



Shire of Dardanup

MINUTES

AUDIT & RISK COMMITTEE MEETING

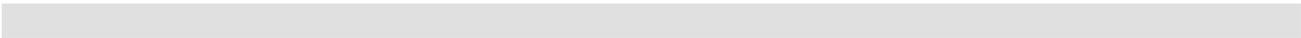
Held

13th September 2023

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

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Upon request.



VISION STATEMENT

“Provide effective leadership in encouraging balanced growth and development of the Shire while recognizing the diverse needs of our communities.”

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COMMITTEE MEMBERSHIP:

- CR M BENNETT
- CR T GARDINER
- CR. M HUTCHINSON
- CR. P PERKS
- CR. E LILLY

AUDIT & RISK COMMITTEE CHARTER

The Terms of Reference for this Committee are located in the Tardis records system – refer to the following link:

[2021 - ToR - Audit and Risk Committee](#)

COUNCIL ROLE

Advocacy	When Council advocates on its own behalf or on behalf of its community to another level of government / body /agency.
Executive/Strategic	The substantial direction setting and oversight role of the Council eg. Adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
Legislative	Includes adopting local laws, town planning schemes and policies.
Review	When Council reviews decisions made by Officers.
Quasi-Judicial	<p>When Council determines an application/matter that directly affects a person's rights and interests. The Judicial character arises from the obligations to abide by the principles of natural justice.</p> <p>Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg: under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</p>

DISCLAIMER

"Any statement, comment or decision made at a Council or Committee meeting regarding any application for an approval, consent or licence, including a resolution of approval, is not effective as an approval of any application and must not be relied upon as such.

Any person or entity that has an application before the Shire must obtain, and should only rely on, written notice of the Shire's decision and any conditions attaching to the decision, and cannot treat as an approval anything said or done at a Council or Committee meeting.

Any advice provided by an employee of the Shire on the operation of a written law, or the performance of a function by the Shire, is provided in the capacity of an employee, and to the best of that person's knowledge and ability. It does not constitute, and should not be relied upon, as a legal advice or representation by the Shire. Any advice on a matter of law, or anything sought to be relied upon as a representation by the Shire should be sought in writing and should make clear the purpose of the request."

RISK ASSESSMENT

Inherent Risk	The level of risk in place in order to achieve the objectives of the Council and before actions are taken to alter the risk's impact or likelihood.
Residual Risk	The remaining level of risk following the development and implementation of Council's response.
Strategic Context	These risks are associated with achieving Council's long term objectives.
Operational Context	These risks are associated with the day-to-day activities of the Council.
Project Context	<p>Project risk has two main components:</p> <ul style="list-style-type: none"> • Direct refers to the risks that may arise as a result of project, which may prevent the Council from meeting its objectives. • Indirect refers to the risks which threaten the delivery of project outcomes.

SHIRE OF DARDANUP

MINUTES OF THE SHIRE OF DARDANUP AUDIT & RISK COMMITTEE MEETING HELD ON WEDNESDAY, 13TH SEPTEMBER 2023, AT SHIRE OF DARDANUP – EATON ADMINISTRATION CENTRE, COMMENCING AT 2.02PM.

1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Chairperson declared the meeting open at 2.02pm welcomed those in attendance and referred to the Acknowledgement of Country; Emergency Procedures; and the Disclaimer and Affirmation of Civic Duty and Responsibility on behalf of Councillors and Officers:

Acknowledgement of Country

The Shire of Dardanup wishes to acknowledge that this meeting is being held on the traditional lands of the Noongar people. In doing this, we recognise and respect their continuing culture and the contribution they make to the life of this region and pay our respects to their elders, past, present and emerging. The Shire of Dardanup also respects and celebrates all cultures of all our residents and those visitors to our Shire.

Emergency Procedure

In the event of an emergency, please follow the instructions of the Chairperson who will direct you to the safest exit route. Once outside, you will be directed to an appropriate Assembly Area where we will meet (and complete a roll call).

Affirmation of Civic Duty and Responsibility

Councillors and Officers of the Shire of Dardanup collectively declare that we will duly, faithfully, honestly and with integrity fulfil the duties of our respective office and positions for all the people in the district according to the best of our judgement and ability. We will observe the Shire's Code of Conduct and Standing Orders to ensure efficient, effective and orderly decision making within this forum.

2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE PREVIOUSLY APPROVED

2.1 AttendanceVoting

Cr Tyrrell Gardiner	-	Elected Member (Chairperson)
Cr Mark Hutchinson	-	Elected Member (Deputy Chairperson)
Cr Michael Bennett	-	Elected Member

Non-Voting

Mr André Schönfeldt	-	Chief Executive Officer
Mr Phil Anastasakis	-	Deputy Chief Executive Officer
Mr Theo Naudé	-	Director Infrastructure
Mr Ashwin Nair	-	Director of Sustainable Development
Mrs Natalie Hopkins	-	Manager Financial Services
Mr Kieran O'Brien	-	ERP Project Manager
Mrs Cindy Barbetti	-	Compliance Officer
Mrs Rebecca Hobby	-	PA – Deputy Chief Executive Officer

2.2 Apologies

Cr Patricia Perks	-	Elected Member
Cr. Ellen Lilly	-	Elected Member
Mr Chris Murray	-	Manager Information Services
Mrs Cathy Lee	-	Manager HR
Mr Ray Pryce	-	Accountant
Mrs Katherine Kaurin	-	Assistant Accountant
Ms Tricia Richards	-	Assistant Accountant

3. PRESENTATIONS

None.

