



Shire of
Katanning
Heart of the Great Southern

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

Minutes of the Shire of Katanning Audit & Risk Committee
held on Monday 19 June 2023 at the
Shire of Katanning Conference Room.

PRESIDING MEMBER _____

DATE SIGNED _____



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1. DECLARATION OF OPENING/ACKNOWLEDGEMENT OF COUNTRY

The Chairperson declared the meeting open at 3:31pm.

Acknowledgement of Country

The Shire of Katanning acknowledges the Goreng Noongar people as the traditional custodians of the land that we live and work on. We recognise their cultural heritage, beliefs, and continuing relationship with the land, and pay our respects to Elders past and present.

2. RECORD OF ATTENDANCE

PRESENT

Members:

Cr John Goodheart – Chairperson
 Cr Matt Collis
 Cr Kristy D’Aprile
 Cr Liz Guidera (Proxy)
 Cr Michelle Salter (Proxy)

Council Officers:

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

Guests:

Apologies:

Cr Serena Sandwell

3. DISCLOSURE OF FINANCIAL/IMPARTIALITY INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**4.1 Audit and Risk Committee Meeting – Monday 20 March 2023**
(SEE ATTACHED MINUTES)

Voting Requirement: Simple Majority

MOVED: CR MATT COLLIS

SECONDED: CR MICHELLE SALTER

ARC8/23 That the minutes of the Audit & Risk Committee Meeting held on Monday 20 March 2023 be confirmed as a true record of proceedings.

CARRIED: 4/0

5. REPORTS**5.1 Financial Management Review – May 2023**
(ATTACHMENT)

File Ref: FM.AU.2
Reporting Officer: Denise Gobbart, Executive Manager Finance & Administration
Date Report Prepared: 14 June 2023

Issue:

For the Audit & Risk Committee to recommend that receives the May 2023 Financial Management Review undertaken by Australian Audit.

Body/Background:

Australian Audit was engaged to under the Financial Management Review as required by Regulation 5(2)(c) in the Local Government (Financial Management) Regulations 1996. In accordance with Regulation 5(2)(c) the Chief Executive Officer (CEO) is required to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government at least once every three (3) financial years and report to the local government the results of those reviews. The last Financial Management Review was undertaken by Moore Stephens in May 2017.

Previously the Regulation stated that the Financial Management Review was to be undertaken at least once every four (4) years. An amendment to the regulation on 27 June 2018 changed this to every three (3) years.

Evidence shows that previous staff were of the belief that the Interim Audit process covered the requirements of the Financial Management Review. This is not the case, as a separate review is required to be presented to the local government.

Originally the Evaluation awarded the review to Avant Edge Consulting in May 2022. The then merged with Australian Audit. Due to changes in staff at the shire and staff availability at Australian Audit the final report was not completed until May 2023.

The review incorporated the following key financial management areas as requires under Regulation 5(1) of the Local Government (Financial Management) Regulations 1996:

- Procurement (formal quotations and tender process)
- Contract Management
- Accounts Payable
- Cash Collection and Handling
- Payroll
- General Ledger Application Controls (journal posting, balance sheet reconciliations)
- Council Rates, including Debt Management
- Investment Management
- Asset Management (excluding infrastructure assets)
- Budget Process
- Information Technology General Systems Controls Environment

No other financial management systems and procedures were subject to review.

Based on the review (which was not an audit) of management controls and processes that exist at the shire, regarding the above key financial management system areas, nothing came to our attention that would indicate and high-risk management control matters that would require immediate attention by the Shire.

Based on the matters raised in the body of the review under Executive Management Detailed Findings, it was concluded that the financial management systems in place within the Shire can be further improved and several recommendations have been included in the review report for consideration of the CEO.

The final report has reported the findings under three (3) separate sections:

- Medium risk rated issues (immediate action recommended)
- Low risk rated issues (management consideration recommended)
- Observation issues (no management action required but may be considered)

Each finding has a recommended action except for those reported as "Observations".

Officer's Comment:

A summary of the findings

Medium Risk Rated Issues

1. Procurement (formal quotations and tender process)

1.1 Monitoring Compliance with the Shire Procurement Policy

- Written quotes – three (3) instances where written quotes were not obtained, or support documentation could not be provided.

- Purchase order – three (3) instances where the purchase order was created and approved after receiving the supplier's invoice.
- Request for Quotations (RFQ) – five (5) instances where the Shire sought RFQ and no evidence was provided to indicate that the RFQ submissions were assessed by an evaluation panel of at least two (2) staff.
- RFQ and RFT evaluation process – the documentation of the RFQ and RFT evaluation process is not evident in the Shire's procurement policy.

Management Comment: The Belgravia Health & Leisure Group was procured via a tender RFT 03-2019 and the supporting documentation should have made reference to the tender. A procedure is to be developed for the assessment of RFQ & RFT to ensure an evaluation panel of at least two (2) staff members.

- Conflict of Interest – recommend that the Shire's procurement policy clearly document the process of establishing an evaluation panel to evaluate tender and formal quote submissions including the need for all evaluation panel members to sign a formal conflict of interest declaration form prior to assessing tender submissions.

Management Comment: A disclosure declaration is part of the evaluation sheet. This will be expanded to cover the sample "Conflict of Interest" declaration form provided.

