



# Audit and Risk Committee



Gordon MacMile  
Chief Executive Officer

Meeting Minutes  
20 December 2023



# Acknowledgement of Country

We wish to acknowledge the traditional custodians of the land we are meeting on, the Wadandi people. We wish to acknowledge and respect their continuing connection to the land, waters and community.

We pay our respects to all members of the Aboriginal communities and their culture; and to Elders past and present, their descendants who are with us today, and those who will follow in their footsteps.

## Our Vision

*A Lifestyle of Choice; Connecting Community, Culture and Country.*

## Our Values



**H**

### Honesty

We are truthful, trustworthy and genuine in all that we say and do.



**E**

### Empathy

We are kind and show understanding of peoples circumstances, perspectives and differences.



**A**

### Accountability

We are transparent in all that we do, and stay true to our word by taking responsibility for our actions.



**R**

### Respect

We are respectful in all that we do, and all interactions we have, whilst being inclusive and mindful of differences.



**T**

### Teamwork

We are cooperative, collaborative and united while working towards common goals of our Shire.

## SHIRE OF CAPEL

**Minutes**

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## 1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

*The Chief Executive Officer declared the meeting open at 1:09pm and made the following Acknowledgement of Country:*

'We wish to acknowledge the traditional custodians of the land we are meeting on, the Wadandi people. We wish to acknowledge and respect their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their culture; and to Elders past and present, their descendants who are with us today, and those who will follow in their footsteps.'

### Election of chair

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- 5.12. Presiding members and deputies, election of (1) The members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3, Division 1 as if the references in that Schedule –
- (a) to "office" were references to "office of presiding member"; and
  - (b) to "council" were references to "committee"; and
  - (c) to "councillors" were references to "committee members".

The *Local Government Act 1995* Schedule 2.3, Division 1, Section 4 indicates in part that:

1. The Council is to elect a Councillor to fill the office of President.
2. The election is to be conducted by the Chief Executive Officer in accordance with the procedures prescribed.
3. Nominations are to be given to the Chief Executive Officer in writing before the meeting or during the meeting before the close of nominations.
4. Nominations close at the meeting at a time announced by the Chief Executive Officer, which is sufficient time after the announcement by the Chief Executive Officer that nominations are about to close to allow for any nominations made to be dealt with.

*The Chief Executive Officer held an Election for the role of Chair of the Audit and Risk Committee. Two (2) nominations were received (Cr McCleery and Cr Mogg) by the Chief Executive Officer at the close and following the count of the ballot, the following Councillor was elected to Chair:*

*Cr Peter McCleery*

*Cr McCleery assumed role of the Chair.*

### Election of Deputy Chair

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- (2) The members of a committee may elect a deputy presiding member from amongst themselves but any such election is to be in accordance with Schedule 2.3, Division 2 as if the references in that Schedule –
- (a) to "office" were references to "office of deputy presiding member"; and
  - (b) to "council" were references to "committee"; and
  - (c) to "councillors" were references to "committee members"; and
  - (d) to "mayor or president" were references to "presiding member".

The *Local Government Act 1995* Schedule 2.3, Division 2, Section 8 indicates in part that:

- The Council is to elect a Councillor (other than the Mayor or President) to fill the office of Deputy President
- The election is to be conducted in accordance with the procedures prescribed by the Mayor or President, or if he or she is not present, by the Chief Executive Officer.
- Nominations are to be given to the person conducting the election in writing before the meeting or during the meeting before the close of nominations.
- Nominations close at the meeting at a time announced by the person conducting the election, which is sufficient time after the announcement by that person that nominations are about to close to allow for any nominations made to be dealt with.
- If a Councillor is nominated by another Councillor, the person conducting the election is not to accept the nomination, unless the nominee has advised the person conducting the election, orally or in writing, that he or she is willing to be nominated for the office.

*The Chief Executive Officer held an Election for the role of Deputy Chair of the Audit and Risk Committee. One (1) nomination was received by Cr Mogg by the Chief Executive Officer at the close.*

*Due to being unopposed, Cr Mogg was elected to Deputy Chair.*

## **2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE**

### PRESENT:

Chair	P McCleery
Deputy Chair	R Mogg
Councillor	D Kitchen

Chief Executive Officer	G MacMile
A/Director Community and Corporate	J Meakes
Director Infrastructure and Development	T Gillett
Manager Finance	A Mataboni
Accountant	J Kosareff
Strategic Governance and Risk Coordinator	T Shipley
Executive Assistant to the CEO	A Docking

### APOLOGY:

Councillor	A Dillon
Councillor	C Terrantroy

### ABSENT:

Nil

### MEMBERS OF PUBLIC – Gallery

Nil

**3. PUBLIC QUESTION TIME**

Nil

**4. DISCLOSURE OF INTEREST**

Nil

**5. CONFIRMATION OF PREVIOUS MINUTES**

**5.1 Audit and Risk Committee Minutes – 28 June 2023**

**Voting Requirements**

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Simple Majority

**AC012/2023 – Officers Recommendation / Committee Decision 5.1**

*Moved Cr Mogg, Seconded Cr Kitchen.*

**That the Minutes of the Audit Committee meeting held on 28 June 2023 be confirmed as a true and correct record.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*

**6. PETITIONS/DEPUTATIONS/PRESENTATIONS**

Nil

## 7. COMMUNITY AND CORPORATE REPORTS

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### 7.1 Audit and Risk Committee – Revised Terms of Reference

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<b>Author</b>	Strategic Governance & Risk Coordinator, T Shipley
<b>Authorising Officer</b>	Director Community and Corporate Services, Samantha Chamberlain
<b>Nature of the Decision</b>	Review
<b>Attachments</b>	7.1.1 Draft Terms of Reference – Tracked Changes 7.1.2 Draft Terms of Reference - Clean
<b>Confidential Status</b>	<i>This item is not a confidential matter.</i>

#### Proposal

Endorse and recommend to Council adopting the updated Audit and Risk Committee Terms of Reference.

#### Recommendation

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That the Audit and Risk Committee:

1. Supports the updated Audit and Risk Committee Terms of Reference as per Attachment 7.1.1; and
2. Recommends that the Council adopts the Audit and Risk Committee Terms of Reference.

#### Background

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Changes to the *Local Government Act 1995* (the Act) in 2005 required that local governments establish an Audit Committee, and the delegation of powers and duties to this Committee was agreed to by Council at the meeting of 28 September 2005 (OC0926).

