



# MINUTES FOR THE AUDIT AND RISK COMMITTEE MEETING

21 AUGUST 2019

## TABLE OF CONTENTS

1.0	DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS.....	3
2.0	RECORD OF ATTENDANCE/APOLOGIES/APPROVED LEAVE OF ABSENCE .....	3
3.0	PUBLIC QUESTION TIME/PETITIONS/DEPUTATIONS/PRESENTATIONS/SUBMISSIONS .....	3
4.0	DECLARATIONS OF INTEREST .....	3
5.0	CONFIRMATION OF PREVIOUS MEETING MINUTES.....	4
5.1	<b>AUDIT &amp; RISK COMMITTEE MEETING HELD 1 MAY 2019 .....</b>	<b>4</b>
6.0	OFFICERS' REPORTS.....	5
6.1	<b>OPERATING SURPLUS RATIO BELOW THE DEPARTMENT STANDARD AS IDENTIFIED IN THE AUDIT REPORT – 2017/18 .....</b>	<b>5</b>
6.2	<b>INTERIM AUDIT REPORT 2018/19.....</b>	<b>7</b>
6.3	<b>FINANCIAL MANAGEMENT REVIEW.....</b>	<b>9</b>
6.4	<b>HUMAN RESOURCE (HR) POLICIES AND PROCEDURES MANUAL.....</b>	<b>11</b>
7.0	ELECTED MEMBERS/MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN .....	14
8.0	NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING .....	14
9.0	CLOSURE .....	14



**AGENDA FOR THE AUDIT AND RISK COMMITTEE MEETING OF THE SHIRE OF MINGENEW TO BE HELD IN COUNCIL CHAMBERS ON 21 AUGUST 2019 COMMENCING AT 3.00PM**

**1.0 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The President HM Newton declared the meeting open at 3:00pm and welcomed all in attendance.

**2.0 RECORD OF ATTENDANCE/APOLOGIES/APPROVED LEAVE OF ABSENCE  
COUNCILLORS**

HM Newton	President	Town Ward
RW Newton	Deputy President	Rural Ward
GJ Cosgrove	Councillor	Rural Ward
LM Eardley	Councillor	Town Ward
AR Smyth	Councillor	Town Ward

**APOLOGIES**

JD Bagley	Councillor	Rural Ward
KJ McGlenn	Councillor	Town Ward
M Battilana	Independent Member	

**STAFF**

N Hay	Chief Executive Officer
J Clapham	Finance Manager
E Greaves	Governance Officer

**3.0 PUBLIC QUESTION TIME/PETITIONS/DEPUTATIONS/PRESENTATIONS/SUBMISSIONS**

Nil - Meeting closed to the public.

**4.0 DECLARATIONS OF INTEREST**

Cr Eardley disclosed an interest in Item 10.2 as the owner of the business that benefits from the fuel contract held between WEX Motorpass and the Shire, that is referred to in relation to a recommendation to review the contract to ensure continued value for money and good procurement process, in the Auditor's Management Letter. The Audit & Risk Committee are only asked to recommend to Council that they receive the Audit Management Letter and therefore the degree of separation on this matter is considered appropriate enough for Cr Eardley to continue to participate in the meeting, but a disclosure was made for the sake of openness and transparency.

**5.0 CONFIRMATION OF PREVIOUS MEETING MINUTES**

**5.1 AUDIT & RISK COMMITTEE MEETING HELD 1 MAY 2019**

**AUDIT & RISK COMMITTEE DECISION - ITEM 10.1.1 - Resolution A19082101**

Moved: Cr Newton      Seconded: Cr Eardley

That the minutes of the Audit & Risk Committee Meeting of the Shire of Mingenew held in the Council Chambers on 1 May 2019 be confirmed as a true and accurate record of proceedings

