



MINUTES

AUDIT & RISK MANAGEMENT COMMITTEE

held on

Thursday, 10 August 2023 at 6:00pm

at the

**Shire of Morawa Council Chambers,
26 Winfield Street, Morawa**



WESTERN AUSTRALIA'S
WILDFLOWER COUNTRY

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DISCLOSURE OF FINANCIAL/ IMPARTIALITY/ PROXIMITY INTERESTS

Local Government Act 1995 – Section 5.65, 5.70 and 5.71 Local Government (Administration) Regulation 34C

<i>This form is provided to enable members and officers to disclose an Interest in a matter in accordance with the regulations of Section 5.65, 5.70 and 5.71 of the Local Government Act and Local Government (Administration) Regulation 34C</i>			
Name of person declaring the interest			
Position			
Date of Meeting			
Type of Meeting (Please circle one)	Council Meeting/ Committee Meeting/ Special Council Meeting Workshop/ Public Agenda Briefing/ Confidential Briefing		
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality

Signature: _____

Date: _____

Important Note: Should you declare a **Financial** or **Proximity** Interest, in accordance with the Act and Regulations noted above, you are required to leave the room while the item is being considered. For an **Impartiality** Interest, you must state the following prior to the consideration of the item:

“With regard to agenda item (read item number and title), I disclose that I have an impartiality interest because (read your reason for interest). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.”

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Item 1 Opening of Meeting

The Presiding Member declared the meeting open at 6:04pm.

Item 2 Acknowledgement of Traditional Owners and Dignitaries

The Presiding Member acknowledges the traditional custodians, the Yamatji people, and recognises the contribution of Yamatji elders past, present and future, in working together for the future of Morawa.

Item 3 Recording of Attendance**4.1 Attendance****Committee Members – Electronic**

President Councillor Karen Chappel

Committee Members – In Person

Deputy President (Presiding Member) Councillor Ken Stokes

Councillor Debbie Collins

Councillor Shirley Katona

Staff

Chief Executive Officer

Executive Manager Corporate & Community Services

Scott Wildgoose

Jackie Hawkins

Members of the Public

Nil

4.2 Apologies

Councillor Jane Coaker

Councillor Yvette Harris

4.4 Approved Leave of Absence

Councillor Mark Coaker

4.5 Disclosure of Interests

Nil

Item 5 Applications for Leave of Absence

Nil

Item 6 Response to Previous Questions

Nil

Item 7 Questions from Members without Notice

Nil

Item 8 Announcements by Presiding Member without Discussion

Nil

Item 9 Declarations of All Members to have Given Due Consideration to All Matters Contained in the Business Paper before the Meeting

The Elected Members to declare that they had given due consideration to all matters contained in the agenda.

- President Councillor Karen Chappel (Presiding Member)
- Deputy President Councillor Ken Stokes
- Councillor Debbie Collins
- Councillor Shirley Katona

Item 10 Confirmation of Minutes of Previous Meeting**OFFICER'S RECOMMENDATION/RESOLUTION**

230801

Moved: Cr Collins

Seconded: Cr Katona

That the Audit Committee Meeting Minutes held on Thursday, 2 March 2023 are confirmed to be a true and correct record.

CARRIED BY SIMPLE MAJORITY 4/0

Disclaimer

Members of the public are cautioned against taking any action on Council decisions, on items in this agenda in which they may have an interest, until formal notification in writing from the Shire has been received. Decisions made at this meeting can be revoked pursuant to the Local Government Act 1995.

Item 11	Reports of Officers
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11.1	2022-2023 Regulation 17 Actions Update
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Author: Chief Executive Officer

Authorising Officer: Chief Executive Officer

Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION/RESOLUTION

230802

Moved: Cr Collins

Seconded: Cr Katona

That the Audit Committee:

- Notes the Reg 17 review update for August 2023 and accepts the actions taken so far.**

CARRIED BY SIMPLE MAJORITY 4/0

PURPOSE

For the Audit Committee to be updated on the status of the action items relating to the 2023 Regulation 17 assessment.

DETAIL

Background

The Audit Committee (Committee) is responsible for the oversight of actions related to the Local Government (Audit) Regulations 1996. Regulation 17 states that the CEO is to review certain systems and procedures relating to risk management, internal control, and legislative compliance at least once in every three financial years.

The last Regulation 17 review was conducted in 2022/2023 by Civic Legal as an experienced Local Government specialised legal firm.

Regulation 17 reviews are not pass or fail and centre around embedding continuous improvement within the organisation.

A number of suggested actions were highlighted as part of the reviews findings. Council has previously endorsed the CEO's allocated timeframes against each action with the goal of delivering all actions by the time of the next review in 2026.

Update

A full update is provide in *Attachment 1*.

The below table provides a status update on action items completed and those with delivery dates fallen due.

