



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 17 December 2018, at the  
Shire of Katanning Meeting Room, commencing at 3.00pm.

**1. DECLARATION OF OPENING**

The meeting was declared open at 3.11pm.

**2. RECORD OF ATTENDANCE**

**PRESENT**

**Members:**

Cr Liz Guidera - Shire President  
Cr John Goodheart - Deputy Shire President  
Cr Owen Boxall  
Cr Danny McGrath  
Cr Serena Sandwell  
Cr Martin Van Koldenhoven  
Cr Kristy D'Aprile

**Council Officers:**

Julian Murphy, Chief Executive Officer  
Lisa Hannagan, Executive Manager Finance & Administration  
Libby French, Manager Finance  
Sophie Justins, Executive Assistant to CEO

**Guests:**

David Tomasi, Moore Stephens (Teleconference)

**Apologies:**

Cr Ernie Menghini

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Chairperson Cr Liz Guidera wished to acknowledge receipt of the Auditor Letter and Financial Report as attachments to the Annual Report. Documents were presented to Councillors at the meeting.

3.12pm David Tomasi from Moore Stephens joined the meeting via teleconference.

David Tomasi explained the Auditor General's new instructions surrounding performance audits and the reporting process. The focus is now on controls around payments and procurement with Local Governments. The reporting now includes a statement of compliance and non-compliances. The purchase orders sampled from the Shire of Katanning are reported and the explanations explained from Executive Manager Finance and Administration are understandable but the statement of non-compliance, in the instance, needs to be reported.

Cr John Goodheart advised he is not happy with the comments in the report as they do not reflect a true explanation of what David is currently explaining. The comment suggests that 50% of 5000 purchase orders raised by the Shire of Katanning are non-compliant.

David Tomasi confirmed 20 purchase orders and invoices were sampled from the Shire of Katanning and 50% of those purchase orders were raised following receipt of the invoice.

Cr John Goodheart confirmed the statement reflects very poorly on the Shire of Katanning and he does not agree with the statement. John believes that Councillors have worked with Senior Staff over the past year with the purchasing policy and is confident that we are using the purchasing policy correctly. John believes that more samples should have been sampled on a different range of invoices.

Cr Liz Guidera wished to clarify the reference towards quotation records and asked David if the auditor reviewed every quotation record or just one.

David Tomasi confirmed only one quotation record was reviewed.

David Tomasi confirmed that the reporting from the Auditor General has now changed and the style is very black and white. There are many Council's who have the same reporting in Part A.

Cr Liz Guidera advised that the Councillors have only received the Auditors Letter and Financials at the beginning of this meeting as there were not attached to the Annual Report presented on Friday 14 December 2018. Cr Guidera queried if Councillors had a chance to review the documentation and if they had further queries, if they could send through an email for further comment?

David Tomasi confirmed this would be OK.

David Tomasi left the meeting at 3.45pm.

### **3. DISCLOSURE OF FINANCIAL/IMPARTIALITY INTERESTS**

Nil.

4.12pm Cr Martin Van Koldenhoven left the room.

4.15pm Cr Danny McGrath left the room.

#### **4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**

##### **4.1 Audit and Risk Committee Meeting – 25 September 2018**

(SEE ATTACHED MINUTES)

**MOVED: CR OWEN BOXALL**

**SECONDED: CR JOHN GOODHEART**

**ARC/18 That the minutes of the Audit & Risk Committee Meeting held on Tuesday 25 September 2018 be confirmed as a true record of proceedings.**

**Voting Requirement:** Simple Majority

CARRIED: 5/0

4.16pm Cr Martin Van Koldenhoven & Cr Danny McGrath returned to the room.

#### **5. REPORTS**

##### **5.1 Regulation 17 Risk Management Audit – December 2018 Update**

(ATTACHMENT)

**File Ref:** FM.AU

**Reporting Officer:** Lisa Hannagan, Executive Manager Finance & Administration

**Date Report Prepared:** 10 December 2018

**Issue:**

New regulations were gazetted for the Local Government (Audit) Regulations 1996 in February 2013. As a result of those amendments, Local Government Operational Guideline – 9 – Audit in Local Governments, was revised.

The new Regulation 17 prescribes a number of matters that are to be reviewed by the Audit Committee.

These functions now include reviewing the Chief Executive Officer's report on the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance; and reporting the results of the Committee's consideration, to Council.

**Body/Background:**

The Risk Audit and review process is to occur at least once every two calendar years.

Moore Stephens conducted the second Shire of Katanning review in June 2017.