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

4.1 Minutes - Audit and Risk - 14 June 2023

**OFFICER RECOMMENDED RESOLUTION &
AUDIT & RISK COMMITTEE RESOLUTION**

AAR 17-23 MOVED - Cr Mark Hutchinson

SECONDED – Cr Michael Bennett

THAT the Minutes of the Audit & Risk Committee Meeting held on the 14th of June 2023, be confirmed as true and correct subject to no corrections.

CARRIED
3/0

Note: Chief Executive Officer, Mr André Schönfeldt left the room at 2.04pm and returned at 2.05pm.

5. ANNOUNCEMENTS OF MATTERS FOR WHICH MEETING MAY BE CLOSED

5.1 [Title: Cyber Security Report](#)

It is recommended that the Committee go behind closed doors toward the end of the meeting in accordance with Shire of Dardanup Standing Orders & *Local Government Act 1995 Section 5.23 (2) - Matters for Which Meeting May Be Closed*:

Standing Order and the *Local Government Act 1995* provides for the Committee to resolve to close the meeting to the public and proceed behind closed doors for matters:

- S 5.23 (1) *Subject to subsection (2), the following are to be open to members of the public-*
- (a) *all Council meetings; and*
 - (b) *all meetings of any committee to which a local government power or duty has been delegated.*
- (2) *If a meeting is being held by a Council or by a committee referred to in subsection (1) (b), the Council or committee may close to members of the public the meeting, or part of the meeting, if the meeting or the part of the meeting deals with any of the following -*
- (a) *a matter affecting an employee or employees;*
 - (b) *the personal affairs of any person;*
 - (c) *a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting;*
 - (d) *legal advice obtained, or which may be obtained, by the local government and which relates to a matter to be discussed at the meeting;*
 - (e) *a matter that if disclosed, would reveal -*
 - (i) *a trade secret;*
 - (ii) *information that has a commercial value to a person; or*
 - (iii) *information about the business, professional, commercial or financial affairs of a person,*
where the trade secret or information is held by, or is about, a person other than the local government;
 - (f) *a matter that if disclosed, could be reasonably expected to -*
 - (i) *impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law;*
 - (ii) *endanger the security of the local government's property; or*
 - (iii) *prejudice the maintenance or enforcement of a lawful measure for protecting public safety;*
 - (g) *information which is the subject of a direction given under section 23 (1a) of the Parliamentary Commissioner Act 1971; and*
 - (h) *such other matters as may be prescribed.*
- (3) *A decision to close a meeting or part of a meeting and the reason for the decision are to be recorded in the minutes of the meeting.*

Note: *The Chairperson to advise that the meeting will go behind closed doors toward the end of the meeting to discuss S.5.23 section (2)(f)(ii) a matter that if disclosed, could be reasonably expected to endanger the security of the local government's property.*

6. QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

None.

7. DECLARATION OF INTEREST

Discussion:

Chairperson, Cr. T Gardiner asked the Committee members if there were any Declarations of Interest to be made.

There were no Declarations of Interest made.

outcomes to the Audit and Risk Committee can be viewed as a vital component of managing compliance reporting under Regulation 17.

Legal Implications

Local Government Act 1995

Local Government (Audit) Regulations 1996, r17

Reg 17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and*
 - (b) internal control; and*
 - (c) legislative compliance.**
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) The CEO is to report to the audit committee the results of that review.*

Council Plan

13.1 - Adopt best practice governance.

14.2 - Ensure equitable, inclusive and transparent engagement and decision- making.

Environment - None.

Precedents

The Audit and Risk Committee previously received a report at the June 2023 meeting that responded to the reports released by the OAG from March 2023 to May 2023.

Budget Implications

As part of the Senior Corporate Governance Officer role, regular monitoring and assessment of reports released by the OAG is deemed a matter of good governance and a vital component of managing compliance under Regulation 17. Therefore, the cost to Council is through staff time and the usage of IT/Software systems where applicable.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR:8.1A) for full assessment document.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	Western Australian Auditor General – Schedule of Reports
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	Legal and Compliance Not considering the risks, controls and recommendations arising from the Auditor General’s report could have an impact on Council not meeting its compliance requirements.
	Reputational Council’s reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.

Officer Comment

Council staff take an active approach by reviewing each ‘Issue’, ‘Finding’ and ‘Recommendation’ as contained in any report released by the OAG to benchmark against Council’s own internal controls and processes working towards an industry ‘best practice standard’. Identifying relevant messages and opportunities from these reports leads to continuous improvement and informed decision making.

