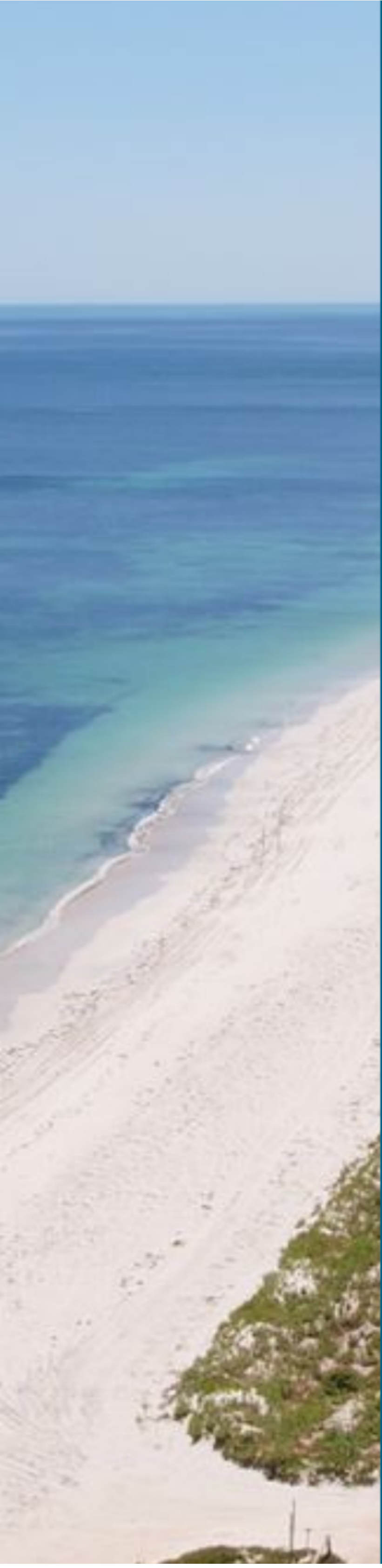

SHIRE of CAPEL

Audit and Risk Committee

Minutes

Wednesday, 11 December 2024

GORDON MACMILE
CHIEF EXECUTIVE OFFICER

Acknowledgement of Country

We wish to acknowledge the traditional custodians of the land we are meeting on, the Wadandi people. We wish to acknowledge and respect their continuing connection to the land, waters and community.

We pay our respects to all members of the Aboriginal communities and their culture; and to Elders past and present, their descendants who are with us today, and those who will follow in their footsteps.

Our Vision

A lifestyle of choice; connecting community, culture and country.

Our Values

H **Honesty**
We are respectful in all that we do, and all interactions we have, whilst being inclusive and mindful of differences.

E **Empathy**
We are kind and show understanding of peoples circumstances, perspectives and differences.

A **Accountability**
We are transparent in all that we do, and stay true to our word by taking responsibility for our actions.

R **Respect**
We are respectful in all that we do, and all interactions we have, whilst being inclusive and mindful of differences.

T **Teamwork**
We are cooperative, collaborative and united while working towards common goals of our Shire.

TABLE OF CONTENTS

1. Declaration of Opening/Announcement of Visitors

The Presiding Member opened the meeting at 2:00pm and made the following Acknowledgement of Country and statement:

'We wish to acknowledge the traditional custodians of the land we are meeting on, the Wadandi people. We wish to acknowledge and respect their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their culture; and to Elders past and present, their descendants who are with us today, and those who will follow in their footsteps.'

2. Record of Attendance/Apologies/Leave of Absence (Previously Approved)

Under clause 14C.(2)(b) of the Local Government (Administration) Regulation 1996, Dr Ken Parker was authorised (Shire President – 10 December 2024) to attend the Audit and Risk Committee meeting scheduled for 11 December 2024 via electronic means.

Present:	
Councillor - Chair	P McCleery
Councillor	A Dillon
Councillor	D Kitchen
Councillor	C Terrantroy
Independent Member	Dr K Parker (attended via telephone)
Chief Executive Officer	G MacMile
Manager Finance	A Mattaboni
Accountant	J Kosareff
Manager of Governance and Risk	T Shipley
Governance Support Officer	B Facey
Corporate Administration and Shire President Executive Assistant	B Clayton
Absent:	
Councillor	R Mogg
Guest:	
Councillor	J Fergusson

3. Public Question Time

Nil

4. Declarations of Interest

Nil

5. Confirmation of Minutes

5.1. Audit and Risk Committee Meeting - 27 November 2024

Voting Requirements

Simple Majority

AC/2024/10 - Officer's Recommendation/ Committee Decision - 5.1

Moved Cr Dillon, Seconded Cr Terrantroy.