At the same meeting, the Council sought to establish the roles and responsibilities of the Committee. It was considered this would be best achieved by adopting a Terms of Reference. The adopted Terms were based on an Operational Guideline produced by the then Department of Local Government & Regional Development (the Department).

An amendment to the *Local Government (Audit) Regulations 1996* gazetted on 8 February 2013 extended the role of the Audit Committee to include a regular review of the effectiveness of local government systems concerning:

- Risk management;
- Internal controls; and
- Legislative compliance.

The Department produced a revised and updated Operational Guideline 09 – Audit in Local Government in December 2013 and at its meeting on 16 July 2014 (OC0715), the Council approved an updated version of the Terms of Reference reflecting the expanded role of the Committee.

Further amendments to the Act passed by State Parliament in August 2017 enable the Auditor General to audit local government finances and performance. As a result, local governments are no longer able to appoint a person to be their auditor, previously a role assigned to the Audit Committee.

The changes to the Act were supported by subsequent amendments to the *Local Government (Financial Management) Regulations 1996* and *Local Government (Audit) Regulations 1996* gazetted on Tuesday, 26 June 2018.

The last review of the Terms of Reference was endorsed by the Council at the 23 February 2022 Ordinary Meeting (OC034/2022). This included the provision of an Independent Member to be included on the Committee.

## Decision Framework

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### Shire of Capel Strategic Community Plan 2023 – 2033

Direction 4 – *‘Deliver good leadership, governance and decision-making’*.

Community Outcomes:

- 4.1 Effective and compliant governance.
- 4.2 Informed and transparent decision making.

### Corporate Business Plan 2023 – 2027

GOV 27 – Review Committee Framework.

## Statutory Framework

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### State Framework

*Local Government Act 1995.*

#### 7.1A. Audit committee

- (1) A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.

#### 7.1B. Delegation of some powers and duties to audit committees

- (1) Despite section 5.16, the only powers, and duties that a local government may delegate\* to its audit committee are any of its powers and duties under this Part other than this power of delegation.

\* Absolute majority required.



## 16. Functions of audit committee

An audit committee has the following functions –

- (a) to guide and assist the local government in carrying out –
  - (i) its functions under Part 6 of the Act; and
  - (ii) its functions relating to other audits and other matters related to financial management;
- (b) to guide and assist the local government in carrying out the local government’s functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the CEO’s report) and is to –
  - (i) report to the council the results of that review; and
  - (ii) give a copy of the CEO’s report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under –
  - (i) regulation 17(1); and
  - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor’s other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government –
  - (i) is required to take by section 7.12A(3); and
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
  - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- (g) to perform any other function conferred on the audit committee by these regulations or another written law

- 5.12. Presiding members and deputies, election of (1) The members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3, Division 1 as if the references in that Schedule –
- (a) to “office” were references to “office of presiding member”; and
  - (b) to “council” were references to “committee”; and
  - (c) to “councillors” were references to “committee members”.

The *Local Government Act 1995* Schedule 2.3, Division 1, Section 4 indicates in part that:

5. The Council is to elect a Councillor to fill the office of President.
6. The election is to be conducted by the Chief Executive Officer in accordance with the procedures prescribed.
7. Nominations are to be given to the Chief Executive Officer in writing before the meeting or during the meeting before the close of nominations.

8. Nominations close at the meeting at a time announced by the Chief Executive Officer, which is sufficient time after the announcement by the Chief Executive Officer that nominations are about to close to allow for any nominations made to be dealt with.

## Policy Framework

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Policy - Risk Management Framework.

## Implications

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### Risk Implications

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Legislative Compliance  <b>Rating: Medium</b>	Possible	Moderate	Review of Terms of Reference.
<b>Risk Description:</b> Failure to keep the Audit and Risk Committee Terms of Reference up to date and legislatively compliant.			
<b>Opportunity:</b> To ensure legislative compliance and provide for an appropriately resourced and efficient committee.			

### Financial Implications

#### Budget

There are no financial implications relevant to this proposal.

#### Long Term

As no assets/infrastructure are being created, there are no long term financial implications relevant to this proposal.

#### Whole of life

There is no whole of life financial implications relevant to this proposal.

An effective Audit and Risk Committee supported by a robust Terms of Reference, provides scrutiny of the Shire's internal controls, management of risk and financial performance. This is essential for the sustainability and transparency of the Shire's fiscal position and its' assets.

## Consultation / Engagement

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### Internal Consultation

Consultation has been undertaken between the Strategic Governance and Risk Coordinator, Director Community and Corporate and the Chief Executive Officer.

### Officer's Comment

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The proposed Terms of Reference establishes the Committee's specific authority and delegated area of responsibility.

In accordance with specific legislative requirements, the Terms of Reference clearly details the Committee's:

1. Purpose.
2. Responsibility.
3. Membership.
4. Role of the Shire staff.
5. Committee member acknowledgement and acceptance of the agreed terms.

The benefit of having such a detailed Terms of Reference is to provide members with a key understanding of the scope, objectives, and operational processes of the committee in relation to the legislative requirements under the *Local Government Act 1995* and *Financial Management Act 1996*.

The revised Terms of Reference for the Audit and Risk Committee is simplified, concise and provides guidelines for matters that may need clarification outside of Local Government legislation.

Further changes have been recommended to remove the appointment of an Independent Member to be appointed as the Chair of the Committee. The recent changes to the *Local Government Act 1995* now require the Chair and Deputy Chair of a Committee to be appointed through an Election held by the Chief Executive Officer.

## Summary

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The proposed Terms of Reference provide the Audit and Risk Committee and the Council with a framework which is compliant with all legislative requirements and contemporary in its scope and sequence.

The Terms of Reference have been revised to improve accountability and transparency measures, whilst building confidence in the committee's ability to competently execute its duties in accordance with the statutory requirements.

## Voting Requirements

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Absolute majority.

**Officer's Recommendation – 7.1**

**AC013/2023 – Officers Recommendation / Committee Decision 7.1**

*Moved Cr Mogg, Seconded Cr Kitchen.*

**That the Audit and Risk Committee:**

- 1. Supports the updated Audit and Risk Committee Terms of Reference as per Attachment 7.1.1; and**
- 2. Recommends that the Council adopts the Audit and Risk Committee Terms of Reference.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*

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## 7.2 Appointment of Independent Member

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<b>Author</b>	Strategic Governance & Risk Coordinator, T Shipley
<b>Authorising Officer</b>	Director Community and Corporate Services, Samantha Chamberlain
<b>Nature of the Decision</b>	Executive/Strategic
<b>Attachments</b>	7.2.1 CONFIDENTIAL - Cover Letter 7.2.2 CONFIDENTIAL - Curriculum Vitae
<b>Confidential Status</b>	<i>This item is not a confidential matter.</i>

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### Proposal

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Present the application received for the Independent Member of the Audit and Risk Committee and consider recommending the candidate to the Council for appointment to the Committee.