**VOTING DETAILS:**

**CARRIED BY SIMPLE MAJORITY: 5/0**

## 6.0 OFFICERS' REPORTS

### 6.1 OPERATING SURPLUS RATIO BELOW THE DEPARTMENT STANDARD AS IDENTIFIED IN THE AUDIT REPORT – 2017/18

Location/Address:	Shire of Mingenew
Name of Applicant:	Shire of Mingenew
Disclosure of Interest:	Nil
File Reference:	ADM0081
Date:	15 July 2019
Author:	Jeremy Clapham, Finance Manager
Voting Requirement:	Simple majority

#### Summary

In the audit report by Butler Settineri for the year ended 30 June 2018, a significant issue was identified: that the Operating Surplus Ratio of the Shire is below the standard of the Department of Local Government (DLGSC). This report seeks to note the issue raised by the auditors in the Audit Report of the Shire for 2017/18 and identify what is being done to address it.

#### Related Documents

Audit Report 2017/18  
Email received from DLGSC

**AUDIT & RISK COMMITTEE DECISION / RECOMMENDATION TO COUNCIL – ITEM 6.1- Resolution A19082102**  
Moved: Cr Smyth                  Seconded: Cr Newton

**That Council receives this report in regard to the significant issue raised in the Audit Report for 2017/18 – Operating Surplus Ratio below DLG standard.**

**VOTING DETAILS:**

**CARRIED BY SIMPLE MAJORITY: 5/0**

#### Attached

6.1.1 Operating Surplus Ratio calculation 2017/18

#### Background

In the Audit Report from Butler Settineri for the year ended 30 June 2018 there was a significant issue identified: that the Operating Surplus Ratio of the Shire is below the standard of the Department of Local Government (DLGSC). The Shire received an email from DLGSC in this regard stating that according to Section 7.12A(4) of the Local Government Act 1995 the Shire needed to:

- Prepare a report addressing this matter
- State what action the Shire has taken or intends to take to address this matter

The Department has requested that the Shire prepare a report for the Audit and Risk Committee and seek Councils endorsement before forwarding a copy to the department.

#### Comment

The requirement under s7.12A(4) is a new one, as a result we have not previously reported to the Department on this matter – despite having had negative Operating Surplus Ratios for the past three years (and before).

The Shire realises that this ratio shows a negative value, however, Local Governments such as the Shire of Mingenew rely on capital grant funding to sustain them, as such it is incredibly difficult to achieve an operating surplus in any given year. In comparing the Shire's Operating Surplus Ratio with other nearby Shires, it can clearly be seen that the other Shires face the same issue (please see comparison table below).

Operating Surplus Ratio	2018	2017	2016
Shire of Mingenew	-0.32	-0.39	-0.60
Shire of Morawa	-0.54	0.19	0.67
Shire of Coorow	-1.02	-0.87	-1.48
Shire of Carnamah	-0.14	0.31	-0.12
Standard as per DLG	0.01 to 0.15	0.01 to 0.15	0.01 to 0.15

By adjusting this ratio to account for Financial Assistance Grants paid in advance and the impact of increased revenue/expenditure for flood damage (WANDRRA), which are considered one-off events, this ratio would be reduced to -0.24% for 2017/18, which is still below the standard.

In order to try to address this adverse ratio, the Shire will continue to review its operating income and expenditure and attempt to try to reduce the difference between operating income and operating expenditure. To achieve this, the Shire will review its depreciation charge (which makes up 42% of operating expenditure on its own), review its annual rates increases and review its Fees & Charges. It will also investigate other potential revenue streams and the reliance on capital grant funding.

For a Shire the size of Mingenew, increasing revenue through raising rates, fees and charges is not a realistic or sustainable way to address this ratio due to the relatively small amounts involved. It requires fundamental changes to the way that local government is funded (increasing operational grants rather than capital grants) for us to be in a position to easily meet the DLG Standard for this ratio. This is something that we will continue to lobby for, as part of sector-wide efforts to lift Financial Assistance Grants to 1% of Commonwealth Taxation Revenue.

It is interesting to note that out of the 116 Local Governments that were audited under the new Office of the Auditor General (OAG) for 2017/18 that only 23 met the benchmark for this ratio. This represents only 19.8% of Local Governments audited.

### Consultation

CEO, Senior Finance Officer and reference to ratio calculations by Butler Settineri.