That the Minutes of the Audit and Risk Committee Meeting - 27 November 2024 be confirmed as a true and correct record.

Carried 4 / 0

For - Cr Dillon, Cr Kitchen, Cr McCleery and Cr Terrantroy

Against - Nil

6. Reports

6.1. Shire of Capel - Final Audit Report - Year Ending 30 June 2024

Author	Director Community and Corporate Services, Samantha Chamberlain
Authorising Officer	Chief Executive Officer, Gordon MacMile
Nature of the Decision	Executive/Strategic Legislative
Attachments	1. Final Management Letter Attachment - Shire of Capel - 30 June 2024 [**6.1.1** - 4 pages] 2. Audit Opinion - Shire of Capel - 30 June 2024 [**6.1.2** - 3 pages] 3. Financial Report - Shire of Capel - 30 June 2024 [**6.1.3** - 40 pages]
Confidential Status	*This item is not a confidential matter.*

Proposal

Review the findings identified during the Final Audit for the year ending 30 June 2024 and review the final Audit Management Report as attached.

Officer's Recommendation

That the Audit and Risk Committee:

1. Considers the final audit findings for the year ending 30 June 2024 and notes the Shire has received an Unqualified Opinion endorsing a clean audit outcome for the Shire.

2. Recommends that the Council endorses the Final Audit Management Report for 2023/24 - **ATTACHMENT 6.1.1.**

3. Notes the Independent Auditor's Report and Annual Financial Report (AFR) will be included in the 2023/24 Annual Report - **ATTACHMENT 6.1.2 AND ATTACHMENT 6.1.3.**

4. Notes a 2023/24 Financial Audit Progress Report will become a standard agenda item and be presented at future Audit and Risk Committee meetings until all actions are reported as 'complete'.

Background

Changes to the *Local Government Act 1995* enacted in 2005 required the Council to establish an Audit Committee. The delegation of powers and duties to the Audit Committee was agreed by the Council to accept responsibility for oversight of the financial affairs of the Shire of Capel.

The primary objective of the Audit Committee is to accept responsibility for the annual external audit and liaise with the local government's auditor, so the Council can be satisfied with the local government's performance in managing its financial affairs.

Local governments undergo an external financial audit annually, and auditors are appointed through the Office of the Auditor General (OAG).

The Shire of Capel's Interim Audit commenced on Wednesday, 29 May 2024 for two days and was conducted by three Officers from AMD Chartered Accountants, being the newly appointed Auditors for the Shire. The former appointed Auditors were Moore Australia (WA).

Audit Scope

The primary audit scope and objective is to express an opinion as to whether the Shire's general purpose financial report as a whole is free from material misstatements (whether due to fraud or error) and is prepared (in all material respects) in accordance with applicable Australian Accounting Standards, the *Local Government Act 1995* (as amended) and the *Local Government (Financial Management) Regulations 1996* (as amended).

The audit also reports on the following matters in accordance with Reg 10(3) of the *Local Government (Audit) Regulations 1996:*

- Significant adverse trends in the financial position or the financial management practices of the Shire.
- Non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law.
- Whether all required information and explanations were obtained by the auditor.
- Whether all audit procedures were satisfactorily completed in conducting the audit.

Audit Approach

The audit process generally consists of three phases - planning, fieldwork, and completion.

The audit approach focuses on areas that represent a higher risk to the business. The auditor's methodology uses a risk-based approach to evaluate and, when appropriate, to test the effectiveness of internal controls with the expectation that a moderate level of reliance can be placed on the operating controls.

The most critical aspect of audit planning is the assessment of risk and consideration of where material misstatements could occur.

A combined assessment of inherent and control risk for significant accounts and the related financial statement assertions will be made. This will establish a portfolio of audit procedures that are customised based on the Shire's significant accounts, critical areas, disclosures, and classes of transactions, as well as the assessment of risk, including the risk of fraud.

Audit procedures include both substantive tests of account details and tests of internal controls for significant account balances, transactions, and disclosures.

Previous Committee Decision

AC/2024/09 - The Audit and Risk Committee:

1. Considered the Interim Audit results for the year ending 30 June 2024.

2. Recommended that the Council endorse the Interim Audit Report and the accompanying 'Management Comments' as detailed in the Officer's Report.

3. Developed an IT and cyber security controls policy focused on training, contractors/third parties, IT controls; and data breaches.

4. Noted a '2023/24 Financial Audit Progress Report' will become a standard agenda item and be presented at future Audit and Risk Committee meetings until all actions are reported as 'complete'.