Since the last committee meeting, there have been three (3) reports released by the OAG that hold significance to the local government sector. These reports are reflected in the table below together with officer comment:

DATE	REPORT NO	REPORT	APPENDIX
June 2023	23	Forensic Audit: <i>Contractor Procurement – Data Led Learnings</i>	AAR: 8.1B
June 2023	24	Better Practice Guide: <i>Security Basics for Protecting Critical Infrastructure from Cyber Threats</i>	AAR: 8.1C
June 2023	26	Better Practice Guide: <i>Audit Readiness</i>	AAR: 8.1D

- *Report 23: Forensic Audit – Contractor Procurement – Data Led Learnings*

This forensic audit was an exercise by the OAG to develop their forensic data analytics methodology by using contractor procurement data from the Public Transport Authority (PTA). The purpose was to identify red flags that could indicate undisclosed relationships or corrupt procurement practices. It was also legislatively driven by the *Procurement Act 2020*.

While the audit was specific to the State government sector and the PTA’s compliance with the *Procurement Act 2020*, lessons learned, and recommendations, are of relevance when assessing the Shire’s current procurement practices in relation to the *Local Government Act 1995* and associated regulations.

Summarised in the table below are the 'learnings' gathered from the forensic audit, together with managements response to how these are managed internally at the Shire. The OAG audit report also provides PTA case studies for each of the identified learning areas for further context.

Learning Area	Description / Issue
<p>Procurement processes vulnerable to favouritism or bias</p>	<p>Panels are established for consistent, large volumes of goods or services. All suppliers appointed to the panel can deliver the required good or service.</p> <p>Guidance should be provided, and decisions clearly documented, when work allocation is left to the discretion of an individual. Without these, there is a risk that bias or personal relationships may influence the allocation of work. This increases the risk of fraud or corruption occurring.</p> <p>Management response: <i>Panels are established in accordance with Council Policy CnG CP034 Procurement Policy.</i></p> <p><i>Distribution of work amongst panel members is based on Local Government (Functions and General) Regulations 1996, Regulation 24AD(5), with work being awarded on a ranked basis. The highest ranked panel member is invited first to accept the offer for work to be undertaken. Should the offer be declined, and invitation is made to the next ranked panel member and so forth until a panel member accepts the offer for work.</i></p> <p><i>Currently, the Shire is recruiting for suppliers to be on a 'Plant Hire Panel' and a 'Concrete Services Panel'. If successful, the panel will be managed by the Responsible Officer/Project Officer with oversight from the Procurement Officer.</i></p> <p><i>Payments to panel members will be publicly reported through the Payment of Accounts agenda item.</i></p>
<p>Conflict of Interest Management</p>	<p>If conflicts of interest, including perceived conflicts, are not declared and appropriately managed, there is a risk that procurement is influenced in such a way that fraud or corruption occurs or value for money is not achieved.</p> <p>The risk of influence in the procurement environment increases when there are only a handful of companies providing specialised services.</p> <p>Management response: <i>Ethics and integrity, including conflicts of interest are managed in accordance with the Code of Conduct for Employees and/or Elected Members.</i></p> <p><i>Procurement decisions, from procurement planning through to award, require staff (and Elected Members) to declare any actual or perceived conflicts of interest.</i></p>
<p>Due diligence on suppliers</p>	<p>Good due diligence includes not just checking the Australian Business Number exists, but also assessing other information sources to ascertain the financial stability, ability to perform and any reputational history of a supplier. This includes maintaining records justifying why new companies have been approached or reputational concerns need not be an issue. This increases transparency across an entity.</p> <p>In the absence of appropriate due diligence there is the risk that an</p>

Learning Area	Description / Issue
	<p>entity can be exposed to risks including the engagement of illegitimate or poor performing suppliers, non-delivery of services, overcharging for services and false invoicing. Not knowing your staff, customers and suppliers creates risks for any entity.</p> <p>Management response: <i>Purchasing thresholds of \$50k and above, require suppliers to declare their current financial position and provide details of 'referees' as part of the compliance criteria evaluation prior to contract award.</i></p> <p><i>The qualitative criteria require suppliers to demonstrate their relevant experience in providing the same or similar services to local governments over the past five years and is evaluated accordingly.</i></p> <p><i>Any new suppliers, or modifications to existing supplier details, require staff to undertake due diligence before creating/modifying supplier details in the financial system. This includes justification for establishing the new supplier, an ASIC/ABN check, disclosing any conflicts of interest and checking if there is a similar supplier already established in the financial system. This information is independently verified by the Accounts Payable Officer, Procurement Officer and/or Manager Financial Services.</i></p> <p><i>A weekly audit trail and a monthly report are also provided to the Manager Financial Services detailing any new suppliers or modifications to existing suppliers.</i></p>
<p>Contract costs and contract splitting</p>	<p>Excessive variations may be driven by market factors however may also indicate poor budgeting. Contracts requiring regular and repeated variations should be reviewed with remediation steps documented. Excessive variations may obscure the transparency of procurement but also increases the risk of fraudulent claims arising.</p> <p>Accidental errors in procurement should be properly recorded, identifying the root cause for the error and lead to appropriate process improvement to prevent it happening again. Approving variations that do not reflect on the true cause of the error increase the risk of fraudulent variation claims being approved.</p> <p>The Department of Finance notes a red flag or warning sign of procurement fraud is tender threshold avoidance, including contract splitting.</p> <p>Contract splitting is where one contract is divided into smaller quantities, amounts, phases, or sub-contracts for the purpose of evading or circumventing competitive bidding and the requirements for alternative methods of procurement.</p> <p>Splitting contracts may sacrifice a fair and equitable procurement process for large value contracts and create additional costs where economies of scale could be achieved. Without a fair and equitable procurement process, there is a risk that value for money is not achieved, procurement is not competitive, preferred suppliers are being selected or fraud or corruption is occurring.</p> <p>Management response: <i>Council Policy CnG CP034 Procurement Policy</i></p>