Risk Management			
System or procedure	Action	Timeframe for Delivery	Status Update August 2023
Business Continuity Plan	Complete ICT body of work currently underway including ICT DR Plan	Jun-23	First draft received and under review by CEO
Use of corporate credit cards	Review all Council Policies	Jun-23	In progress
Communicating changes to the Shire's control environment to relevant employees	Review all Council Policies	Jun-23	In progress
IT management plan and data recovery procedure	Complete the 5 Year ICT Plan.	Jun-23	In progress
	Ensure that the review of the IT Disaster Recovery Plan occurs and is progressed.	Jun-23	Completed
Internal Control			
System or procedure	Action	Timeframe for Delivery	Status Update August 2023
Delegation register review	Establish a register of delegations from the CEO including all on-delegations.	Jun-23	Completed
Recording use of delegations	Ensure recording requirements are included in delegation register and letters	Jun-23	Completed
Policy manual review	Review Council Policy Manual	Jun-23	In progress
	Develop a written procedure to guide the review process for both council, and executive policies.	Jun-23	In progress

Liaising with legal advisors	Review Council Policy Manual	Jun-23	In progress
Restricting access to physical assets and records	Ensure there is a formal process/register for recording keys and swipe cards that are allocated to employees.	Jun-23	In progress
Legislative Compliance			
System or procedure	Action	Timeframe for Delivery	Status Update August 2023
Receiving, recording and addressing complaints	Review Council Policies	Jun-23	In Progress
Ensuring the Audit Committee understands and complies with all relevant requirements	Review the Audit Committee Terms of Reference.	Oct-23	Completed
Reviewing local laws	Ensure Local Law reviews are scheduled in Reliansys	Jun-23	Completed

The majority of items that are overdue are linked to a review of the Council Policy manual and updating of policies. This is quite a time intensive task and will likely take until December as part of a staged manual review process.

LEVEL OF SIGNIFICANCE

Medium – achieving the agreed upon action items within delivery timeframe will ensure continued improvement and compliance enhancements.

CONSULTATION

Senior Management Team

LEGISLATION AND POLICY CONSIDERATIONS

Local Government Act 1995

Local Government (Audit) Regulations 1996

Strategic Community Plan 2022 to 2032

N/A

FINANCIAL AND RESOURCES IMPLICATIONS

The delivery of some action items will involve consultant support or significant current workload reallocation. This will fall within normal budgetary constraints.

RISK MANAGEMENT CONSIDERATIONS

The Reg 17 Audit is essentially a risk mitigation/identification measure focussed on providing the Audit Committee with information relating to potential systems or procedure risk areas.

CONCLUSION

The CEO has continued to work towards achieving organisation wide compliance, with a status update of the Reg 17 Review action items as presented above.

ATTACHMENTS

Attachment 1 – 11.1a Shire of Morawa Reg 17 Action Items – August 2023 Update

11.2 2022-2023 Interim Audit

Author: Chief Executive Officer

Authorising Officer: Chief Executive Officer

Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION/RESOLUTION**230803****Moved: Cr Chappel****Seconded: Cr Collins**

That the Audit Committee:

- 1. Notes the Interim Audit Letter and the Management Comments**
- 2. Directs the CEO to perform a system access review before December 2023 to ensure all system access remains relevant, and effective taking a risk based approach ensuring operational outputs are still achievable on a daily basis.**

CARRIED BY SIMPLE MAJORITY 4/0

PURPOSE

For the Audit Committee to review the findings of the interim audit and the proposed actions of the administration.

DETAIL

As part of the normal annual financial audit processes the Shire's auditors conduct an interim audit each year to review the overall control environment to build an understanding of business processes, risks, and controls relevant to the audit of the annual financial statements.

The interim audit for the Annual Financial report for the year ended 30 June 2023, was conducted onsite during the period 22nd to 26 May 2023.

An exit interview was held with the CEO on the 26 May and no major concerns were raised, and all subsequent clarifications sought by the auditors were responded to in a timely manner.

The management letter associated with the interim audit was received by the administration on the 11 July 2023.

One significant finding was raised by the auditors. This finding related to access permissions. The Shire CEO and Executive Manager Corporate and Community Services discussed the finding and provided a management comment to the auditors on the 21 July 2023.

On the 25 July 2023 the office of the auditor general issued the final version of the management letter to the CEO and Shire President (as per the confidential attachment – confidential due to sensitive nature of trade information in the letter).

In essence the finding of the auditors was that not enough segregation of duties existed and that too much system access was granted to particular users.

Interestingly, it was noted that this was not a finding in prior years, but the administration have actually reviewed access over the last 2 years and segregated and refined where possible, so the risk profile has actually reduced compared to previous years.