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### Officer's Recommendation

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That the Audit and Risk Committee:

1. Support the appointment of Dr Kenneth Parker as an Independent Member of the Shire of Capel Audit and Risk Committee until the 18 October 2025 Local government Election.
2. Recommends the Council appoints Dr Kenneth Parker to the Shire of Capel Audit and Risk Committee for a period ending on the ordinary local government election day in October 2025.

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### Background

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The Shire of Capel (the Shire) Audit and Risk Committee (the Committee) is a standing committee of the Council under the Local Government Act 1995 (the Act). At the 25 October 2023 Ordinary Council Meeting, five Councillors were appointed to the Committee, for a term ending on the 2025 Local Government election day.

Following the 2021 Election, the Audit and Risk Committee Terms of Reference were endorsed through Council to include the appointment of an Independent Member. Dr Kenneth Parker was appointed, with the appointment term ending at the 2023 Ordinary Election.

Applications for a new Independent Member to the committee were advertised to the public, through the recruitment website – seek.com.au, the Shire’s website and social media forums from 15 November to 30 November 2023, requesting applicants to demonstrate experience in any or all of the following:

Internal/external audit.

- Risk Management.
- Financial management/reporting.
- Understanding of complexities associated with the Shire.
- Strong links with the community.

Three applications were received from suitably qualified professionals.

### Previous Council Decisions

23 February 2022 – OC034/2022 – Adoption of the Audit and Risk Committee Terms of Reference.

29 June 2022 – AC006/2022 – The Audit and Risk Committee endorsed the Appointment of Dr Kenneth Parker and recommended to the Council to appointment to the Committee.

27 July 2022 – OC/2022/144 – Council’s appointment of Dr Kenneth Parker as an Independent Member of the Audit and Risk Committee.

## **Decision Framework**

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### **Shire of Capel Strategic Community Plan 2023-2033**

Deliver good leadership, governance and decision-making.

4.1 Effective and compliant governance.

4.2 Informed and transparent decision making.

### **Corporate Business Plan 2023-2027**

GOV 3 - Internal Audit.

## **Statutory Framework**

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### **State Framework**

*Local Government Act 1995*

#### **7.1A. Audit committee**

(1) A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.

(2) The members of the audit committee of a local government are to be appointed\* by the local government and at least 3 of the members, and the majority of the members, are to be council members.

\* *Absolute majority required.*

### **7.1B. Delegation of some powers and duties to audit committees**

(1) Despite section 5.16, the only powers and duties that a local government may delegate\* to its audit committee are any of its powers and duties under this Part other than this power of delegation.

\* *Absolute majority required.*

(2) A delegation to an audit committee is not subject to section 5.17.

### **5.17. Limits on delegation of powers and duties to certain committees**

(1) A local government can delegate –

(a) to a committee comprising council members only, any of the council's powers or duties under this Act

### **5.11. Committee membership, tenure of**

(2) Where a person is appointed as a member of a committee other than under section 5.10(4) or (5), the person's membership of the committee continues until –

(a) the term of the person's appointment as a committee member expires; or

(b) the local government removes the person from the office of committee member or the office of committee member otherwise becomes vacant; or

(c) the committee is disbanded; or

(d) the next ordinary elections day, whichever happens first.

Local Government (Audit) Regulations 1996

### **16. Functions of the Audit Committee**

Local Government (Administration) Regulations 1996

### **14C. Attendance at meetings by electronic means may be authorised (Act s. 5.25(1)(ba))**

(2) A member of a council or committee may attend a meeting by electronic means –

(a) if –

(i) a public health emergency or state of emergency exists or a natural disaster has occurred; and

(ii) because of the public health emergency, state of emergency or natural disaster, the member is unable, or considers it inappropriate, to be present in person at the meeting; and

(iii) the member is authorised to attend the meeting by electronic means by the mayor, president or council;

or

(b) if the member is otherwise authorised to attend the meeting by electronic means by the mayor, president or council.

## Policy Framework

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Code of Conduct for Council Members, Committee Members and Candidates.

Policies:

- Travel Expenses.
- Risk Management Framework.
- Legislative Compliance.
- Fraud and Corruption.
- Purchasing Policy.

## Implications

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### Risk Implications

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Financial  <b>Rating: Low</b>	Unlikely	Minor	Interstate candidates not recommended.
<b>Risk Description:</b> Appointment of a committee member from interstate has financial risks relating to the provision of costs for flights to attend meetings.			
<b>Risk 2</b> Reputation  <b>Rating: Low</b>	Unlikely	Minor	Assessment of merit and relevant skills. Consideration of practical.
<b>Risk Description:</b> Applicants may feel aggrieved by the appointment or a failure to appoint an independent member.			
<b>Opportunity:</b> The appointment of an independent member provides the opportunity for an additional layer of transparency through independent oversight.			

### Financial Implications

#### Budget

The financial implications are minor and are limited to reimbursement of reasonable attendance costs under the Shire's Travel Expenses Policy.

#### Long Term

As no assets/infrastructure are being created, there are no long term financial implications relevant to this proposal.



## **Sustainability Implications**

Constant improvement to the Shire's internal systems and procedures is essential to the sound management of the Shire's governance framework. This facilitates consistent and equitable decision making, which is essential to create positive social, economic and environmental impacts in the community.

## **Consultation/Engagement**

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### **External Consultation**

External consultation was undertaken throughout the process with the candidates.

### **Internal Consultation**

The Chief Executive Officer, Director Community and Corporate and Strategic Governance and Risk Coordinator reviewed and assessed the applications based on the criteria in the position description and Terms of Reference.

## **Officer Comment**

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The appointment of an Independent Member to the Audit and Risk Committee is an opportunity to provide new skills, experience, and independent oversight to the committee, increasing transparency and strengthening corporate governance.

The Local Government Act section 7.1B(2) creates a specific exemption to the limit on the delegation of powers and duties to committees under section 5.17, providing for the appointment of independent members to the Audit and Risk Committee.

The recent Local Government Reform Package includes the appointment of Independent Members and Chairpersons at point 6.6 and this was supported by the Shire in its response to the proposed reforms (OC005/2022) and included in the Terms of Reference for the Audit and Risk Committee.

The Shire received three high quality applications from suitably qualified candidates.