Learning Area	Description / Issue
	<p><i>states Councils position on anti-avoidance (section 4.7), in that the Shire will not conduct multiple purchasing activities with the intent (inadvertent or otherwise) of 'splitting' the purchase value or contract value, in an attempt to avoid a particular purchasing threshold or the need to call a public tender.</i></p> <p><i>In addition to all purchase orders being checked, Staff conduct periodic analysis of purchasing activities within supply categories and aggregating expenditure values in order to identify purchasing activities which can be more appropriately undertaken within the purchasing threshold practices detailed in CP034.</i></p> <p><i>The policy also provides instructions for contract renewals, extensions, and variations. For any contract, the contract must not be varied unless:</i></p> <ul style="list-style-type: none"> <i>(a) the variation is necessary in order for the goods or services to be supplied and does not change the scope of the contract; or</i> <i>(b) The variation is a renewal or extension of the term of the contract where the extension or renewal options were included in the original contract.</i> <p><i>Upon expiry of the original contract, and after any options for renewal or extension included in the original contract have been exercised, the Shire is required to review the purchasing requirements and commence a new competitive purchasing process in accordance with the procurement policy.</i></p>

These learnings highlight the fraud and corruption vulnerabilities that could be exploited in any public entity, such as undeclared conflicts of interest, unmanaged conflicts of interest, inadequate supplier due diligence and contract management issues. Management takes a strong stance against these vulnerabilities, and combats this with in-house procurement training for all staff, together with supplier and purchase order reviews. In addition, all staff and Elected Members were provided with an opportunity to attend organisational Fraud Awareness training in February 2023 that was complimentary to the strong fraud awareness culture of the Shire.

External reviews, such as the Financial Management Systems Review are an added layer of defence to independently evaluate the appropriateness and effectiveness of the Shire's financial management systems and procedures, and this includes the procurement to pay process.

- **Report 24: Better Practice Guide - Security Basics for Protecting Critical Infrastructure from Cyber Threats**

The OAG has released a Better Practice Guide to help Western Australian (WA) public sector entities better manage cyber security threats to their critical infrastructure. The guide focuses on the better practice principles to safeguard critical operational technology (OT) and was driven by a recent OAG audit on this topic.

Of interest, are real examples of global incidents that have occurred in the last 5 years, with the 2022 ransomware attack on a New South Wales Council mentioned. This attack impacted a wide range of business operations, including Council minutes, employee financial data, and systems responsible for monitoring water quality.

After reviewing the guide, Management is of the current opinion that the Shire of Dardanup's infrastructure does not meet the definition of 'critical infrastructure', as defined on page 6 of the guide:

“Critical infrastructure is defined by the Cyber and Infrastructure Security Centre as those physical facilities, supply chains, information technologies and communication networks, which if destroyed, degraded, or rendered unavailable for an extended period, would significantly impact the social or economic wellbeing of the nation, or affect Australia’s ability to conduct national defence and ensure national security”.

While an attack on the Shire of Dardanup would not compromise the nation, it could significantly impact our own operations and the ability to provide ongoing services to our community. The Shire’s draft Cyber Security Strategy, has taken Part 2 of the guide into consideration, which protects critical infrastructure from threats, by:

- Identifying and maintaining an accurate inventory of important IT and IT assets.
- Developing a culture of security.
- Managing supply chain risks.
- Designing a resilient network.
- Implementing effective access management procedures.
- Managing vulnerabilities and maintain vigilance.
- Implementing physical security.
- Being prepared for when things go wrong.

Council, through the Audit and Risk Committee, will consider the draft Cyber Security Strategy at the September 2023 Ordinary Council Meeting.

- *Report 26: Better Practice Guide – Audit Readiness*

The OAG has released a Better Practice Guide on Audit Readiness as their contribution to improving capacity and capability within finance teams at public sector entities. The OAG acknowledges that there has been a record number of audit qualifications in recent years, which reveals there is currently a widespread need to improve this. Having finance teams appropriately resourced will ensure that an entity is audit ready within agreed timeframes.

Being audit ready is more than simply providing a draft set of financial statements and key performance indicators (KPIs) to the auditors. The essence of a good entity financial audit file is a clear trail of evidence that supports each item within the annual financial report. It means having full and complete financial statements (including relevant disclosure notes and KPIs) available for the auditors at the start of the year end audit phase. Working papers to support balances and judgements within these statements are required to be prepared before auditors commence, including completed reconciliations (assets/bank/leave etc.) for each month of the year. The demands and expectations of finance teams are quite significant in this regard. However, if the effort is invested in this upfront the payback will be received in a smoother and significantly more efficient audit process for all.

