.

The review may relate to any or all of the matters referred to in subregulation (1) (a), (c) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.

The CEO is to report to the Audit Committee the results of that review. The Review Report is included in **Attachment 7.1A**.

Comment

To assist with the review process the Shire of Merredin has a Risk Management Governance Framework (**Attachment 7.1B**) which includes a policy and procedure.

The following statements outline the outcomes of the review:

Risk Management

1. *Does the local government have an effective risk management system?*

    Comment
    The Shire of Merredin is working towards developing an effective risk management system with a number strategies put in place to assist the Shire of Merredin in managing risks. Actions to date include:

    -   Risk Management Policy, adopted 19 August 2014 (CMRef 81424)
    -   Development of Risk Management Governance Framework
    -   Risk Report Card, undertaken July 2014 and December 2014

    The Risk Management Framework is to be reviewed for appropriateness and effectiveness at least every two years

    A series of Risk Profiles have been assessed and are included in **Attachment 7.1C**.

2. *Are material operating risks to the local government being appropriately considered?*

    Comment
    The Shire of Merredin has adopted a "Three Lines of Defence" model for the management of risk. This model ensures; responsibilities and accountabilities for decision making are structured to demonstrate effective governance and assurance. Be operating within the approved risk appetite and framework, the Council, Executive Management and Community will have assurance that risks are managed effectively to support the delivery of the Strategic, Corporate and Operational Plans.

    The major risk themes recognised for assessment include:
    -   Misconduct
    -   External Theft & Fraud
    -   Business Disruption
    -   Damage to Physical Assets
    -   Errors, Omissions & Delays
    -   Failure of IT &/or Communications Systems and Infrastructure
    -   Failure to fulfil Statutory, Regulatory or Compliance Requirements
    -   Providing Inaccurate Advice/Information
    -   Inadequate Change Management
    -   Inadequate Organisation and Community Emergency Management
    -   Inadequate Document Management Processes
    -   Inadequate Employee and Visitor Safety & Security
    -   Inadequate Engagement of Community/Stakeholders/Elected Members
    -   Inadequate Procurement, Disposal or Tender Practices
    -   Inadequate Asset Management
    -   Inadequate Stock Management

- Inadequate Supplier/Contract Management
- Ineffective People Management
- Not Meeting Community Expectations

3. *Does the local government have a current and effective business continuity plan (including disaster recovery) which is tested from time to time?*

Comment
The Shire of Merredin is currently drafting a business continuity plan. It is envisaged that the plan will include disaster recovery and tested by June 2015.

4. *How effective are the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:*

a. *Potential non-compliance with legislation, regulations and standards and the local government's policies;*
b. *Important accounting judgements or estimates that prove to be wrong;*
c. *Litigation and claims;*
d. *Misconduct, fraud and theft; and*
e. *Significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety and how they are managed by the local government.*

Comment
The Shire of Merredin's Risk Management Governance Framework, Risk Management Policy and relevant Procedures, clearly identify the risks associated with the internal processes identified above.

Appendix C – Risk Theme Definitions, documents in detail all such risks and the Shire is currently developing processes and structures to mitigate/minimise potential adverse effects, both financial and other.

Council's insurers provide Professional Indemnity cover which assists the Shire to minimise financial exposure.

The organisation's Corporate Calendar assists the Executive Management and staff to quickly identify due dates for all statutory, legislation and compliance requirements.

The Shire of Merredin's Code of Conduct outlines guidelines for an acceptable standard of professional conduct. The Code of Conduct observes statutory requirements of the Local Government Act 1995 (S5.103 – Codes of Conduct) and Local Government (Administration) Regulations 1996 (Regs 34B and 34C). Activities, behaviour and statutory compliance obligations may be scrutinised in accordance with prescribed rules of conduct as described in the Local Government Act 1995 and Local Government (Rules of Conduct) Regulations 2007.

5.   *Are regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, provided to ensure that identified risks are monitored and new risks are identified, mitigated and reported.*

Comment

The Risk Management Governance Framework outlines reporting requirements:
- Risk Profiles are formally reviewed and updated, at least on a six monthly basis or when there has been a material restructure, change in risk ownership or change in the external environment
- Six monthly Risk Reporting for the CEO and Executive Management Team – contains an overview of the Risk Summary for the Shire
- Annual Compliance Audit return completion and lodgement

All engineering work sites are risk assessed and documented by staff and contractors utilising risk assessment tools Take 5 and Safe Work Method Statement. Risk assessment tools are reviewed and monitored throughout the identified works and signed off upon completion.