Two of the three candidates reside interstate and the new amendments to the *Local Government Act 1995*, gives ability to attend by electronic means. However, in the instance where the Committee and/or the Independent Member requests for in-person the Shire would be liable for reimbursement of travel costs for meeting attendance i.e., Air fares.

The third candidate is local to the Southwest and exhibited extensive experience in the key areas of internal/external audit, risk management and financial management/reporting, as demonstrated in their application (Attachment 1).

For this reason, the third candidate has been identified as the most suitable applicant for the role of Independent Member and is recommended to the Audit and Risk Committee.

## Summary

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The appointment of an Independent Member to the Audit and Risk Committee provides an opportunity for the Shire to increase transparency and strengthen corporate governance.

The recommended candidate is suitably qualified and experienced for this position.

## Voting Requirements

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Simple majority.

### Officer's Recommendation – 7.2

That the Audit and Risk Committee:

1. Support the appointment of Dr Kenneth Parker as an Independent Member of the Shire of Capel Audit and Risk Committee until the 18 October 2025 Local government Election.
2. Recommends the Council appoints Dr Kenneth Parker to the Shire of Capel Audit and Risk Committee for a period ending on the ordinary local government election day in October 2025.

### AC014/2023 – Alternative Recommendation / Committee Decision 7.2

*Moved Cr Kitchen, Seconded Cr Mogg.*

**That the Audit and Risk Committee:**

- 1. Supports the appointment of Dr Kenneth Parker as an Independent Member of the Shire of Capel Audit and Risk Committee until the 18 October 2025 Local government Election, subject to endorsement from his employer.**
- 2. Recommends the Council appoints Dr Kenneth Parker to the Shire of Capel Audit and Risk Committee for a period ending on the ordinary local government election day in October 2025, subject to endorsement from his employer.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*

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### 7.3 Corporate Risk Register Quarterly Report

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**Author:** Strategic Governance and Risk Coordinator, T Shipley

**Senior Officer:** Director Community & Corporate, S Chamberlain

**Nature of the Decision** Legislative

**Attachments:** 7.3.1 Corporate Risk Register  
7.3.2 Risk Management Framework

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#### Proposal

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Note and endorse the Shire's Corporate Risk Register and consider making a recommendation to the Council for considerations of risk mitigation treatments.

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#### Officer's Recommendation

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That the Audit and Risk Committee recommends the Council endorse the following Corporate Risk Register Actions and the following recommendation:

- To consider the inclusion of an additional 1.00 FTE to be incorporated within the Shire of Capel's Workforce plan for the ongoing operational support to the organisation, for the purpose of staff recruitment and retention in relation to Risk 2 - Failure to recruit and retain the organisational workforce.

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#### Background

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The Council adopted the Risk Management Framework at the Ordinary Meeting of the Council on 30 March 2022.

During the development of the Framework, the residual risk tolerances were not identified by the Shire at the time of adoption.

The Regulation 17 review has identified the need to report a Corporate Risk Register to the Audit and Risk Committee, however, given the Risk Tolerance component of the Risk Framework required further deliberation within the organisation, Officers have identified this as a priority before formal risk reporting should commence.

The Risk Tolerance Framework was adopted by the Audit and Risk Committee in February 2023.

#### Previous Decisions:

Audit Committee Meeting 23 February 2022 (AC004) – 'That the Audit and Risk Committee

1. Endorse the Risk Management Policy and Risk Management Framework as attached, and
2. Recommend that the Council adopt the Risk Management Policy and Risk Management Framework.'

Ordinary Council Meeting 30 March 2022 (OC056/2022):

‘That Council:

1. Notes recommendation AC004 of the Audit and Risk Committee at its Meeting held on 23 February 2022,
2. Revokes Shire Policy 2.28 Risk Management Framework, and
3. Adopts the Risk Management Policy and Risk Management Framework as attached.’

Audit and Risk Committee 28 June 2023 – The first report of the Corporate Risk Register.

## **Decision Framework**

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### **Shire of Capel Strategic Community Plan 2023 – 2033**

Direction 4 – ‘Deliver good leadership, governance, and decision-making.’

Community Outcomes:

- 4.1 Effective and compliant governance.
- 4.2 Informed and transparent decision making.

### **Corporate Business Plan 2023 – 2027**

GOV 8 – Risk Management Plan - Review the effectiveness of the Risk Management Framework and provide continuous training to the Council and employees.

## **Statutory Framework**

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### **State Framework**

*Local Government (Audit) Regulations 1996*

#### **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.
  - (d) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

The CEO is to report to the audit committee the results of that review.

## Policy Implications

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Policy 2.28 Risk Management Framework.

## Risk Implications

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Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Reputational  <b>Rating: High</b>	Possible	Major	The CEO is required to review the Local Government's systems and procedures in relation to risk management under the <i>Local Government (Audit) Regulations 1996</i> . Quarterly risk reporting will be brought to the Audit and Risk Committee.
<b>Risk Description:</b> Failure to identify the Shire's risks in an open and accountable way.			
<b>Risk 2</b> Legislative Compliance  <b>Rating: Medium</b>	Possible	Major	The CEO is required to review the Local Government's systems and procedures in relation to risk management under the <i>Local Government (Audit) Regulations 1996</i> . Quarterly risk reporting will be brought to the Audit and Risk Committee.
<b>Risk Description:</b> Failure to understand and meet legislative requirements.			
<b>Opportunity:</b> To meet requirements of risk reporting and provide the Audit and Risk Committee an opportunity to provide input and identify solutions to mitigate Shire risks.			

## Financial Implications

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### Budget

Budgetary impacts related to the resourcing of risk mitigation requirements have been incorporated through the 2023-27 Corporate Business Plan (year 3 build) and included in the 2023-24 Annual Budget preparation. The attached Risk Register also identifies the required mitigation strategies.

Until such time as the above mentioned documents have been endorsed through the Council, the costs associated with each identified risk cannot be confirmed and actioned.

The new recommendation to include an additional 1.00 FTE within the Organisational Development Team will be considered by the Council during the presentation of the Workforce Plan in April 2024 and subsequent inclusion in the 2024-25 Draft Annual Budget process.

## **Long Term**

As no assets/infrastructure are being created, there are no long-term financial implications relevant to this proposal.

## **Sustainability Implications**

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Effective identification, assessment, management, and mitigation of risks are essential for all aspects of strategic and operational sustainability of the Shire of Capel.

## **Consultation**

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### **External Consultation**

No external consultation is required.

### **Internal Consultation**

Consultation has been undertaken with some members of Shire's Management Team and Executive Management Team.