This guide caters for the many challenges and issues faced by State and local government entities and the OAG, including protracted audits, inadequate audit file submissions and consequently escalating audit costs. State and local government entities can contribute to more effective and efficient financial audits by:

- understanding financial statement and KPI audit requirements and auditor expectations
- establishing proper review, quality assurance and sign-off of information provided to the auditors
- sticking to financial reporting timelines, including agreed financial audit timetables
- providing information to auditors in a timely and consistent manner
- advising the financial auditors of entity and accounting issues they may not be aware of
- effectively managing processes that interact with financial statement audits. These may include:

- information systems audit typically performed by a separate team to the financial audit team or specialist reports (e.g. valuation reports, actuarial reports)
- subsidiary, joint arrangement and associate audits
- comfort letters (internal/external)
- service organisation controls reports or equivalents
- certifications (eg grant acquittals)

The expectation is that this guide will assist entities in reducing the number of audit queries, issues, adjustments, and time. Ultimately smoother and more efficient external reporting and audit processes will be better for the sector, stakeholders, and the community.

The Shire's Finance Department have formally met and reviewed this guide and have familiarised themselves with the audit readiness tool available on the OAG's website. The tool assists with the information that will be required for future financial audits, so that the Shire continues to be prepared and audit ready. In addition, the Finance Professionals Network of Local Government Professionals WA, recently held a webinar with the OAG that highlighted the key messages within the Audit Readiness Guide.

Conclusion

The OAG report review process will continue to be applied to future reports and guides released by the Auditor General. The analysis of these reports provides Council with a greater level of confidence in internal control practices and processes throughout Council operations.

END REPORT

8.2 Title: Biannual Compliance Task Report

Reporting Department	Corporate & Governance Directorate
Responsible Officer	Mr Phil Anastasakis - Deputy CEO
Reporting Officers	Mrs Cindy Barbetti - Senior Corporate Governance Officer
Legislation	Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17
Council Role	Legislative.
Voting Requirement	Simple Majority.
Attachments	AAR: 8.2 - Compliance Calendar - Confidential Attachment Under Separate Cover AAR: 8.2A – Risk Assessment

Overview

The purpose of this report is to provide the Audit and Risk Committee with the biannual compliance tasks undertaken since the last report was presented to the committee.

Change to Officer Recommendation - No Change.

AUDIT & RISK COMMITTEE RESOLUTION

AAR 19-23 MOVED - Cr Michael Bennett SECONDED - Cr Mark Hutchinson

THAT the Audit & Risk Committee recommend that Council receive the report on the Biannual Compliance Task Report, as provided for in the Confidential Attachment provided Under Separate Cover and note the compliance tasks identified for the for the period 1 January 2023 to 30 June 2023.

CARRIED
3/0

Background

Under Regulation 17 of the *Local Government (Audit) Regulations 1996*, the CEO is required to review the appropriateness and effectiveness of the local government's systems and procedures, including those in relation to legislative compliance.

To ensure legislative compliance obligations are met, the Compliance Manual, incorporating the Annual Compliance Calendar has been developed. The calendar is a tool that identifies the yearly compliance tasks throughout the calendar year. In accordance with 5.10(ii) of the Audit and Risk Committee Charter, the committee is required to receive the biannual compliance report. This report informs the committee on the progression of the compliance tasks noted within the annual calendar.

Legal Implications

Local Government Act 1995

Local Government (Audit) Regulations 1996, Regulation 17:

17. *CEO to review certain systems and procedures*
 - (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*

- (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*
- [Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]*

Council Plan

13.1 - Adopt best practice governance.

13.2 - Manage the Shire's resources responsibly.

14.2 - Ensure equitable, inclusive and transparent engagement and decision- making.

Environment - None.

Precedents

The Audit and Risk Committee received the previous biannual compliance report (incorporating the period from 1 July 2022 to 31 December 2022) at the March 2023 meeting.

Budget Implications

Effective legislative compliance management ensures compliance responsibilities are carried out and legislative requirements are met, which ultimately reduces risk. Compliance management forms part of the Senior Corporate Governance Officer role. Therefore, the cost to Council is through staff time and the usage of IT/Software systems where applicable.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance

There is no current Council Policy relevant to this item.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR 8.2A) for full assessment document.

Tier 2 – 'Low' or 'Moderate' Inherent Risk.	
Risk Event	Biannual Compliance Task Report
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	Legal and Compliance Failure to fulfil compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.

	<p>Reputational</p> <p>Council’s reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.</p>
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Officer Comment

This biannual report captures the first six (6) months of the 2023 calendar year (1 January 2023 to 30 June 2023). Please refer Confidential Attachment provided Under Separate Cover for the compliance tasks identified. Responsible officers have provided an audit score of the progression of each task together with any necessary commentary to support the achievement of legislative compliance.

The next biannual compliance task report will be presented to the March 2024 committee meeting.