### Statutory Environment

Section 7.12A(4) of the Local Government Act 1995 sets out the requirements of addressing any matters identified as significant by the auditor in the audit report.

### Policy Implications

Council Policy 1.3.4 Significant Accounting Policies.

### Financial Implications

There are no direct financial implications, but there may be financial implications in the future, depending on what actions are taken to address this ratio.

### Strategic Implications

Council will continue leading the Shire in a strategic direction that benefits the community.

Per Strategic Community Plan;

#### 1.2 - Capability:

- 1.2.1 Manage organisation in a financially sustainable manner.
- 1.2.3 Provide sound corporate governance of Shire and create an attractive work environment.

#### 1.3 – Compliance:

- 1.3.1 Provide a high level of compliance with external regulation, in a resource efficient manner

## 6.2 INTERIM AUDIT REPORT 2018/19

<b>Location/Address:</b>	Shire of Mingenew
<b>Name of Applicant:</b>	Shire of Mingenew
<b>File Reference:</b>	ADM0081
<b>Disclosure of Interest:</b>	Nil
<b>Date:</b>	6 August 2019
<b>Author:</b>	Nils Hay, Chief Executive Officer
<b>Authorising Officer:</b>	Nils Hay, Chief Executive Officer
<b>Voting Requirement:</b>	Simple Majority

### Summary

This report recommends that Council endorse the recommendation from the Audit & Risk Committee to receive the Draft Interim Management Letter and the proposed course of action to address the matters raised in the Draft Interim Management Letter.

### Key Points

- Annual interim audit for financial year ended 30 June 2018
- 1 significant, 8 moderate and 2 minor findings
- Findings largely relate to breaches of procedure/policy
- Overlaps heavily with FMR findings (see Item 6.3)

**AUDIT & RISK COMMITTEE DECISION / RECOMMENDATION TO COUNCIL – ITEM 6.2- Resolution A19082103**  
Moved: Cr Cosgrove    Seconded: Cr Smyth

**That Council receives the Interim Management Letter prepared by Butler Settineri for the 2018/19 Interim Audit and notes the comments provided by Management in response to the findings.**

**VOTING DETAILS:** **CARRIED BY SIMPLE MAJORITY: 5/0**

### Attached

6.2.1 Interim Audit Report 2018/19 Management Letter

### Background

The interim audit for the financial year ending 30 June 2019 took place in June 2019 and was conducted by Butler Settineri, on behalf of the Office of the Auditor General (OAG).

The Draft Interim Management Letter was received by Council on 12 August 2019 and management responses prepared and provided to Butler Settineri on 13 August 2019.

On 15 August, Butler Settineri advised that – following review by the OAG, the findings and ratings the final report will be provided without adjustment.

On 16 August, the final Interim Management Letter was received.

Previously there has not been a Management Letter issued for the Interim Audit; this is a new addition following commencement of the OAG's management of the local government audit process.

### Comment

See detailed comments in relation to each item in the attached draft response to the management letter.

**Consultation**

- CEO
- Finance Manager
- Butler Settineri

**Statutory Environment**

Local Government Act 1995  
Local Government (Audit) Regulations 1996  
Local Government (Functions & General) Regulations 1996

**Policy Implications**

Whilst there are no direct policy implications, the review may form recommendations that are to form the basis of changes to internal policies, procedures and controls for the Shire.

**Financial Implications**

Nil.

**Strategic Implications**

Strategic Community Plan 2019-2029

- Action 1.2.1 Manage organisation in a financially sustainable manner
- Action 1.3.1 Provide a high level of compliance with external regulation, in a resource-efficient manner



### 6.3 FINANCIAL MANAGEMENT REVIEW

**Location/Address:** Shire of Mingenew  
**Name of Applicant:** Shire of Mingenew  
**File Reference:** ADM0081  
**Disclosure of Interest:** Nil  
**Date:** 6 August 2019  
**Author:**  
**Authorising Officer:** Nils Hay, Chief Executive Officer  
**Voting Requirement:** Simple Majority

#### Summary

To review and make recommendation to Council regarding the Financial Management Review conducted in June 2019 by Butler Settineri.