## **Comment**

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A Risk Register is a tool used in risk management to identify, assess, and track potential risks that may affect a project or organisation.

This report and the attached Corporate Risk Register is the second of the quarterly Corporate Risk Register reports to the Audit and Risk Committee.

The Corporate Risk Register is a live and evolving tool, so the quarterly reporting will provide Officers an opportunity to report to the Audit and Risk Committee, and the Council, on the progress of risk mitigation and identified risk related resource requirements.

The mitigations that are current or anticipated are sourced from the Shire's Corporate Business Plan (CBP) and business as usual actions. The risk reporting will help identify elements that may be missing or are not as effective as initially anticipated.

The request to consider an additional 1.00 FTE for the Organisational Development Team has been noted within the below comments - 'Risk 2', having identified the risk has increased from High to Extreme since the last review of this risk rating.

It is important to note there are several 'high' and 'extreme' residual risk ratings identified. The following commentary has been provided on these:

**Risk 2: Failure to recruit and retain the organisational workforce.****Change: High to Extreme Risk**

Reason: Local Government industry is unable to provide a competitive market based on the Local Government Award and Salary restrictions. The Shire of Capel being a band 3 Local Government, inhibits the Shire's opportunity to compete with larger surrounding LGs in relation remuneration and attraction packages.

Staff recruitment and retention remains an issue for the organisation, seeing staff attraction and retention not stabilise for some time. Some factors driving this instability remains out of the Shire's control but does put an increased and continual pressure on the Organisational Development Team to provide ongoing recruitment and retention support across the organisation, in a bid to develop new strategies to attract new talent to the organisation.

The turnover is due to industry challenges and external employee markets within recruitment (specifically technical based positions). Failure to recruit these roles has increased pressure on existing staff, partially resulting in a higher turnover rate.

The Executive Management Team have commenced a business performance and service level review to identify the Shire's key resourcing and performance gaps / challenges across the organisation. The outcomes from this review will inform key strategic documents such as the Workforce Plan, allowing Officers and Councillors to reach a conjoined opinion on the future resourcing requirements of the organisation.

However, following the recent review of the individual risks within the Risk Register, has identified the need for additional resourcing support within the Organisational Development Team to support staff recruitment and retention priorities.

**Risk 5: Failure to comply with new Statutory & Regulatory Requirements and provide good governance.****Change: No change to rating.**

Reason: The current changes in legislation require education to the community and organisation. All staff are required to comply with good governance. However, due to changes in legislation, with the current resourcing challenges, the ability to ensure the whole workforce is well trained in all aspects of good governance, continues to pose a challenge, especially if the workforce is transient.

This is anticipated to be reduced by the next Audit and Risk Committee Meeting, following the onboarding of additional resourcing within the Finance and Governance departments.

**Risk 7: Inadequate management of work, health and safety (WHS) requirements.****Change: Extreme to High Risk.**

Reason: Changes in legislation in the current requirements for robust work, health and safety practices has increased the opportunity for areas of non-compliance.

The risk has been lowered from an Extreme to High Risk based on the work undertaken by the Shire's Work Health and Safety Advisor, with the support of the Executive Management Team.

Increased understanding and work have commenced since the last Corporate Risk Report. The revised inductions for volunteers and contractors have provided the Shire with more confidence in the knowledge and abilities of those undertaking roles for the Shire.

Significant work with the staff has been undertaken to ensure understanding and compliance with the legislation.

There is still further work to commence relating to procedures and training. However, there has been substantial improvement.

**Risk 10: Failure to provide long term waste management services****Change: No change to rating.**

Reason: Waste management is a sector wide issue; current Southwest Waste facilities are reaching their capacity, and a long-term solution has not been identified. Additionally, current costs of waste services are increasing.

There are initiatives for Southwest Councils to work together to find solutions, such as the recent joint tendering process the Shire has been engaged in. However, there is yet to be a long-term solution to waste disposal and management.

Following the budget adoption for 2023-24, the requirement from Council to develop a Waste Strategy has been included within the CEO's Key Performance Indicators. This is proposed to be completed for April 2024, following the understanding and endorsement of the Strategy there should be more indication of future risk identification.

**Risk 11: Failure to provide sufficient Information Communication Technology (ICT) & Enterprise Resourcing Program (ERP) support.****Change: No change to rating.**

Reason: There are substantial costs associated with a new ERP system. Staff have been working on an extensive process to understand the Shire's technological requirements in a new ERP system. However, there are significant challenges to ensure a cost-effective and service-oriented final product that meets the needs of the community and the organisation now and into the future.



**Risk 12: Failure to provide emergency management and business continuity in a disaster.****Change: No change to rating – have amended likelihood from possible to unlikely.**

Reason: The risk is identified as high due to unpredictability of disasters and emergencies. The amendment of likelihood from possible to unlikely speaks to the Shire's risk of not mitigating and acting within a disaster. The lower likelihood was given as the Shire undertakes work through communication and the development of strategies and procedures.

Meetings between the Bush Fire Advisory Committee, Local Emergency Management Committee, Bush Fire Captains, Executive Management Team, and the Management Team provide an opportunity and forum to raise awareness for potential risks within this area.

There is still further work to be done in business continuity and community support to mitigate associated risks.

As stated earlier in the report; the attached Corporate Risk Register is the first iteration of this report and Officers welcome the Committee's feedback.

Future updates to the Corporate Risk Register will be presented to the Audit and Risk Committee meetings.

**Summary**

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The Audit and Risk Committee can consider the current identified risks on the Corporate Risk Register for future recommendations to the Council.

**Voting Requirements**

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Simple Majority.

**Officer's Recommendation – 7.3**

That the Audit and Risk Committee recommends the Council endorse the following Corporate Risk Register Actions and the following new recommendation:

- To consider the inclusion of an additional 1.00 FTE to be incorporated within the Shire of Capel's Workforce plan for the ongoing operational support to the organisation, for the purpose of staff recruitment and retention in relation to Risk 2 - Failure to recruit and retain the organisational workforce.

**AC015/2023 – Amended Recommendation / Committee Decision 7.3**

*Moved Cr Kitchen, Seconded Cr Mogg.*

**That the Audit and Risk Committee recommends the Council endorse the Corporate Risk Register Actions and:**

**Subject to further briefing and information to consider the inclusion of an additional 1.00 FTE to be incorporated within the Shire of Capel’s Workforce plan for the ongoing operational support to the organisation, for the purpose of staff recruitment and retention in relation to Risk 2 - Failure to recruit and retain the organisational workforce.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*

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## 7.4 Report on Risks 7 and 12 – Corporate Reporting

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<b>Author</b>	Strategic Governance and Risk Coordinator, Tahlia Shipley
<b>Authorising Officer</b>	Director of Community and Corporate, Samantha Chamberlain
<b>Nature of the Decision</b>	Executive/Strategic and Review
<b>Attachments</b>	Nil
<b>Confidential Status</b>	<i>This is not a confidential item.</i>

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### Proposal

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Note the update and additional information relating to Risk's 7 and 12 of the Corporate Risk Register.