END REPORT

8.3 Title: Internal Audit Annual Program

Reporting Department	Corporate & Governance Directorate
Responsible Officer	Mr Phil Anastasakis - Deputy CEO
Reporting Officer	Mrs Cindy Barbetti - Senior Corporate Governance Officer
Legislation	Local Government Act 1995
Council Role	Executive/Strategic.
Voting Requirement	Simple Majority.
Attachments	AAR 8.3A – Internal Audit Strategic Plan AAR 8.3B – Risk Assessment

Overview

This report presents to the Audit and Risk Committee the Internal Audit Strategic Plan and the proposed 2023-2024 Internal Audit Annual Work Plan.

Change to Officer Recommendation - No Change.

AUDIT & RISK COMMITTEE RESOLUTION

AAR 20-23 MOVED – Cr Tyrrell Gardiner SECONDED - Cr Mark Hutchinson

THAT the Audit & Risk Committee recommend that Council:

1. **Receive the September 2023 report relating to the Internal Audit Program of the Shire of Dardanup.**
2. **Recommends that Council endorse the Shire of Dardanup Internal Audit Strategic Plan, inclusive of the 2023-2024 Internal Audit Annual Work Plan. (Appendix AAR: 8.3A).**

CARRIED
3/0

Background

Internal control is a vital component of a sound governance framework. An effective and transparent internal control environment is built on many key areas that are guided, strengthened, and monitored through an Internal Audit Strategic Plan. This ensures that the Council is meeting compliance with applicable regulations and internal procedures, which provides a greater level of confidence in internal control practices and processes throughout Council operations.

The primary purpose of the Internal Audit Strategic Plan is to align its focus and activities on the Council's key internal risks. The Internal Audit functional planning framework consists of two key elements:

1. An Internal Audit Strategic Plan, with a three-year outlook that relates the role of the internal audit to the requirements of Council by outlining the broad direction of an internal audit over the medium term, in the context of all the Council's assurance activities; and
2. An Internal Audit Annual Work Plan which includes an internal audit annual work schedule.

Together, these plans serve the purpose of setting out, in strategic and operational terms, the broad roles and responsibilities of Internal Audit of the Shire of Dardanup, with the aim to achieving regulatory compliance.

A copy of the Internal Audit Strategic Plan is provided for in (Appendix AAR:8.3A).

Legal Implications

Local Government Act 1995

Local Government (Audit) Regulations 1996, Regulation 17:

17. *CEO to review certain systems and procedures*

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

[Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]

Local Government (Financial Management) Regulations 1996, Regulation 5:

5. *CEO's duties as to financial management*

- (1) *Efficient systems and procedures are to be established by the CEO of a local government —*
 - (a) *for the proper collection of all money owing to the local government; and*
 - (b) *for the safe custody and security of all money collected or held by the local government; and*
 - (c) *for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process); and*
 - (d) *to ensure proper accounting for municipal or trust —*
 - (i) *revenue received or receivable; and*
 - (ii) *expenses paid or payable; and*
 - (iii) *assets and liabilities;*

and

 - (e) *to ensure proper authorisation for the incurring of liabilities and the making of payments; and*
 - (f) *for the maintenance of payroll, stock control and costing records; and*
 - (g) *to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.*
- (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.*

Council Plan

13.1 - Adopt best practice governance.

14.2 - Ensure equitable, inclusive and transparent engagement and decision- making.

Environment - None.

Precedents

An Internal Audit Strategic Plan and Internal Audit Annual Work Plan for 2022-2023 were presented at the September 2022 Audit and Risk Committee meeting.

Budget Implications

As part of the Senior Corporate Governance Officer role, internal control is integral to meeting the obligations under Regulation 17. Therefore, the cost to Council is through staff time and the usage of IT/Software systems where applicable.

Budget – Whole of Life Cost - None.

Council Policy Compliance

Internal Audit Strategic Plan

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR: 8.3B) for full assessment document.

TIER 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	2023-2024 Internal Audit Program
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	Legal and Compliance Not considering internal control within the organisation would result in non-compliance with Regulation 17
	Reputational Council’s reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.

Officer Comment

A local government’s internal audit function performs a different role to external audit. The external audit provides independent assurance that the financial statements are reliable and comply with prescribed requirements. It is primarily a financial audit, which assesses the internal control framework and focuses on the material components of the financial statements and how significant financial reporting risks have been dealt with by management.

In contrast, the type of internal audits performed each year will vary depending upon Council's current risk profile and assurance needs. The internal audit program is the responsibility of the Senior Corporate Governance Officer and is complementary to the Risk Management Governance Framework and Compliance Manual in meeting the obligations pursuant to Regulation 17 of the *Local Government (Audit) Regulations 1996*.

The Internal Audit Strategic Plan (Plan) has been developed to assist the organisation in achieving its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control. Within the Plan, is the 2023-2024 Internal Audit Annual Work Plan that has been considered based on Council's current risk profile and assurance needs.

The Internal Audit program is also supported by the performance audit reports and guides released by the Auditor General. This provides a further opportunity to assess our processes against findings that are relevant to the local government sector.

