

Audit & Risk Committee Minutes

July 2022

- *unconfirmed* -



Minutes of an Audit & Risk Committee Meeting of Council held in the Council Chambers on Wednesday 27 July 2022 commencing at 12:47 pm

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

President Grant Robins declared the meeting open at 12:47pm

2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE

Attendance

| | | |
|----------------------------|--------------------------------|--------------|
| G Robins | President | Central Ward |
| B Smoker | Deputy President | West Ward |
| T Gangell | Councillor | Town Ward |
| B West | Councillor | West Ward |
| R Bowey | Councillor | Town Ward |
| L Varone | Councillor | East Ward |
| M Lucchesi | Councillor | Central Ward |
| C Mullan | Councillor | Central Ward |
| J Noble | Councillor | Town Ward |
| J Merrick | Acting Chief Executive Officer | |
| F Murphy – Zoom Video Link | Acting DCEO | |
| F Jasper | Executive Support Officer | |

Apologies

Nil

3. PUBLIC QUESTION TIME

4. APPLICATIONS FOR LEAVE OF ABSENCE

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

5.1 Audit and Risk Committee Meeting Minutes – 16 March 2022

6. MATTERS REQUIRING DECISION

6.1 Response to Interim Management Letter

6 ELECTED MEMBERS MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

7 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING

8 INFORMATION BULLETIN ITEMS

9 DATE AND TIME OF NEXT MEETING

10 CLOSURE OF MEETING

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

5.1 Audit & Risk Committee Meeting Minutes – 16 March 2022

A1/0722

Moved Cr Gangell Seconded Cr Noble that the minutes of the Audit and Risk Committee Meeting held on 16 March 2022 be received.

Carried 9/0

6. MATTERS REQUIRING DECISION

6.1 Response to Interim Management Letter

RESPONSIBLE OFFICER: DCEO
FILE REFERENCE: 12.05
AUTHOR: CEO
STRATEGIC REFERENCE/S: Corporate Business Plan, Civic Leadership 4.1.1 a; CEO KRA 3.3 Financial Management, 3.5 Integrated Planning
DISCLOSURE OF INTEREST: Nil

SUMMARY:

As part of the audit of the 2021/22 annual financial report, the Shire's auditors AMD Chartered Accountants, conducted their interim audit on 2 & 3 June 2022.

The interim audit includes the following processes:

- understanding the Shire of Kulin's current business practices;
- assessment and response to engagement risk, entity risk and system risk;
- understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively;
- testing transactions to confirm the accuracy and completeness of processing accounting transactions;
- clarifying significant accounting issues, including accounting estimates and fair value considerations before the annual financial report is prepared for audit;
- review and assess legislative compliance;
- review and assess contingent liabilities;
- review and assess progress with respect to the introduction of applicable new Accounting Standards; and
- follow up prior year management letter comments and recommendations.

The Shire has received the attached draft management letter with AMD's findings and recommendations arising from the interim audit.

BACKGROUND & COMMENT:

The management letter lists eight key findings which are rated as follows:

- Significant - those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report if not addressed.
- Moderate – those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible
- Minor – those findings that are not of primary concern but still warrant action being taken.

Of the findings in the attached Interim Management Letter, three are listed as significant, four moderate and one minor.

Management comments outlining how each of the findings will be addressed and resolved are contained in the attached management letter.

STATUTORY ENVIRONMENT:

Nil

POLICY IMPLICATIONS:

Nil

FINANCIAL IMPLICATIONS:

Nil

COMMUNITY CONSULTATION:

Nil

WORKFORCE IMPLICATIONS:

Nil

OFFICER'S RECOMMENDATION

That the Audit and Risk Committee recommend to Council to accept the proposed Management Comments, outlining how staff will address each finding outlined in the Auditors Management Letter.

VOTING REQUIREMENTS:

Simple Majority.

A2/0722

Moved Cr Lucchesi Seconded Cr Smoker that the Audit and Risk Committee recommend to Council to accept the proposed Management Comments, outlining how staff will address each finding outlined in the Auditors Management Letter.

Carried 9/0

Next meeting date and time to be set.

CLOSURE OF MEETING

There being no further business the meeting was closed at 12:57pm

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

| INDEX OF FINDINGS | RATING | | |
|---|-------------|----------|-------|
| | Significant | Moderate | Minor |
| Findings identified in the current audit | | | |
| 1. Non-compliance with purchasing policy | ✓ | | |
| 2. Fixed asset reconciliation | | ✓ | |
| 3. Payroll exceptions | | ✓ | |
| 4. Tender register | | | ✓ |
| Issues from prior year audits | | | |
| 5. Disaster recovery plan | ✓ | | |
| 6. Disposal of IT – policy | ✓ | | |
| 7. Daily statement of collections - independent review and sign off | | ✓ | |
| 8. Risk management policy | | ✓ | |

KEY TO RATINGS

The Ratings in this management letter 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. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Non-compliance with purchasing policy

Finding

The following items of non-compliance with the Shire's purchasing policy were identified;

- From our testing of 20 purchases, we identified the following exceptions:
 - 7 instances, the purchase orders were raised after the supplier invoice was received; and
 - 3 instances, the purchase order had not been raised.
- Additional testing of 2 batch payments identified a further 9 instances where the purchase order was raised after the date of the supplier invoice; and
- A number of supplier invoices were not available to support charges to the CEO credit card.