6.   *Are the local government's processes to manage insurable risks adequate? How adequate is insurance cover, and if applicable, the level of self-insurance?*

Comment

The Shire of Merredin has comprehensive insurance cover through Council's insurance broker, LGIS. The insurance policy is reviewed annually, including the provision of external and/or in-house valuations based on replacement values and adjusted accordingly.

Council's Land and Buildings and Infrastructure portfolios have recently been valued utilising external consultants.

The organisation consults with LGIS to discuss matters on an ongoing basis and professional consultation is readily available. Through LGIS resources and procedures are provided to assist processing the management of insurable risks.

7.   *Has the effectiveness of the local government's internal control system been reviewed with management and the internal and external auditors?*

Comment

The Shire of Merredin does not currently utilise the services of an Internal Auditor. Notwithstanding, the Shire's internal control systems are reviewed and tested at regular intervals by the Executive Management Team and annually by Council's External Auditors.

No anomalies are currently apparent, albeit that the Executive Management Team has identified that in-house documented procedures need updating and strengthening.

An Internal Auditor will be appointed, as a shared service through WEROC, in early 2015.

8. *Does management have controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk?*

    Comment
    Robust delegations and sign-off procedures are in force to mitigate potential risks for these types of transactions.

9. *How effective and robust is the local government's procurement framework, with a focus on the probity and transparency of policies and procedures/processes? Are these procedure/processes being applied?*

    Comment
    The Shire of Merredin is committed to delivering best practice in the purchasing of goods, services and works that align with the principles of transparency, probity and good governance. The purchasing policy ensures that:
    • best practice policies and procedures are followed in relation to internal purchasing for the Shire of Merredin;
    • compliance with the Local Government Act 1995 and the Local Government Act (Functions and General) Regulations 1996;
    • compliance with the State Records Act 2000 and associated record management practices and procedures of the Shire of Merredin;
    • purchasing processes are followed that ensure value for money for the Shire of Merredin be delivering the most advantageous outcome possible;
    • openness, transparency, fairness and equity through the purchasing process to all potential suppliers; and
    • efficient and consistent purchasing processes are implemented and maintained across the organisation.

    The Shire of Merredin also utilises the services of WALGA's Preferred Supplier Panel in conjunction with the WALGA eQuotes system thus negating the requirement to call tenders notwithstanding the transaction value.

Council's Purchasing Policy (3.12) is reviewed on a regular basis (last reviewed November 2014). The Policy includes value thresholds above which quotations and /or tenders are required.

10. *Should the need arise, does the Audit Committee meet periodically with key management, internal and external auditors and compliance staff to understand and discuss any changes in the local government's control environment?*

   Comment
   The Audit Committee essentially consists of all 9 Councillors and meets as required. At a minimum the Audit Committee meets to consider:
   - Audit Committee Regulation Changes
   - Budget Review
   - Compliance Audit Return
   - External Audit Services
   - Interim Audit Results & Report
   - Audited Financial Statements

11. *Have fraud and misconduct risks have been identified, analysed and evaluated? Has an appropriate treatment plan been implemented, communicated and monitored? Is there regular reporting and ongoing management of fraud and misconduct risks?*

   Comment
   Risk profiles have been prepared for both "Misconduct" and "External Theft and Fraud" as part of the Shire's Risk Management Framework. Both are identified as being a "moderate" risk and, although controls are considered to be adequate, further actions will need to be identified for implementation prior to June 2016. Such actions will necessitate a review of existing processes, together with the continued development of formal staff induction processes.

   To date there have not been any reported cases of fraud since the CEO's appointment in January 2010.

Internal Control
Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Aspects of an effective control framework will include:
- Delegation of authority;
- Documented policies and procedures;
- Trained and qualified employees;
- System controls;

- Effective policy and process review;

- Regular internal audits;

- Documentation of risk identification and assessment; and

- Regular liaison with auditor and legal advisers.

Comment

- *Delegation of authority*

  Council has a very effective delegation process. The Shire's Delegation Register was subject to a comprehensive review in 2014 and will continue to be reviewed on an annual basis in accordance with the requirements of the *Local Government Act 1995*.

  All employees in positions with delegated authority are required to complete a Primary Return and an Annual Return for each year thereafter that they remain in the position.

- *Documented policies and procedures*

  Council has an established Policy Manual which is currently reviewed on a regular basis. Individual departments and positions currently have procedures relating to their own areas of responsibility and the development of a Corporate Procedures Manual will be commenced in 2015.

- *Trained and qualified employees*

  The ongoing development of position descriptions for each employee position will assist in ensuring that staff members are appropriately qualified for the position to which they are appointed. Staff training is provided as required.