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### Officer's Recommendation

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That the Audit and Risk Committee notes the commentary made within the report relating to 'Risk 7 Inadequate management of Work Health and Safety requirements' and 'Risk 12 Failure to provide emergency management' and requests the information be included within the Corporate Risk Report to the Council.

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### Background

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Following the Audit and Risk Committee held on 28 June 2023 the decision of the Committee required for a report to be provided on the current risk for Risk's 7 and 12 from the Corporate Risk Register.

#### Previous Decisions:

Audit Committee Meeting 23 February 2022 (AC004) – The Audit Committee endorsed the Risk Management Policy and Risk Management Framework. Followed by the adoption through Council of the policy and Framework.

Audit and Risk Committee 28 June 2023 – The first report of the Corporate Risk Register.

At the 28 June 2023 Audit and Risk Committee Meeting a recommendation for the endorsement of the Corporate risk register and mitigations or the Corporate Business Plan and Annual Budget was considered through Council.

There was also an amendment made to include a report on Risk 7 Inadequate management of Work Health and Safety requirements and Risk 12 Failure to provide emergency management and business continuity in a disaster.

## **Decision Framework**

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### **Shire of Capel Strategic Community Plan 2023 – 2033**

Direction 4 – ‘Deliver good leadership, governance, and decision-making.’

Community Outcomes:

- 4.1 Effective and compliant governance.
- 4.2 Informed and transparent decision making.

### **Corporate Business Plan 2023 – 2027**

GOV 8 – Risk Management Plan - Review the effectiveness of the Risk Management Framework and provide continuous training to the Council and employees.

## **Statutory Framework**

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### **State Framework**

*Local Government (Audit) Regulations 1996*

#### **17. CEO to review certain systems and procedures**

- (2) The CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to –
  - (e) risk management; and
  - (f) internal control; and
  - (g) legislative compliance.
  - (h) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

The CEO is to report to the audit committee the results of that review

## **Policy Framework**

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The following Shire Policies apply:

Policy 2.28 Risk Management Framework.

## Implications

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### Risk Implications

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Reputational  Low	Unlikely	Minor	Providing a response and explanation on the previous reports relating to risks 7 and 12.
<b>Risk Description:</b> Failure to report on the requested items from the Committee.			
<b>Opportunity:</b> Compliant and informative reporting on risks relating to emergency management and disasters.			

### Financial Implications

#### Budget

There are no budgetary implications relating to this item. The Audit and Risk Committee may decide to include further budgetary implications through resourcing relating to these items. In this instance it would be recommended to include this through the Annual budget process.

#### **Long Term**

As no assets/infrastructure are being created, there are no long-term financial implications relevant to this proposal.

### Sustainability Implications

Effective identification, assessment, management, and mitigation of risks are essential for all aspects of strategic and operational sustainability of the Shire of Capel.

## Consultation/Engagement

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### External Consultation

No external consultation is required.

### Internal Consultation

Consultation has been undertaken with the Strategic Governance and Risk Coordinator, Emergency Service Coordinator, Organisational Development and Executive Management Team.

## Officer's Comment

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### **Risk 7: Inadequate management of work, health and safety (WHS) requirements.**

'The following reason has been provided in the previous report:

Change: Extreme to High Risk.

Reason: Changes in legislation in the current requirements for robust work, health and safety practices has increased the opportunity for areas of non-compliance.

The risk has been lowered from an Extreme to High Risk based on the work undertaken by the Shire's Work Health and Safety Advisor, with the support of the Executive Management Team. Increased understanding and work have commenced since the last Corporate Risk Report. The revised inductions for volunteers and contractors have provided the Shire with more confidence in the knowledge and abilities of those undertaking roles for the Shire.

Significant with the staff has been undertaken to ensure understanding and compliance with the legislation.

There is still further work to commence relating to procedures and training. However, there has been substantial improvement.'

The Bush Fire Volunteers were one of the more significant elements relating to this risk, due to the Work Health and Safety requirements highly affecting the relationship between volunteers and the Shire.

The Bush Fire Advisory Committee (BFAC) is established under the Bush Fires Act 1954 to provide communication between the Bush Fire Service and the Local Government. At the BFAC meeting held on the 12 July 2023 the committee determined to require the minimum training requirements of active firefighters being:

'All volunteers (including non-operational) must complete the following DFES courses:

- Bushfire Safety Awareness.
- Bushfire Fighting Skills.
- All active firefighters must attend at least 4 brigade level training occurrences per financial year.
- Preseason competency-based assessment for all active firefighting brigade members is to be completed prior to 1 December each year.
- All existing and future volunteers are to complete the online WHS volunteer induction prior to 1 December 2023, before being registered a Bushfire brigade volunteer.

The completion of the above training and inductions will be recorded in the Shire's myOSH system to continue initiatives to fulfil the Shire's responsibilities for volunteers (including BFBs) under WHS requirements.

If a member has not completed the required Shire WHS induction and training requirements this will result in the members' membership being reviewed and lead to the member being unable to be classified as being an active firefighter for the coming 2023/24 season.'

Since this resolution, the brigade training officers have coordinated monthly training activities for brigade members covering topics such as:

- Hose drills and signals.
- Radio operations.
- Hydrants and water supply (including drafting).
- PAFTACs and LACES (operational reporting and safety).
- Electric vehicles.
- Appliance familiarisation.
- Mandatory burn-over drill.

During the last six months, active firefighters, almost all members from Gelorup, Capel and Stirling brigades have attended nearly all training occurrences; about half the active firefighting members from Boyanup have attended training occurrences and about one third of members from Elgin have attended the training occurrences.

This has been a significant achievement for the brigade members and the Training Officers and Captains should be commended on the time and effort to coordinate and undertake these training activities.

There are some gaps with members that are not yet engaged in the new approach, often as this hasn't been a requirement in the past and the Brigade Captains and Emergency Services will be working with these members to encourage them to participate or reconsider their continuing role in the brigade. There have also been members identified that are participating in the brigades on a 'social' capacity.