Rating: Significant Implication

Where purchase orders are not raised, or raised after the supplier invoice is received, there is no evidence that the ordering of goods was approved prior to ordering. Additionally, where supplier invoices are not retained there is increased risk of inappropriate charges being incurred by the Shire which could result in financial loss.

Recommendation

We recommend that the requirement for compliance with the Shire's purchasing policy is communicated to all staff and closely monitored by management to ensure:

- Purchase orders are raised and approved by the appropriate delegated authority prior to the purchase being made; and
- Supplier invoices for all purchases made using the corporate credit card to be retained.

Management Comment

We acknowledge the above non-compliance with the Shire's purchasing policy and recognise that we need significant improvement in the area. Staff with purchasing delegation have been reminded of their responsibility to ensure purchase orders are written prior to ordering goods and services. The DCEO has also reminded employees with credit cards that they must retain invoices. When reviewing creditors batches prior to update, the DCEO will take note of any non-compliance and discuss this with the employee completing the purchase order immediately.

Responsible Person: DCEO**Completion Date: 31 July 2022**

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

2. Fixed asset reconciliation**Finding**

We noted that there was no regular reconciliation between the fixed asset register and general ledger during the year.

We reviewed the most recent fixed asset reconciliation for May 2022 and no unexplained variances were identified.

Rating: Moderate**Implication**

The absence of regular reconciliations between the fixed asset register and the general ledger, increases the risk of error or omission remaining undetected which could lead to misstatements in financial statements.

Recommendation

We recommend that regular reconciliations between the fixed assets register and general ledger be prepared and reviewed by an independent senior officer, with evidence of the review retained.

Management Comment

We disagree with this item. Fixed asset reconciliations have been completed for every month except August 2021.

The fixed asset register in our accounting system, Synergy Soft, cannot be updated until the prior year financial statements have been adopted. As such, additions, disposals and depreciation cannot be posted to the fixed asset register. As the audit of our 2020/21 financial statements was not finalised until late February 2022, no additions, disposals or depreciation was posted until after this time.

Although the fixed asset register had not been updated, the fixed asset reconciliations were still completed with the reconciling item being the capital accounts in the general ledger showing additions and disposals that had not yet been recognised in the fixed asset register. There were no discrepancies here.

We acknowledge that we have been slow in updating the fixed asset register. This is a result of the 2020/21 financial statements being adopted late and changes in staffing.

Responsible Person: DCEO

Completion Date: 31 July 2022

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Payroll exceptions**Finding**

Our testing of the internal controls surrounding payroll processes noted the following:

- 1 instance where the relevant approval of an employee's travel allowance was not retained;
- 1 instance where the relevant supporting document wasn't available to support the social club deduction from an employees pay; and
- No approval for the current value (\$60) of the service allowance paid to employees, the supporting documents for the previous value (\$40) were retained.

Rating: Moderate**Implication**

The absence of appropriate and approved documentation to support payroll payments and deductions increases the risk that amounts are incorrect. This could lead to financial loss for the Shire and/or disputes with employees.

Recommendation

All amounts to be deducted from employee wages should be supported by a letter of request (or equivalent) from the employee. Furthermore, all allowances to be paid to an employee should be supported by authorised documentation.

Management Comment

We acknowledge the payroll exceptions identified above. We will ensure that any allowances and deductions are covered by either a letter to the employee or a Payroll deduction form. We feel that we have good processes for any new allowances and deductions and that the instances identified above are historical items which need tidying up.

Service pay is a long-standing incentive which is not currently covered by a policy, and therefore is applied inconsistently across employment packages. A policy will be written and adopted by Council to ensure we are more consistent in this area.

Responsible Person: DCEO**Completion Date: 31 October 2022**

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

4. Tender register

Finding

During our enquiries, it was noted that while the tender register is available to the public, the tender register is not currently published on the Shire's website as required by *Local Government (Functions and General) Regulations 1996* Part 4, r.17 (1A).

Rating: Minor

Implication

Non-compliance with the regulations increases the risk of reputational damage for the Shire.

Recommendation

We recommend the tender register be published on the Shire's website to ensure compliance with the Local Government Regulations.

Management Comment

The tender register has now been published on the Shire's website.