**Officer's Comment:**

The attached report from Moore Stephens contains recommendations to improve the Shire of Katanning's performance in the areas covered by the audit, that being:

1. Risk Management;
2. Internal Controls; and
3. Legislative Compliance.

The Report also contains “Responsible Person/s” and “Actions” which describe what the Shire Administration will do to see the recommendations implemented.

There were no critical issues raised in the Moore Stephens report, but a number of the identified issues are considered high priority.

Of the 14 recommendations made in the report, all have been allocated a responsible person and a timeframe to address the matters noted.

**Statutory Environment:**

Regulation 17 Local Government (Audit) Regulations 1996.

**Policy Implications:**

Various policies may need to be amended to be aligned with new processes. This will take place over the coming months via a standardised policy review process.

**Financial Implications:**

Nil.

**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 2017 – 2027

PRIORITY	LEADERSHIP	
ASPIRATION	L2	A collaborative, progressive and resilient local government which is sustainably resourced.
OBJECTIVE	L2.1	Optimise use of shire resources – improve organisational systems.

**Officer’s Recommendation/Committee Motion:**

**MOVED: CR SERENA SANDWELL**

**SECONDED: CR JOHN GOODHEART**

**ARC/18 That the Audit Committee recommends to Council that it notes the progress as at December 2018 of addressing the recommendations made by Moore Stephens – Review of Risk Management, Legislative Compliance and Internal Controls.**

**Voting Requirement:** Simple Majority

**CARRIED: 7/0**

4.40pm Cr Danny McGrath left the room.

4.42pm Cr Danny McGrath returned to the room.

**Committee Motion:**

**MOVED: CR KRISTY D'APRILE**

**SECONDED: CR OWEN BOXALL**

**ARC/18        The Audit and Risk Committee Meeting be adjourned to Tuesday 18 December 2018, 5.00pm at the Shire Meeting Room to consider the Shire of Katanning Audit Report, Management Letter and Annual Report 2017/18.**

**Voting Requirement:** Simple Majority

CARRIED: 7/0

**REASON FOR DECISION:**

Councillors received the Management Letter and Audit Report at the beginning of the Audit and Risk Committee Meeting and Councillors require 24 hours to review the documentation.

**6. MEETING ADJOURNED**

The Presiding Member adjourned the meeting at 4.43pm.

## 7. DECLARATION OF OPENING

The Presiding Member re-opened the meeting on Tuesday 18 December 2018 at 5.04pm.

## 8. RECORD OF ATTENDANCE

### PRESENT

#### Members:

Cr Liz Guidera - Shire President  
Cr John Goodheart - Deputy Shire President  
Cr Owen Boxall  
Cr Danny McGrath  
Cr Serena Sandwell  
Cr Martin Van Koldenhoven  
Cr Kristy D'Aprile

#### Council Officers:

Julian Murphy, Chief Executive Officer  
Lisa Hannagan, Executive Manager Finance & Administration  
Libby French, Manager Finance  
Sophie Justins, Executive Assistant to CEO

#### Guests:

#### Apologies:

Cr Ernie Menghini

## 9. REPORTS

### 9.1 Shire of Katanning Audit Report, Management Letter and Annual Report 2017/18 (ATTACHMENT)

**File Ref:**

AC.02.0019

**Reporting Officer:**

Lisa Hannagan, Executive Manager Finance & Administration

**Date Report Prepared:**

9 December 2018

**Issue:**

For the Audit (Finance & Risk) Committee to consider the Shire of Katanning Audit Report, Management Letter and Annual Report for the 2017/18 financial year.

**Body/Background:**

The Audit (Finance & Risk) Committee is required to consider the Audit Report and Management Letter prior to recommending adoption by Council.

A Council resolution adopting the Shire of Katanning Annual Report 2017/18 and the Annual Financial Report 2017/18 is required before Council can convene its Annual General Meeting of Electors.

**Officer's Comment:**

The Shire's Auditors have completed their audit of the Annual Financial Report and certification of Councils 2017/18 annual financial statements. Copies of the Auditor's report, Management Letter and draft Annual Report are included with this agenda.

**Audit Report**

The opinion of the Audit on the Financial Report can be summarised as follows:

*"In our opinion, the financial report of the Shire of Katanning:*

- (a) Is based on proper accounts and reports; and*
- (b) Fairly represents, in all material aspects, the results of the operations of the Shire for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.*

Additionally, the audit opinion reports on other legal and regulatory requirements:

- a) In our opinion, the following matters indicate a significant adverse trend in the financial position of the Shire:
  - i) The Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years.
  - ii) The Asset Sustainability Ratio for the current year and last year is below the DLGSCI standard, and the current year is below last year.
- b) The following material matters indicating non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of our audit:
  - i) For 50% of purchase transactions we sampled, purchase orders were made after the invoices were received. This increases the likelihood of goods and services being purchased without appropriate authorisation.