  The Shire of Merredin's Workforce Plan 2013-2017 is monitored and evaluated annually and with emphasis analyses staff retention and attraction protocols.

- *Effective policy and process review*

  Historically, Council has required its Policy Manual to be reviewed in its entirety once every two years. For future reviews, it is proposed that a review schedule appropriate to the subject should be applied to each individual policy. Procedures, as they are compiled and added to the proposed Corporate Procedures Manual, will also be required to include a specific review timeframe.

- *Regular internal audits*

  The Shire of Merredin does not currently employ the services an internal auditor. It is envisaged an internal auditor will be appointed, as a shared service through WEROC, in early 2015. However, the *Local Government Act 1995* requires that a Compliance Audit Return be completed on an annual basis. The Return must be presented to the Audit Committee and to Council prior to submission to the Department of Local Government.

- *Documentation of risk identification and assessment*

  In 2014, Council adopted a Risk Management Policy, which is supported by a Risk Management Procedure. A number of risk profiles have also been prepared which are a tool for identifying, assessing and reviewing risks to which the Shire may be exposed. Collectively, these documents form the Shire's Risk Management Framework.

- *Regular liaison with auditor and legal advisers*

  Auditors attend Audit Committee meetings as required. Administration is in frequent communication with both auditors and legal advisers on a wide range of issues.

The following are examples of controls that are typically reviewed:

1. *Separation of roles and functions processing and authorisation;*

   Comment
   Appropriate separation of roles and functions for processing and authorisation include:
   - Debtors and Creditors
   - Payroll
   - Receipting
   - Rates
   - Banking
   - Electronic payments and transfers
   - Heath
   - Planning
   - Building

2. *Control of approval of documents, letters and financial records;*

   Comment
   Council adopted its Recordkeeping Plan (RKP), policy and procedures in December 2014. The objectives of the Shire of Merredin RKP are to ensure:
   - Compliance with Section 28 of the State Records Act 2000
   - Recordkeeping within the Shire of Merredin is moving towards compliance with the State Records Commission Standards and Records Management Standard AS ISO 15489
   - Processes are in place to facilitate the complete and accurate record of business transaction and decisions
   - Recorded information can be retrieved quickly, accurately and cheaply when required
   - Protection and preservation of the Shire of Merredin's records

The Shire of Merredin is currently implementing a new digital records system, utilising SynergySoft Records Management software which is designed to accommodate all statutory and industry requirements for superior recordkeeping.

In addition, the Shire of Merredin is developing a Communications Plan to be finalised in early 2015.

All financial transactions are traceable and recorded through Council's application software suite, SynergySoft. Monthly statutory financial reports are provided to Council.

3. *Comparison of internal data with other or external sources of information;*

Comment

All building and vehicle keys are stored in lockable key cabinets with associated registers, restricting general access to staff and the public at large.

Fuel is accessed via an electronic key tag and each staff member with access has a personal pin number allocated so that all use can be tracked.

Records access is controlled via the SynergySoft application software that allows restricted access to each staff member subject to their level of clearance. Any changes to any documents or documented record is recorded via the SynergySoft software. Vital and personnel records are stored in either lockable cabinets or strong room.

4. *Limit of direct physical access to assets and records;*

Comment

An external provider is engaged to manage the data files and IT system. A service level agreement is set in place to manage this arrangement.

Electronic files/data are backed-up daily to an internal hard disk drive and then replicated to USB hard disk. The USB hard disk drive is stored on-site in a lockable strong room.

Back-up of electronic files is inadequate and the organisation is looking at implementing a wireless link between all sites to accommodate back up replication.

Restrictions have been place on the level of access each staff member can have, generally only to allow them to perform their specific functions. For example, some staff only have the ability to view records and have no ability to enter any data/information into the system.

It has been identified in the Risk Profile Report the need to develop an IT Improvement Plan to include the review of data back up at Cummins Theatre and the Central Wheatbelt Visitors Centre.

5.   *Control of computer applications and information system standards;*

      Comment
      Refer to Point 5.

6.   *Limit access to make changes in data files and systems;*

      Comment
      Refer to Point 5.

7.   *Regular maintenance and review of financial control accounts and trial balances;*

      Comment
      Financial Control Accounts, including Trial Balances for all Funds are reviewed and balanced on a monthly basis.

8.   *Comparison and analysis of financial results with budgeted amounts;*

      Comment
      Each month an assessment of the budget variances is undertaken and reported to Council in accordance with Regulation 34 of the *Local Government (Financial Management) Regulations 1996.*

9.   *The arithmetical accuracy and content of records;*

      Comment
      Records are monitored through the Budget Review process and payment sign-off procedures, as well as the List of Accounts for Payment presented to Council for approval at each Ordinary Meeting of Council.