#### Key Points

- A review of the appropriateness and effectiveness of the Shire's financial management systems and procedures are to be conducted not less than once every 4 financial years.
- The last financial management review was conducted in 2015
- Results mirror those of recent Interim Audit:
  - 3 significant, 9 moderate, 3 minor findings
- Whilst 3 issues were branded as 'significant' all issues are relatively minor in terms of materiality, but they do indicate occasions when policy or procedure are lacking or have not been correctly followed

**AUDIT & RISK COMMITTEE DECISION / RECOMMENDATION TO COUNCIL – ITEM 6.3- Resolution A19082104**  
**Moved: Cr Cosgrove    Seconded: Cr Smyth**

**That Council receives the Financial Management Review 2019 undertaken by Butler Setterini on behalf of the CEO, in accordance with Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 and acknowledges the result of this review.**

**VOTING DETAILS:**

**CARRIED BY SIMPLE MAJORITY: 5/0**

#### Attached

6.3.1 Financial Management Review

#### Background

Butler Settineri conducted the FMR in conjunction with the June Interim Audit, examining a number of the Shire's financial management policies, procedures and systems in conjunction with numerous transactions and activities.

#### Comment

See the Management Responses in the attachment for detailed comment on each issue. Broadly speaking, the FMR found that – whilst our financial control environment continues to improve, there are still areas where we can tighten up. As per section 1.4 of the FMR: *“From the work performed during our review, we note that the financial management framework is generally in good order.”*

All the issues noted tend to be a result of oversight or genuine error, as opposed to any actual deliberate attempt to subvert our controls or act with malfeasance.

Several items (10, 11 and 14) are already being addressed this financial year through the Internal Audit Plan, whilst other items (12,15) have already been addressed.

Beyond general improvement of oversight in some areas, the only other item raised which may require general investigation is Item 6, which recommends a review of the Shire's fuel procurement.

### **Consultation**

- CEO
- Finance Manager
- Butler Settineri

### **Statutory Environment**

Local Government (Financial Management) Regulations 1996

Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 requires that the CEO:

*"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."*

### **Policy Implications**

Whilst there are no direct policy implications, the review may form recommendations that are to form the basis of changes to internal policies, procedures and controls for the Shire.

### **Financial Implications**

Nil.

### **Strategic Implications**

Strategic Community Plan 2019-2029

- Action 1.2.1 Manage organisation in a financially sustainable manner
- Action 1.3.1 Provide a high level of compliance with external regulation, in a resource-efficient manner

## 6.4 HUMAN RESOURCE (HR) POLICIES AND PROCEDURES MANUAL

**Location/Address:** Shire of Mingenew  
**Name of Applicant:** Shire of Mingenew  
**File Reference:** ADM0489  
**Disclosure of Interest:** Nil  
**Date:** 13 August 2019  
**Author:** Erin Greaves, Governance Officer  
**Authorising Officer:** Nils Hay, Chief Executive Officer  
**Voting Requirement:** Simple Majority

### Summary

A Human Resource (HR) Policies and Procedures Manual is presented for the Audit & Risk Committee's consideration, and recommendation to Council.

### Key Points

- The HR Policies and Procedures Manual has been developed in response to the 3-Year Internal Audit Plan and better practice standards
- The Internal Audit Plan scheduled the development of the HR Policies and Procedures to be actioned within the first quarter of 2019/20
- The HR Policies and Procedures are proposed to be reviewed, managed and implemented by the Chief Executive Officer

**AUDIT & RISK COMMITTEE DECISION / RECOMMENDATION TO COUNCIL – ITEM 6.4- Resolution A19082105**  
Moved: Cr Cosgrove    Seconded: Cr Smyth

### **That Council:**

- a) Revokes the Discrimination, Harassment and Bullying Policy adopted 21 November 2018 and removes it from Council's Policy Manual;
- b) Endorses the Human Resource (HR) Policies and Procedures Manual version 2019.1 (reference NHR191109) which is herein managed, amended and reviewed for continuous improvement by the Chief Executive Officer;
- c) Acknowledges the adoption of the HR Policies and Procedures Manual as satisfying the requirement to assess the effectiveness of the Shire's HR strategies and management processes including recruitment, staff retention, termination, disciplinary actions, performance management, training and development. within the 3-Year Internal Audit Plan.