In addition, we found one instance where there was inadequate or no evidence to suggest a sufficient number of quotations were obtained to test the market with no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement.

- c) All required information and explanations were obtained by us.
- d) All audit procedures were satisfactorily completed in conducting our audit.
- e) In our opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

**Management Report**

The Management Report provides comments on the following:

<b>Management Letter</b>	<b>Staff Response</b>
Purchasing Procedures	The process is in place.
Trust Account	A senior officer has been allocated the task to address trust reconciliations are carried out monthly.
Recovery of Debtors	Auditors noted that a procedure had been formalised to address outstanding debtors.
Uncorrected Misstatements	Noted.



### Draft Annual Report

The Draft Annual Report 2017/18 has been provided with this Agenda Item and includes the Annual Financial Reports.

### **Statutory Environment:**

The relevant sections of the *Local Government Act 1995* and associated regulations provide as follows:

#### **s6.4: Financial report**

- (1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.
- (2) The financial report is to —
  - (a) be prepared and presented in the manner and form prescribed; and
  - (b) contain the prescribed information.
- (3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —
  - (a) the accounts of the local government, balanced up to the last day of the preceding financial year; and
  - (b) the annual financial report of the local government for the preceding financial year.

#### **s5.54: Acceptance of annual reports**

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted\* by the local government no later than 31 December after that financial year.

\* Absolute majority required.

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

#### **s5.55: Notice of annual reports**

The CEO is to give local public notice of the availability of the annual report as soon as practicable after the report has been accepted by the local government.

#### **s5.27: Electors' general meetings**

- (1) A general meeting of the electors of a district is to be held once every financial year.
- (2) A general meeting is to be held on a day selected by the local government but not more than 56 days after the local government accepts the annual report for the previous financial year.
- (3) The matters to be discussed at general electors' meetings are to be those prescribed.

#### **s5.29: Convening electors' meetings**

- (1) The CEO is to convene an electors' meeting by giving —
  - (a) at least 14 days' local public notice; and
  - (b) each council member at least 14 days' notice, of the date, time, place and purpose of the meeting.

#### **s5.33: Decisions made at electors' meetings**

- (1) All decisions made at an electors' meeting are to be considered at the next ordinary council meeting or, if that is not practicable —
  - (a) at the first ordinary council meeting after that meeting; or
  - (b) at a special meeting called for that purpose, whichever happens first.
- (2) If at a meeting of the council a local government makes a decision in response to a decision made at an electors' meeting, the reasons for the decision are to be recorded in the minutes of the council meeting.

*Local Government (Financial Management) Regulations 1996 - Reg 51*

**51: Annual financial report to be signed etc. by CEO and given to Department**

- (1) After the annual financial report has been audited in accordance with the Act the CEO is to sign and append to the report a declaration in the form of Form 1.
- (2) A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

**Policy Implications:**

Nil.

**Financial Implications:**

The cost of Auditing the annual financial reports is included in the Shire Budget.

**Risk Implications:**

Asset Management

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 "Medium" and will require the allocation of additional funding to address the lack of investment in Shire assets. This lack of investment is contributing to the issues with the Asset Sustainability Ratio.

Financial Management

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 "High". The Shire's procurement processes are already well established and the element of risk is staff not adhering to procedures. Senior Finance staff will address the risk by implementing additional controls.

**Strategic Implications:**

Shire of Katanning Strategic Community Plan 2017 – 2027

PRIORITY	LEADERSHIP	
ASPIRATION	L2	A collaborative, progressive and resilient local government which is sustainably resourced.
OBJECTIVE	L2.1	Optimise use of shire resources – improve organisational systems.

**Officer's Recommendation/Committee Motion:****MOVED: CR JOHN GOODHEART****SECONDED: CR SERENA SANDWELL****ARC/18****That the Audit (Finance & Risk) Committee:**

- 1. Recommends that Council accepts the Audit Report for the 2017/18 financial year as presented;**
- 2. Recommends that Council adopts the Annual Report (including the Financial Report) for the year ended 30 June 2018 as presented; and**
- 3. Recommends to Council that the General Meeting of Electors be held on Monday 11 February 2019 at 7.30pm at the Katanning Leisure Centre Pioneer Room.**

**Voting Requirement:** Absolute Majority

CARRIED BY ABSOLUTE MAJORITY: 7/0

Cr Liz Guidera requested to state on the record that Executive Manager Finance and Administration will present Purchase Order Internal Audits to Councillors at the next Finance Forum.

**10. CLOSURE OF MEETING**

The Presiding Member declared the meeting closed at 5.34pm.