Statutory Framework

State Framework

Local Government Act 1995

Division 5 — Annual reports and planning

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 7.12 AD (1) for the financial year; and

Division 3 — Conduct of audit

7.9. Audit to be conducted
(1) An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —
(a) the mayor or president; and
(b) the CEO of the local government; and
(c) the Minister.
7.12AD. Reporting on a financial audit
(1) The auditor must prepare and sign a report on a financial audit.

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.

Decision Framework

Strategic Community Plan 2023 to 2033

Direction 4 - Deliver good leadership, governance, and decision-making:
4.1 Effective and compliant governance.
4.2 Informed and transparent decision making.

Corporate Business Plan – 2024-2028

FIN 8 -Annual and Monthly Reporting Requirements – Statutory reporting of income and expenditures to the Council and regulatory authorities.
FIN 11 – Financial Auditing - Ensure financial systems remain compliant with all relevant legislation.
FIN 12 – Fair Valuation of Assets – Valuation of assets in accordance with AASB 13 Standard

Policy Framework

The following Shire Policies apply:

Policy 2.35 Legislative Compliance.

Implications

Risk Implications

Risk	Likelihood	Consequence	Mitigation
Risk 1 Financial **Rating:** Medium	Unlikely	Moderate	Ensure compliance with state legislation and Financial Management Regulations through contemporary financial control mechanisms and accurate financial reporting.
Risk Description: Failure to fulfil compliance requirements both statutory and regulatory.			

Financial Implications

Budget

The cost of works associated with the 2023/24 external audit process is included within the 2024/25 Annual Budget and is a statutory requirement through the Office of the Auditor General WA.

Long Term

There are no long-term financial implications associated with this matter, as no assets are being created or additional costs to be accounted for.

Sustainability Implications

Constant improvement to the Shire's internal systems and procedures is essential to the sound management of the financial governance framework. This aids consistent and equitable decision making, which is essential to create positive social, economic, and environmental impacts in the community.

Consultation/Engagement

External Consultation

The following timeline is a broad outline of the key deliverables and timing aspects of the audit process:

- Onsite Interim Audit by AMD 29-30 May 2024.
- Onsite Final Audit by AMD 9-10 September 2024.
- AMD provide OAG clearance for Audit File Review including all applicable Contractor deliverables / reports early to mid-October 2024.

- OAG complete Final Audit Review early November 2024.
- AMD to provide the signed AMD Audit Report, stamped Financial Statements, final Management Letter and signed Representation Letter to OAG mid-November 2024.
- OAG to issue signed Audit Report and Management Letter to the Shire prior to the scheduled Audit Exit Meeting.
- Audit Exit Meeting scheduled for Friday 29 November 2024.

The timely delivery and success of the audit process depends on the availability of requested audit documentation and key internal/external personnel adhering to the audit timeline.

There was a delay in reporting the 2023/24 Interim Audit Findings to the Audit and Risk Committee this year due to the OAG not returning the report in a timely manner.

The Shire sent a letter of complaint to the OAG detailing concerns with the reporting delays and received an apology, with the report being released soon after.

Given the Audit Exit Meeting was held as per the original audit schedule, the 2023/24 audit process is on track as planned.

Internal Consultation

The Executive Management Team, Management Team and Finance Officers were consulted throughout this process.

Officer's Comment

The attached Final Management Letter identifies two audit findings, with no previous year's (FY2022/23) findings being identified.

An extract from the Management Letter details the findings as follows:

Table 1.

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Rating error	No	✓			
2. Portable and attractive asset register	No		✓		

Key to ratings

The Ratings in this management letter are based on the 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 potential adverse 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).

- **Significant -** 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 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.

1. Rating error

Finding

We identified that the Shire adopted the incorrect general rates for the 2024-2025 financial year at the Ordinary Council Meeting on 31 July 2024.

The rating information was adopted as "cents in the dollar" instead of "rate in the dollar," resulting in the 2024-25 rates being set at only 1% of the intended amount.

The Shire has subsequently submitted an application to the State Administrative Tribunal (SAT) to annul the general rates for the 2024/2025 financial year.

Rating: Significant

Implication
- Incorrect rating information being communicated to constituents of the Shire.
- Non-conformance with section 6.2 and section 6.3 of the Local Government Act 1995.
- Potential significant loss of income.

Recommendation

We recommend that the Shire implement a review process when preparing and submitting information to DLGSC to ensure that all information being published is correct.

Management comment

Agree with the recommendation, albeit requesting for the Finding to be re-rated as 'Moderate' instead of 'Significant' given the process and procedures Officers have swiftly taken to rectify the clerical error in the adopted rate table.