END REPORT

8.4 Title: Annual Financial Report – Interim Audit Results for Year Ending 30 June 2023

Reporting Department	Corporate & Governance Directorate
Responsible Officer	Mr Phil Anastasakis - Deputy CEO
Reporting Officer	Mrs Natalie Hopkins - Manager Financial Services
Legislation	Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17
Council Role	Executive/Strategic.
Voting Requirement	Simple Majority.
Attachments	AAR: 8.4A – Interim Audit Results Letter (ie Interim Management Letter) AAR: 8.4B – Risk Assessment

Overview

The purpose of this report is to present to the Audit and Risk Committee the Interim Audit Results for the year ending 30th of June 2023.

Change to Officer Recommendation - No Change.

AUDIT & RISK COMMITTEE RESOLUTION

AAR 21-23 MOVED – Cr Michael Bennett SECONDED - Cr Mark Hutchinson

THAT the Audit & Risk Committee recommend that Council receive the Office of the Auditor General – Interim Audit Results for the Year Ending 30th June 2023. (refer Appendix AAR: 8.4A).

ARRIED
3/0

Background

An annual audit of the Shire of Dardanup's financial systems, process and reports, is undertaken in accordance with the *Local Government Act 1995* and *Local Government (Audit) Regulations 1996*.

Since the proclamation of the *Local Government Amendment (Auditing) Act 2017*, legislative changes were made to the *Local Government Act 1995*. These changes mandated responsibility for overseeing local government audits to the Office of the Auditor General (OAG).

Local government audits are now performed in two parts:

1. Interim Audit

The purpose of this audit is to evaluate the Council's overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal controls, and to obtain an understanding of the key business processes, risks and internal controls relevant to the OAG audit of the annual financial report. Outcomes of this audit are provided in a management letter to the Chief Executive Officer and Shire President outlining any findings with recommendations; and

2. *Final Year-End Audit*

The outcomes of this audit are provided in a management letter addressed to the Chief Executive Officer and Shire President, and the annual audit report. The annual audit report, together with the annual financial statements form part of the annual report.

The interim audit for the year ending 30th June 2023 was performed onsite at the Shire's Eaton Administration Centre by OAG sub-contacted auditors, Moore Australia, from 26th to 28th April 2023 inclusive. The Interim Audit focused on audit samples from 1st July 2022 to 28th February 2023, with the OAG issuing the Interim Audit Results Report (i.e. Interim Management Letter) on 7th June 2023 (Appendix AAR: 8.4A).

Interim audit information requirements included, but not limited to, the following audit requirements:

- Accounts by Nature & Type;
- Rates Billing;
- Payroll & Employee Provisions;
- General Ledger Reconciliation / Trial Balance;
- Bank Reconciliations, Credit Card Statement Reconciliations;
- Inventory, Fixed Asset Reconciliations;
- Borrowings;
- Lease Liabilities;
- Contract Liabilities;
- Trade Creditors including Masterfile Changes;
- Accounts Receivables;
- Procurement Policy Compliance;
- Monthly Financial Reporting;
- IT, Fraud and Error Assessment Questionnaires; and
- Various Council Policies, Administration Policies and Procedures.

As per the OAG Interim Audit Results Letter (Appendix AAR: 8.4A), the result of the interim audit was declared satisfactory with **no findings issued**, that is '**No Management Control Issues**' for the Interim Audit 30th June 2023; an excellent result.

Legal Implications

Local Government Act 1995, s7.9

7.9. *Audit to be conducted*

- (1) *An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —*
 - (a) *the mayor or president; and*
 - (b) *the CEO of the local government; and*
 - (c) *the Minister.*

Local Government (Audit) Regulations 1996, r9

9. *Performance of audit*

- (3) *An auditor must carry out the work necessary to form an opinion whether the annual financial report —*
 - (a) *is based on proper accounts and records; and*

- (b) *fairly represents the results of the operations of the local government for the financial year and the financial position of the local government at 30 June in accordance with —*
- (i) *the Act; and*
 - (ii) *the Australian Accounting Standards (to the extent that they are not inconsistent with the Act).*

Council Plan

13.1 - Adopt best practice governance.

13.2 - Manage the Shire's resources responsibly.

14.2 - Ensure equitable, inclusive and transparent engagement and decision- making.

Environment - None.

Precedents

The Interim Audit Results form part of the formal requirement of audits conducted by OAG.

Budget Implications

The 2022/2023 budget includes an allocation for the conduct of the full annual audit, including the interim audit.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance - None.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR: 8.4B) for full assessment document.

TIER 2 – 'Low' or 'Moderate' Inherent Risk.	
Risk Event	Annual Financial Report – Interim Audit Results for the Year Ending 30 th June 2023
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Residual Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	<p>Legal and Compliance Not presenting the Interim Audit Results for the year ending 30th June 2023 to the Audit and Risk Committee (and subsequently Council).</p> <p>Reputational Council's reputation could be seen in a negative light for not being open and transparent with disclosing findings from the Auditor General.</p>

Officer Comment

The Interim Audit Results report highlights the strong focus the OAG places on a local government's Monthly Financial Reporting processes, the Internal Controls that are integral to these processes, and the application of new and existing Accounting Standards.

