



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

Minutes of the Shire of Katanning Audit & Risk Committee
held on Wednesday 11 December 2024 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 4:02pm.

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 Kristy D’Aprile
 Cr Matt Collis
 Cr Ian Hanna
 Cr Paul Totino
 Alan McFarland – (Independent Member)

Council Officers:

Peter Klein, Chief Executive Officer
 David Blurton, Executive Manager Corporate Services
 Patrick Kennedy, Finance Manager

Guests:

Aram Madnack – Acting Senior Direct, Office of Auditor General
 Gilles Chan – Senior Manager, Moore Australia
 Wen-Shien Chai – Partner, Moore Australia

Apologies:

Cr Michelle Salter
 Cr Liz Guidera

3. DISCLOSURE OF FINANCIAL/IMPARTIALITY INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**4.1 Audit and Risk Committee Meeting – Thursday 20 June 2024**
(SEE ATTACHED MINUTES)

Voting Requirement: Simple Majority

MOVED: CR KRISTY D'APRILE

SECONDED: CR IAN HANNA

ARC07/24 That the minutes of the Audit & Risk Committee Meeting held on Thursday 20 June 2024 be confirmed as a true record of proceedings.

CARRIED: 6/0

FOR: CR KRISTY D'APRILE, CR JOHN GOODHEART, CR IAN HANNA, CR MATT COLLIS, CR PAUL
TOTINO, ALAN MCFARLAND

AGAINST: NIL.

5. REPORTS

5.1 Audit Concluding Memorandum, Management Letter and Draft Annual Financial Report 2023-2024

File Ref: FM.AU.2
Reporting Officer: David Blurton, Executive Manager Corporate Services
Date Report Prepared: 10 December 2024

Background:

The Audit Concluding Memorandum, Management Letter and Draft Annual Financial Report for the Shire of Katanning for the financial year ending 30 June 2024 is attached.

Mr Aram Madnack, Acting Senior Director of the Office of Auditor General (OAG) and Mr Wen-Shien Chai from Moore Australia will be in attendance to present and discuss the findings.

The outcomes of the audit are presented in two separate parts, one being the Audit Concluding Memorandum (ACM) which communicates the results of the audit to those charged with governance, the second being Audit Management Letter, which serves to present weaknesses and deficiencies in processes identified during the audit process.

Statutory Implications:

In accordance with section 7.12AD (2) of the Local Government Act 1995, the Office of the Auditor General (OAG) has completed the audit of the Annual Financial Report for the year ending 30 June 2024.

Section 7.9(1) of the Act requires the Auditor to submit a report to the local government by 31 December each year.

Section 7.12A(2) of the Act requires a local government to meet with its Auditor at least once each year.

Section 7.12 A(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.

Officer's Comment:

Audit Concluding Memorandum (ACM)

The ACM identifies that the following matters remain outstanding at time of writing;

- Final OAG review of audit working papers
- Final review of latest financial report
- OAG technical clearance for the Emphasis of Matter
- Signed management representation letter and
- Signed financial report.

The ACM also states that Moore's will issue an unmodified opinion on the audit of the Shires financial report to the OAG.

Management Letter

The Management Letter as presented has identified the following issues which have been assigned a moderate level of significance. In most cases the issues have already been addressed. The Executive team will discuss and develop a strategy to address item 4 – non-compliance with purchasing policy in more detail. A draft cyber security strategic plan and policy has been developed and is awaiting review and adoption by the executive.

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Trust bank account reconciliation not performed regularly	No		?		
2. Borrowings reconciliation not performed	No		?		
3. No independent review of month-end reconciliations	No		?		
4. Non-compliance with purchasing policy	No		?		?
5. No cyber security strategic plan and policy in place	No		?		

Draft Annual Financial Report 2023-2024

The 23-24 Financial report has proved challenging for officers due to the requirement to address the prior years audit qualifications relating to Depreciation on Buildings and Infrastructure Revaluation, both of which have now been addressed. Addressing these issues has required the restatement of several financial statements from 2023 and the addition of note 26 to the Financial Statement which summarizes the changes made to the 2023 accounts.

The adjustment of infrastructure assets to fair value has resulted in an increase in the value of the Council's infrastructure network by \$59m which includes a transfer of \$2.7m to other classes of assets. This revaluation process was undertaken independently by Assetval in 2023 and was revisited in 2024 at the request of officers as an outcome of the Audit qualification in 2023. Following extensive investigation and analysis, Shire officers issued an Explanatory Memorandum to the OAG to discuss factors which gave rise to the increase in infrastructure asset values in 22/23.

The outcome of this exercise represents a significant increase in the value of the Council's infrastructure assets and this will be reflected in increase amount of depreciation expense over the next five years in the Councils accounts.

The 2023-24 year shows a \$9.03m depreciation expense in the accounts compared to \$6.5m in 2023 (restated). Whilst depreciation is a non cash item, the Council will need to consider this expense carefully in the review of its long term financial plan and asset management plans in the coming months.

A brief summary is provided below by asset class with comment (extracted from Explanatory Memorandum to OAG) as to the factors influencing the increase in infrastructure valuation as at 30 June 2023.

Asset type	Change in 2022-23 accounts	Comment
Roads	\$54m increase	Unit costs in 2018 (prior fair value assessment) were significantly less than 2023. For example • Road subgrade - \$5.50per m (2018) v \$11.8125per m sealed and \$7.08 unsealed. (2023) • Road pavement - \$11per m (2018) v \$31.29 per m sealed and \$15.35 unsealed (2023) • Road surface single seal \$4 per m (2018) v \$14.90 per m (2023) There has been significant effort invested over the past 2 years in updating the shires RAMMS database to ensure it is accurate and as an outcome, Management have much more confidence in the current RAMMS database and therefore current fair valuations than the 2018 valuation.
Drainage	\$9.7m increase	Officers have assessed the methodology used in 2018 against 2023 and determined that while some unit costs have remained stable, other unit costs used have more than doubled, for example the cost of purchase and install PVC pipe has increased from \$349 per m to \$703 per m. Further, the 2018 drainage valuation did not include the cost of headwalls, which is significant as each culvert under a road typically uses a headwall at either end. This cost totals \$4.2m Reassessment of the shire's drainage network indicated that the network comprised mainly 450mm diameter circular pipe rather than 300mm pipe as was valued in 2018. This has an impact of over \$1m on the value of the network

Parks and Ovals	\$4.4m decrease	Most of this change relates to Piesse park lake asset PG1000. The written down asset value of \$5.6m in councils asset register at 30 June 2023 included subdivision costs, road construction costs, drainage costs however these costs are also captured in the land revaluation process in 2022 or road, drainage valuation in 2023. These need to be removed from the asset value (in parks and ovals) to avoid duplication.
Other Infrastructure	\$1.7 increase	Additional carparks picked up in valuation process \$1.4m and other assets which had not been identified previously.

More commentary will be provided on the Annual Financial report results as part of the Annual Report production.

Policy Implications:

N/A

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 PAUL TOTINO

SECONDED: CR IAN HANNA

ARC08/24 That the Audit & Risk Committee recommends that Council receives the Audit Concluding Memorandum, Management Letter and Draft Annual Financial Report as presented.

CARRIED: 6/0

FOR: CR KRISTY D'APRILE, CR JOHN GOODHEART, CR IAN HANNA, CR MATT COLLIS, CR PAUL TOTINO, ALAN MCFARLAND
AGAINST: NIL.

6. CLOSURE OF MEETING

The Presiding Member declared the meeting closed at 4:42pm.