1.2 Contract Management Policies

- The Shire does not at present have a Contract Management Policy and Guidelines which would govern how the Shire should manage its existing procurement service contracts.

Management Comment: Contract Management Policy and Guidelines to be investigated for adoption and implementation.

- It was noted that supplier performance assessments are not formally undertaken and documented once a procurement contract has ended.

Management Comment: Supplier performance assessments to be investigated for implementation.

2. **Accounts Payable**

2.1 Approval of Changes to Supplier Masterfile

- Approving Changes – at the time of review the changes made to the Creditor Masterfile was not being reviewed to ensure the changes made were valid.
- Banking Details – recommend to strengthen new supplier creations and banking details, the Shire to also require the creditor provide a copy of their latest bank statement, to ensure the changes are valid.

Management Comment: The approval changes to supplier Masterfile was being undertaken until December 2022, when the Creditors Officer resigned. During the recruitment transition this step was omitted. The Audit Report of all changes to the Masterfile are now being signed off by the Executive Manager Corporate & Community (EMCC) prior to the payment run being authorised.

Low Risk Rated Issues

3. Asset Management (asset stocktakes)

3.1 Depreciable Assets

- Noted that the Shire does not at present undertake a stocktake or regular checks of all its plant, equipment, furniture and other moveable assets (depreciable equipment over \$5,000) to ensure that the items still exist and/or that it is not impaired.
- The Shire's Policy Manual does not adequately make provision for annual stocktakes or formal regular checks of its plant and equipment.

Management Comment: Resources to be considered to undertake stocktake or regular checks of all plant, equipment, furniture and other moveable assets – as recorded in the Asset Register.

3.2 Portable and Attractive Assets

- We were unable to sight any evidence that the Shire has a portable and attractive register listing all plant and equipment including all computer equipment that is valued under \$5,000 which is normally expensed. The need to maintain a portable and attractive register is to enable the Shire to maintain control over pieces of equipment that may very easily go missing requiring replacement by the Shire.

Management Comment: A Minor Tool register has been developed in Synergy Soft. This will be used to register portable and attractive assets. The register will enable assets to be monitored and stocktakes undertaken.

4. System Access (Separation of Duties)

- System Access was reviewed to ensure access was appropriate and the proper segregation control was in place. Identified that the EMCC could issue a requisition, create and approve a purchase order, create a new supplier and modify a supplier, receipt goods and services and approve invoice payments. Although the position would not access all of these functions, nevertheless, to ensure proper segregation of duties, it is suggested that creating a new supplier and modifying a supplier detail be removed.
- A number of other positions may need their current access reviewed and possibly some access removed or given enquire only access if not strictly required as part of their position.

Management Comment: System access is to be reviewed. EMCC and ICT Coordinator participated in a SynergySoft Mapping Security Webinar and are reviewing access along the guidance provided.

5. IT General Controls Environment

- The Shire's system and security controls were assessed to determine that satisfactory system security is in place. It is noted the Shire does not currently have in place an Information Technology Strategy Plan, Disaster Recovery Plan/Business Continuity Plan and Software Usage Policy and Software Register (Optional).

Management Comment: Currently undertaking a Service Delivery Review of ITC & Enterprise Applications. Formal Disaster Recovery and Business Continuity Plans to be developed.

Observations

Reviewing Shire Policies

- Noted that some of the Shire's policies/procedures had not been subjected to timely review and update. Shire policies/guidelines/procedures should be reviewed at least once every two (2) years to ensure they remain up to date.

Management Comment: A full review of the Policy Manual was adopted by Council 22 December 2022.

Statutory Environment:*Local Government Act 1995*

Section 6.10 Financial management regulations

Regulations may provide for —

- (a) the security and banking of money received by a local government; and
- (b) the keeping of financial records by a local government; and
- (c) the management by a local government of its assets, liabilities and revenue; and
- (d) the general management of, and the authorisation of payments out of —
 - (i) the municipal fund; and
 - (ii) the trust fund,
of a local government.

Local Government (Financial Management) Regulations 1996

5. CEO's duties as to financial management (Reg 5 (2)(c))

(2) The CEO is to —

- (a) ensure that the resources of the local government are effectively and efficiently managed; and
- (b) assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and
- (c) 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 3 financial years) and report to the local government the results of those reviews.

Local Government (Audit) Regulations 1996

16. Functions of Audit Committee (Reg 16 (d))

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.

Policy Implications:

There are no policy implications for this report.

Financial Implications:

There are no financial implications for this report.

Risk Implications:

This item has been evaluated against the Shire of Katanning's Risk Assessment and Acceptance Criteria. The perceived level of risk is considered to be "Low" risk and can be managed by routine procedures and with current resources.

Strategic Implications:

Shire of Katanning Strategic Community Plan 2022 - 2032

Focus Area Leadership

Aspiration Katanning is an inclusive and respectful community.

Objective To ensure that Shire resources are utilised in a manner that represents the best interest of the whole community.

Voting Requirement: Simple Majority

Officer's Recommendation/Council Motion:

MOVED: CR KRISTY D'APRILE

SECONDED: CR MATT COLLIS

ARC9/23 That the Audit & Risk Committee recommends that Council receives the May 2023 Financial Management Review.

CARRIED: 4/0

6. CLOSURE OF MEETING

The Presiding Member declared the meeting closed at 3:57pm.