At the Audit & Risk Committee meeting dated 14th June 2023, an 'Interim Audit Update' report was presented to the Committee which provided a brief update on the Interim Audit 30th June 2023 whereby early feedback from Council's auditors, Moore Australia, indicated there were no areas of concern.

Council received the Interim Audits Result Letter on 7th June 2023 that confirmed that the Interim Audit was **satisfactory and there were no findings issued**. Whilst it is not uncommon for auditors to issue findings to local governments in both interim and final audits, this year marks the second successive year that Council has received 'no findings' or 'management control issues' for an Interim Audit.

The successful result for the Interim Audit can be attributed to Council's good governance, due diligence, high-level focus on internal controls and compliance to Council policies and procedures.

END REPORT

9. ELECTED MEMBER MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

None.

10. NEW BUSINESS OF AN URGENT NATURE

[Please Note: This is Not General Business – This is for Urgent Business Approved By the Person Presiding or by Decision. In cases of extreme urgency or other special circumstance, matters may, with the consent of the person presiding, or by decision of the members present, be raised without notice and decided by the meeting.]

None.

11. MATTERS BEHIND CLOSED DOORS

It is recommended that the following item be heard behind closed doors.

Shire of Dardanup Standing Orders & Local Government Act 1995 Section 5.23 - Matters for Which Meeting May Be Closed:

Standing Order and the Local Government Act 1995 provides for Council to resolve to close the meeting to the public and proceed behind closed doors for matters:

- S 5.23 (1) Subject to subsection (2), the following are to be open to members of the public-*
- (a) all Council meetings; and*
 - (b) all meetings of any committee to which a local government power or duty has been delegated.*
- (2) If a meeting is being held by a Council or by a committee referred to in subsection (1) (b), the Council or committee may close to members of the public the meeting, or part of the meeting, if the meeting or the part of the meeting deals with any of the following -*
- (a) a matter affecting an employee or employees;*
 - (b) the personal affairs of any person;*
 - (c) a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting;*
 - (d) legal advice obtained, or which may be obtained, by the local government and which relates to a matter to be discussed at the meeting;*
 - (e) a matter that if disclosed, would reveal -*
 - (i) a trade secret;*
 - (ii) information that has a commercial value to a person; or*
 - (iii) information about the business, professional, commercial or financial affairs of a person,*
where the trade secret or information is held by, or is about, a person other than the local government;
 - (f) a matter that if disclosed, could be reasonably expected to -*
 - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law;*
 - (ii) endanger the security of the local government's property; or*
 - (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety;*
 - (g) information which is the subject of a direction given under section 23 (1a) of the Parliamentary Commissioner Act 1971; and*
 - (h) such other matters as may be prescribed.*
- (3) A decision to close a meeting or part of a meeting and the reason for the decision are to be recorded in the minutes of the meeting.*

AUDIT & RISK COMMITTEE RESOLUTION

AAR 22-23 MOVED - Cr Tyrrell Gardiner SECONDED - Cr Mark Hutchinson

THAT in accordance with the Local Government Act 1995, S 5.23, the Audit & Risk Committee go Behind Closed Doors [2.34pm] to discuss a matter that if disclosed could be reasonably expected to endanger the security of the local governments property

CARRIED
3/0

11.1 Title: Cyber Security Report

Reporting Department	<i>Corporate & Governance Directorate</i>
Responsible Officer	<i>Mr Chris Murray - Manager Information Services</i>
Reporting Officer	<i>Mr Phil Anastasakis - Deputy CEO</i>
Legislation	<i>Local Government Act 1995 and Local Government (Audit) Regulations.</i>
Council Role	<i>Executive/Strategic.</i>
Voting Requirement	<i>Simple Majority.</i>

REPORT UNDER SEPARATE COVER

Note: In accordance with the Local Government Act 1995 5.23 (2) (f) (ii) this report is not available to the public. The Chairperson tables the confidential report on this matter and provides copies to each elected member. The report will be located in the Records Management System of the Council.

AUDIT & RISK COMMITTEE RESOLUTION

AAR 23-23 MOVED – Cr Michael Bennett SECONDED - Cr Mark Hutchinson

THAT the Audit & Risk Committee recommend that Council receive the Cyber Security Strategy & Roadmap and note the range of initiatives and activities presented in this document, to improve the Shire of Dardanup’s cyber security posture, to better protect the systems and data, improve disaster recovery capabilities and move toward compliance with audit requirements and industry wide Cyber Security standards.

CARRIED
3/0

AUDIT & RISK COMMITTEE RESOLUTION

AAR 24-23 MOVED - Cr Mark Hutchinson SECONDED – Cr Tyrrell Gardiner

THAT the Audit & Risk Committee return from Behind Closed Doors [2.45pm].

CARRIED

3/0

Note: In accordance with Standing Order 5.2(6) the Presiding Officer, may cause the motion passed by the Audit & Risk Committee whilst behind closed doors to be read out.

12. CLOSURE OF MEETING

The date of the next Audit & Risk Committee Meeting will be Wednesday, 6th of December 2023.

There being no further business the Chairperson to declare the meeting closed at 2.45pm.