10.   *Report, review and approval of financial payments and reconciliations; and*

      Comment
      Undertaken, as required, by the Executive Manager of Corporate Services.

11.   *Comparison of the result of physical cash and inventory counts with accounting records.*

      Comment
      A record of physical cash holdings is maintained on a daily basis. Petty cash and fuel stocks are reconciled on a monthly basis.

Legislative Compliance

The Audit Committee should:

1. *Monitor compliance with legislation and regulations.*

   Comment

   The Audit Committee reviews the annual Compliance Audit Return and audited Financial Statements and makes recommendation on both to Council. As from December 2014, the Committee will also be responsible for considering and making recommendation to Council in relation to the Chief Executive Officer's Review of Risk Management, Internal Control and Legislative Compliance.

2. *Review the annual Compliance Audit Return and reporting to Council of the results of that review.*

   Comment

   The annual Compliance Audit Return is presented to the Audit Committee for review and recommendation to Council within the required timeframe.

3. *Review how management is monitoring the effectiveness of its compliance and make recommendations for change as necessary.*

   Comment

   The Audit Committee has the ability to make recommendations to Council with respect to any issue which it believes requires attention.

4. *Review whether the local government has procedures to receive, retain and treat complaints, including confidential and anonymous employee complaints.*

   Comment

   Council has adequate policies and procedures that deal with such matters, which are reviewed on a regular basis.

5. *Obtain assurance that adverse tends are identified and review management's plans to deal with these.*

   Comment

   Following the introduction of the Shire's Risk Management Framework, the Audit Committee will be provided with a Risk Report at each Committee meeting.

6. *Review management disclosures in financial reports of the effect of significant compliance issues.*

   Comment

   The Audit Committee reviews the annual Audit and Management Reports provided by the Shire's external Auditor.

7. *Review whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee.*

    Comment

    The Shire of Merredin does not have an internal auditor at this point in time, but has initiated plans to make an appropriate arrangement within the near future. However, external auditors must be appointed every three years and the successful appointee must give cognizance to their obligations relating to compliance and ethics risk at the time of appointment.

8. *Consider the internal auditor's role in assessing compliance and ethics risks in their plan.*

    Comment

    The scope of works with the appointment of an internal auditor is yet to be determined.

9. *Monitor the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.*

    Comment

    The Shire of Merredin's Risk Management Governance Framework was developed in July 2014. The corporate calendar highlights an annual review. The Audit Committee reviews and makes recommendation to Council with respect to the annual Compliance Audit Return.

10. *Compliance with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.*

    Comment

    Audit Committee regulation changes are bought to the attention of the Audit Committee as they arise. Audit Committee members are aware of their obligations in this regard.

The Shire of Merredin's Code of Conduct outlines guidelines for an acceptable standard of professional conduct. The Code of Conduct observes statutory requirements of the Local Government Act 1995 (S 5.103 – Codes of Conduct) and Local Government (Administration) Regulations 1996 (Regs 34B and 34C). Activities, behaviour and statutory compliance obligations may be scrutinised in accordance with prescribed rules of conduct as described in the Local Government Act 1995 and Local Government (Riles of Conduct) Regulations 2007. The Code of Conduct clearly states the guidelines for conflict, disclosure of interest and personal benefit.

Policy Implications

Risk Management Policy 3.24 applies.

Statutory Implications

Regulation 17 of the Local Government (Audit) Regulations 1996 applies.

Strategic Implications

Service Area: 5.2 Strategic Advice, General Management and Governance
Activities: Compliance Return
Link to Vision: Developing
Link to Strategic Priorities: Civic Leadership
Service Levels: Compliance return submitted by 31 December
Service Level Change: Nil

Sustainability Implications

➢ Asset Management Plan

Nil

➢ Long Term Financial Plan

Nil

➢ Workforce Plan

Nil

Financial Implications

Nil

Voting Requirements

☐ Simple Majority   ■ Absolute Majority

Officer's Recommendation / Resolution

Moved: Cr Young   **Seconded:**   Cr Crees

81476   **That the Audit Committee:**
1. **receives the CEO's Review of Risk Management, Internal Control and Legislative Compliance and notes the Shire of Merredin Risk Profile Summary and Risk Management Governance Framework; and**
2. **recommends to Council that the CEO's Review of Risk Management, Internal Control and Legislative Compliance, Shire of Merredin Risk Profile Summary and Risk Management Governance Framework be endorsed.**

CARRIED 4/0
ABSOLUTE MAJORITY

8.	**Closure**

There being no further business the Chairperson declared the meeting closed at 11.55am.