Furthermore, the Shire introduced a Work, Health, and Safety (WHS) induction similar to an employee WHS induction covering WHS as well as relevant shire policies. This induction was offered both online and face to face. Brigade members had until the 1 December to complete the induction, to date about half the brigade members have not completed it. Brigade members who have not completed the induction will not be permitted to attend a bush fire. The Shire is continuing to follow up with members, some have been identified as social members that do not actively attend fires.

**Risk 12: Failure to provide emergency management and business continuity in a disaster.**

The following risk has also been lowered and explanation given with the Corporate Risk Report –

'Change: Extreme to High Risk.

Reason: The risk was originally identified as Extreme due to unpredictability of disasters and emergencies. However, the Shire undertakes work through communication and the development of strategies and procedures.

Meetings between the Bush Fire Advisory Committee, Local Emergency Management Committee, Bush Fire Captains, Executive Management Team and Management Team provide an opportunity and Forum to raise awareness for potential risks within this area.

There is still further work to be done in business continuity and community support to mitigate associated risks.'

Following the discussion at the last Audit and Risk meeting and subsequent discussions internally with the staff. It has been identified that the rating within the risk is not properly portrayed. The Shire provides open communication and reporting relating to potential emergency management and disaster recovery plans through committee and strategic reporting.

Based on past reporting on the risk rating related to work health and safety, there would be the possibility of emergency management to not be handled to the standard to give the organisation confidence in a disaster. However, based on the continual improvement of the Shire's inductions, training and education there would be more potential for this to be managed well.

There are still improvements that need to be made, including items such as the business continuity plan and disaster recovery plans. These are due to be reviewed and improved through the next calendar year with resourcing available. This will help to strength future planning for emergencies and disasters.

Any feedback and workshop opportunities can be discussed and considered through the Audit and Risk Committee.

## Summary

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The Audit and Risk Committee should consider the feedback provided on the two identified risks. These risks will be further reported throughout the corporate reporting structure in the future.

## Voting Requirements

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Simple majority.

### Officer's Recommendation – 7.4

#### AC016/2023 – Officer's Recommendation / Committee Decision 7.4

*Moved Cr Kitchen, Seconded Cr Mogg.*

**That the Audit and Risk Committee notes the commentary made within the report relating to 'Risk 7 Inadequate management of Work Health and Safety requirements' and 'Risk 12 Failure to provide emergency management' and requests the information be included within the Corporate Risk Report to the Council.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*



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## 7.5 Quarterly Summary - Regulation 17 Internal Audit Progress Report

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<b>Author</b>	Samantha Chamberlain – Director Community and Corporate
<b>Authorising Officer</b>	Gordon MacMile – Chief Executive Officer
<b>Nature of the Decision</b>	Legislative
<b>Attachments</b>	None
<b>Confidential Status</b>	This item is not a confidential matter.

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### Proposal

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Receive the quarterly Regulation 17 Progress Report, noting the stated observations / recommendations under risk management, internal controls and legislative compliance are being implemented appropriately and in a timely manner.

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### Officer's Recommendation

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That the Audit and Risk Committee performs its role set out in Regulation 16 of the Local Government (Audit) Regulations 1996 to receive and review the quarterly Regulation 17 Progress Report.

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### Background

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Regulation 17 of the Local Government (Audit) Regulations 1996 (Reg 17) requires the CEO to review the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal controls, and legislative compliance.

In 2018, a legislative amendment changed the requirement for these reviews to be completed no less than once every three financial years.

Since this time, the Shire has conducted Reg 17 reviews in November 2014, April 2016, September 2018, and May 2022. Following each audit, Officers review the findings and prioritise observations / recommendations based on risk and allowable resources.

Officers will provide progress reports at each Audit and Risk Committee meeting with the reporting format remaining the same for tracking purposes.

## Previous Council Decisions

28 June 2023 – Audit and Risk Committee (AC008/2023) –

‘That the Audit and Risk Committee receives the quarterly Regulation 17 progress report and notes the improvements to systems and procedures achieved since the previous report.’

## Decision Framework

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### **Shire of Capel Strategic Community Plan 2023-2033**

Direction 4 - Deliver good leadership, governance and decision-making.

4.1 Effective and compliant governance.

4.2 Informed and transparent decision making.

### **Corporate Business Plan 2023-2027**

FIN 32 - Biannual review of all internal systems and processes for compliance, efficiency and effectiveness.

## Statutory Framework

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### **State Framework**

#### **Local Government (Audit) Regulations 1996**

16. An audit committee has the following functions –

(c) To review a report given to it by the CEO under regulations 17(3) (the CEO’s report) and is to –

(i) report to the council the results of that review; and

(ii) give a copy of the CEO’s report to the Council;

(d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under –

(i) regulation 17(1);

(f) to oversee the implementation of any action that the local government –

(iii) has accepted should be taken following receipt of a review conducted under regulations (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 related to any or all of the matters referred to in sub-regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

(3) The CEO is to report to the audit committee the results of that review.

## Policy Framework

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- Risk Management Framework.
- Internal Controls.
- Legislative Compliance.
- Fraud and Misconduct.

## Implications

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### Risk Implications

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Legislative Compliance  <b>Rating: Medium</b>	Unlikely	Moderate	<ul style="list-style-type: none"> <li>• Progress reporting to the Audit Committee.</li> <li>• Corporate Business Plan Action.</li> <li>• External Audit recommendations.</li> </ul>
<b>Risk Description:</b> Failure to complete the audit process that is required under the Local Government Act Regulations.			
<b>Risk 2</b> Reputation  <b>Rating: Medium</b>	Unlikely	Major	<ul style="list-style-type: none"> <li>• Appointment of suitably qualified professionals to conduct reviews.</li> <li>• Actioning recommendations.</li> <li>• Progress report to the Audit Committee.</li> </ul>
<b>Risk Description:</b> Failure to assess the appropriateness and effectiveness of internal systems and procedures increases risks associated with fraud, misconduct and reputation.			
<b>Risk 3</b> Financial  <b>Rating: Medium</b>	Unlikely	Major	<ul style="list-style-type: none"> <li>• Appointment of suitably qualified professionals to conduct reviews.</li> <li>• Actioning recommendations.</li> <li>• Progress report to the Audit Committee.</li> </ul>
<b>Risk Description:</b> Failure to assess the appropriateness and effectiveness of internal systems and procedures increase risks associated with fraud, misconduct, and financial loss.			
<b>Opportunity:</b> The Regulation 17 review provides a great opportunity to test the robustness of the Shire's internal process and procedures and develop a plan to support constant improvement. This provides organisation wide resilience and efficiencies.			