**VOTING DETAILS:**

**CARRIED BY SIMPLE MAJORITY: 5/0**

### Attached

- 6.4.1 Draft HR Policies and Procedures
- 6.4.2 Current Discrimination, Harassment and Bullying Policy and Management Procedure
- 6.4.3 3-Year Internal Audit Plan

### Background

In May 2019, the Shire's Audit & Risk Committee and subsequently Council, adopted a 3-Year Internal Audit Plan that identified the need to improve the effectiveness of the Shire's HR strategies and management processes.

### Comment

In response to this, an initial suite of draft HR Policies and Procedures have been developed for review, with further additions and ongoing reviews to be conducted to ensure that the Shire continues to address its needs in terms of recruitment, staff retention, termination, disciplinary actions, performance management, training and development.

A majority of the policies and procedures are based on model policies and procedures prepared by WALGA's Employee Relations team, with some amendments or additions made to ensure they are commensurate with the Shire's size and local needs.

The HR Policies and Procedures Manual incorporates the following:

- Disciplinary Policy
- Discrimination, Harassment & Bullying Policy
- Drug and Alcohol Policy
- Employee Performance and Development Policy and procedure
- Grievances, Investigations & Resolution Policy and procedure
- Leave Management, Annual and Long Service Leave Policy
- Performance Management Policy
- Recruitment and Selection Policy and procedure
- Secondary Employment Policy
- Social Media Policy
- Equal Opportunity Policy

These policies and procedures have been prepared as a separate document to Council's Policy Manual to differentiate between the CEO's management responsibility of employees / operational matters and the strategically policy-making responsibilities of Council.

As such, it is recommended that the Discrimination, Harassment & Bullying Policy that was adopted as part of Council's Policy Manual in November 2018 be revoked and incorporated into the new HR Policies and Procedures Manual. The Discrimination, Harassment & Bullying Policy is effective for the management of employees and it is therefore recommended to be reviewed, managed and implemented by the Chief Executive Officer. Discrimination, Harassment and Bullying in respect of Councillors is dealt with under the authority of the Local Government (Rules of Conduct) Regulations 2007 and the Shire's Code of Conduct for Elected Members.

### Consultation

Leadership Team  
WALGA Employee Relations

### Statutory Environment

Local Government Act 1995

### Policy Implications

It may be necessary to conduct a review of the Shire's Complaints Handling Policy and Procedure to ensure there is no crossover with the Grievances, Investigations & Resolution Policy and procedure with the intent of providing clarity on external complaints handling process. The next action identified on the Shire's Internal Audit Plan is a review of the Shire's Customer Service Charter which can be reviewed in conjunction with the review of the Complaints Handling Policy and procedure.

**Financial Implications**

Each policy, where applicable, outlines any financial implications specific to the application of the Policy. In effectively communicating and managing these policies and procedures, the Shire mitigates any industrial relations risk associated with its Human Resource Management (HRM) function by providing operational procedures that are supported by procedural fairness and natural justice.

**Strategic Implications**

Once adopted by the CEO, the HR Policies and Procedures will be communicated to all staff and reviewed to ensure ongoing compliance and continuous improvement, ultimately aligning with the Shire's Community Strategic Plan objective: '*4.2 An open and accountable local government that is respected, professional and trustworthy*', and '*4.5 Achieve a high level of compliance*'.

7.0 ELECTED MEMBERS/MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN  
Nil.

8.0 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING  
Nil.

9.0 CLOSURE  
The meeting was declared closed at 3:17pm.

These minutes were confirmed at an Audit and Risk Committee Meeting on

Signed \_\_\_\_\_  
Presiding Officer

Date: \_\_\_\_\_