These being, the error was identified, legal advice obtained and following this, a report was taken to the Ordinary Council Meeting 30 October 2024 for Council to note an application to be submitted to the State Administrative Tribunal to quash the general rates for financial year 2024/25 due to a formatting error in the adopted rates table, with a revised table and supporting 2024/25 Annual Budget documentation being presented to the Council for adoption at the November 2024 Ordinary Council Meeting.

The rates table adopted at the Ordinary Council Meeting of 31 July 2024 has since been quashed by order of the State Administrative Tribunal on 20 November 2024.

A Council report, proposing to adopt the amended rate table as presented and adopt the 2024/25 Annual Budget for Other Circumstances is included in the agenda for the Ordinary Council Meeting 27 November 2024.

The recommendation from the finding is that the Shire implement a review process when preparing and submitting information to DLGSC to ensure that all information being published is correct.

The intention is for the entire budget process to start earlier to ensure all items that make up the budget can be reviewed in a timely manner before submission and publication and there is consistency and accuracy in rating terminology presented across all financial/rating related documentation.

Responsible person: Director of Community & Corporate Services
Completion date: Action completed - 27 November 2024

2. Portable and attractive asset register

Finding

During our review of portable and attractive assets, we noted that there is no portable and attractive asset register maintained.

Rating: Moderate

Implication

Without a register being maintained, there is an increased risk that portable and attractive assets are misappropriated and left susceptible to theft, resale, or destruction.

Recommendation

FM Reg 17B prescribes that the CEO of a local government must take all reasonable steps to prevent the theft or loss of a non-consumable asset that is susceptible to theft or loss due to its portable nature and attractiveness for personal use or resale and is less than the capitalisation threshold of $5,000 set in FM Regulations 17A (5).

The Shire should review current practices and establish effective processes around the management of portable and assets.

A register of portable and attractive items should be maintained, monitored, and reviewed to ensure that the assets classed as portable and attractive remain in the control and safe custody of the local government.

Examples of items that may be classed as portable and attractive assets are:
- Laptops/Computer Equipment.
- Photography Equipment (Cameras/Drones).
- Handheld Radios.
- Mobile Telephones.
- Bicycles.
- Minor Plant and Equipment such as tools, brush cutters, chainsaws, lawnmowers.

Management comment

Agree with the recommendation.

The recommendation is in relation to Local Government (Financial Management) Regulations 1996 17B which requires the CEO to take steps to protect portable and attractive assets.

These are assets that are susceptible to theft or loss and include items under $5,000 that are not included on asset registers.

A software register is being built of existing information technology equipment with the information derived from invoice data and inspection of items.

The parks and works portable equipment lists are being updated. Minor equipment general ledger account numbers during the year will be examined and purchases that fall into the category of portable and attractive will be included on the register.

The current exit procedure for staff leaving the organisation requires managers or supervisors to complete a checklist which includes verification of the return of Shire property.

Pre-start of works and parks vehicles will require documented verification of minor items.

Responsible person: Manager Finance
Completion date: April 2025

Summary

The 2023/24 Interim and Final Financial Audit process identified eight findings in total, 1 significant, five moderate and two minor in nature.

Of the eight identified, three findings have since been actioned with mitigation strategies now in place.

Officers welcome the feedback received through the audit process, ensuring all financial activity is both compliant with the current standards and is contemporary through financial functions to support good governance and transparency.

As per Officer's Recommendation 4, the development of a 2023/24 Financial Audit Progress Report' will become a standard agenda item to be presented at future Audit and Risk Committee meetings until all actions identified above are reported as 'complete'.

The attached audit reports are presented to the committee for review and endorsement.

Voting Requirements

Simple Majority.

Officer's Recommendation – 6.1

AC/2024/11 - Officer's Recommendation/ Committee Decision - 6.1

Moved Cr Terrantroy, Seconded Cr Dillon.

That the Audit and Risk Committee:

1. **Considers the final audit findings for the year ending 30 June 2024 and notes the Shire has received an Unqualified Opinion endorsing a clean audit outcome for the Shire.**

2. **Recommends that the Council endorses the Final Audit Management Report for 2023/24 - ATTACHMENT 6.1.1.**

3. **Notes the Independent Auditor's Report and Annual Financial Report (AFR) will be included in the 2023/24 Annual Report - ATTACHMENT 6.1.2 AND ATTACHMENT 6.1.3.**

4. **Notes a 2023/24 Financial Audit Progress Report will become a standard agenda item and be presented at future Audit and Risk Committee meetings until all actions are reported as 'complete'.**

Carried 4 / 0

For - Cr Dillon, Cr Kitchen, Cr McCleery and Cr Terrantroy

Against - Nil

7. Meeting Closure

There being no further business, the Presiding Member declared the meeting closed at 2:23pm.