The Shire's enterprise system is complex and has multiple linkages across modules, parameters, and access requirements. Evidence has shown that a minor access change often impacts an operation process at some stage due to unknown linkages.

On top of this the Shire has a team of only 5 core administrative and finance personnel. With the vast array of tasks and duties to be performed this makes segregation of duties difficult to achieve as employees need to be able to cover each other and often use similar modules to perform functions.

In larger organisations system administration and security would be run through the ICT department and other departments would utilise the system to perform functions. At the Shire, ICT and corporate functions all fall within the same department.

On assessing the current risk to the Shire the CEO has determined that the risk of reducing access to a greater degree will likely impact core business as usual operations.

The CEO agrees with the concept of segregation and that system access represents a risk but in the Shire's operational context is not confident that further restrictions are feasible.

In response to the auditors findings the CEO will be implementing an annual review of system access, and investigation other control mechanisms assigned to ensure those with greater access have regular monitoring and limitations.

LEVEL OF SIGNIFICANCE

High – the Shire Auditors have rated the finding as significant and as such they believe that there is a potentially significant risk to the entity. The administration challenges the rating on the basis that segregations exist when it comes to payments, and other processes, as such system changes will not threaten the entities existence but it is a risk that should be regularly reviewed and controlled.

CONSULTATION

Nexia
OAG Director
Senior Management Team

LEGISLATION AND POLICY CONSIDERATIONS

Local Government Act 1995
Local Government (Audit) Regulations 1996

Strategic Community Plan 2022 to 2032

N/A

FINANCIAL AND RESOURCES IMPLICATIONS

Nil

RISK MANAGEMENT CONSIDERATIONS

The Interim Audit is a risk management practice in itself and the auditors findings are always welcomed as they highlight areas of improvement for the Shire. In terms of the risk identified the Shire proposes to improve access review and approval processes, continue to review access privileges and reduce where appropriate whilst maintaining operational priorities, and ensure appropriate audit logs and system use controls exist to monitor privileged users.

CONCLUSION

The CEO has reviewed the auditors findings and whilst the theory associated with the finding is sound, the practical application at a small Local Government and within the Shire's ERP system is potentially unrealistic.

ATTACHMENTS

Attachment 1 – 11.2a Confidential – Interim Management Letter

11.3 Financial Management Review 2022 – Status Report Update

Author: Executive Manager Corporate and Community Services

Authorising Officer: Chief Executive Officer

Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION/RESOLUTION**230804****Moved: Cr Collins****Seconded: Cr Chappel**

That the Audit Committee:

- 1. Receive the Financial Management Review 2022 status report update.**
- 2. Direct the CEO to present a further update on the Financial Management Review findings and actions taken at the next Committee meeting with the aim of resolving all outstanding actions by December 2023.**

CARRIED BY SIMPLE MAJORITY 4/0

PURPOSE

The purpose of this report is to present to the Audit & Risk Management Committee (ARMC) the Financial Management Review 2022 (FMR) status review update.

DETAIL

In accordance with Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996, local government CEOs are to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government not less than once in every three financial years and report to the local government the results of the reviews.

RSM Australia were engaged to undertake the review in January 2022.

From the FMR report provided management have produced a Status Report (***Attachment 1***) that lists all the outstanding issues identified and the planned actions to remedy the issues. This report has been updated with the actions taken to date and is presented to the ARMC for review.

LEVEL OF SIGNIFICANCE

Moderate– provides a representation of how effective the current controls that have been implemented at the Shire of Morawa are.

CONSULTATION

Internal
Chief Executive Officer
Finance team

LEGISLATION AND POLICY CONSIDERATIONS

Local Government Act 1995
Local Government (Financial Management) Regulations 1996
Local Government (Audit) Regulations 1996

FINANCIAL AND RESOURCES IMPLICATIONS

There are no financial or resource implications

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

Shire of Morawa Community Strategic Plan 2022-2032

Be future focused in all we do:

1. Ensure the Shire and its assets are well resourced and sustainable.

RISK MANAGEMENT CONSIDERATIONS

Findings outlines in the FMR report are assigned a risk rating. These ratings 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. Preparation of a schedule of management actions and reporting progress to the ARMC ensures findings are appropriately addressed.

CONCLUSION

Whilst there are several areas where Council's systems and procedures can be improved, there are many areas where the controls in place are of a good standard.

ATTACHMENTS

Attachment 1 – 11.3a Financial Management Review Status Report Update

Item 12 Motions of Which Previous Notice Has Been Given

Nil

Item 13 New Business of an Urgent Nature

Nil

Item 14 Closure

14.1 Date of Next Meeting

The next Audit & Risk Committee will be held on Thursday, 12 October 2023 commencing at 6.00pm.

14.2 Closure

There being no further business, the Presiding Member declared the meeting closed at 6:08pm.