Responsible Person: CEO

Completion Date: 31 July 2022

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

5. Disaster recovery plan**Finding**

Our inquiries indicated that the Shire of Kulin has no formal disaster recovery plan in place in respect to information technology systems and overall Shire operations. It was noted that limited progress has been made by the Shire in preparing the disaster recovery plan at the time of our interim audit.

The same finding was raised in the 2020-21 financial year and the following management comment was received:

2020-21 Management Comment

Management will prepare a disaster recovery plan in conjunction with our IT service provider and insurer.

Responsible person: Chief Executive Officer

Completion date: 30 June 2022

Rating: Significant (2021:Moderate)**Implication**

Increased risks of significant interruption to business and operations in the event of unforeseen circumstances.

Recommendation

We recommend that a disaster recovery plan be developed, documented and tested to ensure that in the event of a disaster, appropriate and effective recovery actions can be taken promptly.

Management Comment

The preparation of a disaster recovery plan has been included in the 2022/23 budget. The DCEO has a quote from our IT provider to develop the plan. This will occur as soon as the 2022/23 budget has been adopted.

Responsible Person: DCEO

Completion Date: 30 September 2022

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

6. Disposal of IT policy**Finding**

We noted that there is no formal policy in place in relation to the disposal of Shire IT equipment, including the erasing and subsequent disposal of portable devices.

The same finding was raised in the 2020-21 financial year and the following management comment was received:

2020-21 Management Comment

The disposal of IT assets is managed in consultation with our IT service contractors to ensure unintended access to Shire data does not take place. We will discuss with them the formalisation of this process.

Responsible person: Deputy Chief Executive Officer

Completion date: 30 September 2021

Rating: Significant (2021:Moderate)**Implication**

The absence of a formal policy increases the risk IT assets are disposed of inappropriately, additionally without defining data destruction requirements of IT assets being disposed, there is risk of inadvertent public disclosure of the Shire's information.

Recommendation

We recommend a policy be developed and endorsed by Council outlining the appropriate steps required when disposing of Shire's IT equipment, including the disposal of portable devices.

Management Comment:

The management comment from the 2020/21 management letter stands. We need to formally document this process in the coming months.

Responsible Person: DCEO

Completion Date: 30 September 2022

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

7. Daily statement of collections – independent review and sign off

Finding

We noted the following instances where there is no evidence of completion sign off or independent review:

- 5 instances where the daily statement of collections for the administration cashier are not signed by the reviewer as evidence of independent review;
- Daily statement of collections for the Caravan Park are not signed as evidence of independent review; and
- Daily statement of collections for the Aquatic Centre are not signed as evidence of independent review.

The same finding was raised in the 2020-21 financial year and the following management comment was received:

2020-21 Management Comment

- *Management haven't considered the review of daily direct deposits a high risk area as monthly banking reconciliations would typically highlight any errors in values and monthly financial statement preparation would highlight any allocation errors.*
- *Daily banking reconciliations are typically prepared by a single officer so Management have not felt this is necessary. However, this is a relatively simple procedure to implement, we will adjust the procedure accordingly, immediately.*
- *This area is acknowledged as a risk and a form and process will be implemented ASAP*

Responsible person: Deputy Chief Executive Officer

Completion date: 31 August 2021

Rating: Moderate (2021: Moderate)

Implication

Increased risk of fraud or error occurring not being detected.

Recommendation

We recommend the daily statement of collections for the administration cashier; caravan park and aquatic centre be signed off as evidence of independent review with records retained by the Shire.

Management Comment

The management comment from the 2020/21 management letter stands. Independent review of all receipting batches will start immediately.

Responsible Person: DCEO

Completion Date: 31 July 2022

SHIRE OF KULIN

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

8. Risk management policy**Finding**

Our enquiries indicated that the Shire of Kulin had no formal risk management policy in place, documenting assessed risks and risk management procedures. It was noted that funds were budgeted for the development of a formal risk management policy however, at the time of our interim audit limited progress in preparing the risk management policy has been made.

The Shire does have a risk register and this was last updated 8 June 2021.

The same finding was raised in the 2020-21 financial year and the following management comment was received:

2020-21 Management Comment

Funds have been budgeted for and the procurement process has begun for this to be prepared in the 21-22 financial year

Responsible person: Chief Executive Officer

Completion date: 30 June 2022

Rating: Moderate (2021: Moderate)**Implication**

The absence of a risk management policy and associated procedures increases the risk of strategic and operational risks being insufficiently understood or not identified by Shire Management and Council. Additionally, risk levels may unknowingly exceed the Council's risk appetite.

Recommendation

We recommend that a risk management policy be prepared as a priority, updated and subsequently reviewed on a regular basis.

Management Comment

A risk management policy will be developed during 2022/23.

Responsible Person: CEO

Completion Date: 31 December 2022