## **Financial Implications**

### Budget (Financial Year 2023-24)

Through the review of the observations / recommendations identified during the May / June 2022 Regulation 17 Audit process, costs which require inclusion in the 2023-24 Annual Budget are mapped against observation 5.1.5 – Insurance, noting the cost of revaluing the Shire’s Land and Building Asset base and observation 5.3.2 – Procurement of Asset Management Software.

The Land and Building Revaluation project has just finalised at a cost of \$31,000 ex GST. The revaluation impact on the Land and Building asset base, including depreciation calculations will be detailed in the 2023 -24 Annual Financial Statements.

Procurement of a sophisticated Asset Management system to store, manage and maintain the Shire’s asset data is a work in progress and should be finalised by the end of the financial year. The sum of \$20,000.00 has been ringfenced in the 2023-24 Annual Budget to support the acquisition of this software.

### Long Term

Future budget considerations, mainly for inclusion in the 2024-25 Draft Annual Budget are detailed against each observation and will be incorporated into future budget / long term financial planning documents. Particularly, where tasks are linked to the integration of a new Enterprise Resourcing Platform (ERP) or where physical resourcing requirements are identified through the Shire’s Workforce Planning document.

## **Sustainability Implications**

Constant improvement to the Shire’s internal systems and procedures is essential to the sound management of the Shire’s governance framework. This facilitates consistent and equitable decision making, which is essential to create positive social, economic, and environmental impacts in the community.

## **Consultation/Engagement**

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### **External Consultation**

Some observations require Officers to undertake consultative processes with other LGs ensuring best practice methodology is included in the actionable requirements.

### **Internal Consultation**

The Executive Leadership Team and Management Team are responsible for attributable observations identified through this review process. The report template identifies the ‘Devolved Responsible Officer(s)’ tasked with ensuring each action is completed both appropriately and in a timely manner.

## Officer's Comment

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Auditors Assurance Advisory Group (AAG) were appointed on 11 April 2022 to conduct an independent and comprehensive audit of the Shire's risk management, internal control and legislative compliance with a draft report presented to Officers for consideration.

The draft report was reviewed, and management comments were provided by the Director Community and Corporate, Manager Finance and Strategic Governance and Risk Coordinator. The report was finalised by AAG on 2 June 2022 and presented to the Audit and Risk Committee on 29 June 2022.

The report highlighted the strong progress made by the Shire since the 2018 Reg 17 Audit and provided further recommendations for the Shire to improve systems and processes.

This is summarised in the following executive summary:

"In Summary, the audit identified that significant progress has been made by the Shire of Capel since the previous Regulation 17 Audit conducted in 2018. While there are findings in this report, they are predominantly of an improvement nature rather than indicators of breakdowns of controls or material non-compliance."

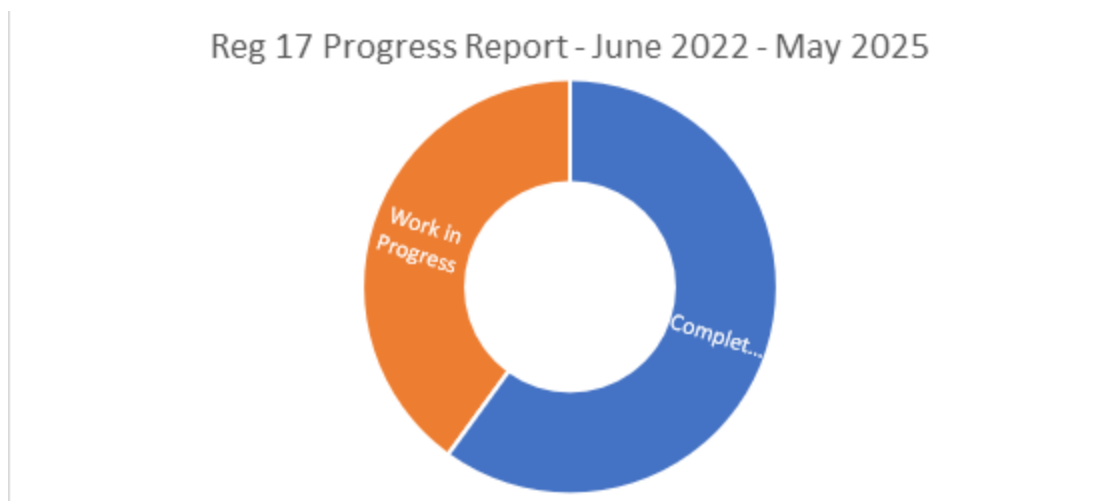
Following the auditor's report being endorsed at the June 2022 Audit and Risk Committee, Officers are actioning works for each observation and the progress is reported through the quarterly progress reports to the Audit and Risk Committee.

An Alternative Motion adopted at the Audit and Risk Committee on 21 December 2022 directed Officers to include resourcing requirements for each observation and this detail has been included in the quarterly reporting format.

Through the review of resourcing requirements, 6 observations are identified to require resourcing during the 2023-24 and 2024-25 financial years and these observations will be included in the Shire's 2023-2027 Corporate Business Plan and subsequent funding allocations linked to the Shire's future budgets.

For December 2023 reporting, the Regulation 17 audit progress of actions marked 'Completed' and a 'Work in Progress' and summarised in the below graph:

### **Graph 1.**



Since reporting the quarterly progress update in June 2023, Officers have now actioned and finalised 9 of the 15 observations/recommendations presented in the final audit report.

The December 2023 Quarterly Progress Report is presented in more detail in the following pages.

Findings / Observations marked 'COMPLETED' in the progress column are finalised where no further actions are required unless directed otherwise.

## Quarterly Progress Report

The following table summarises the progress made to date against each of the Regulation 17 Observations:

### 5.1 Risk Management

Observation(s) and Ratings	Recommendations	Management Responses	Progress Report - December 2023	Resourcing
<p><b>5.1.1 Risk Management Framework</b></p> <p><b>Observations/Findings</b></p> <p>The Shire has developed and adopted a new suite of Risk Management documents and a Risk Register. These were informed by ISO 31000:2018 and are a significant improvement over the previous regime, which had not been operating effectively in place since late 2018. The following observations were made:</p> <ul style="list-style-type: none"> <li>The new Risk Framework categorises risks but does not separate out “Fraud and Misconduct”. As Fraud and Misconduct is an area of focus at all levels of Government, there would be value in identifying risks and mitigating controls for Fraud and Misconduct.</li> <li>Ownership of individual risks is assigned to Shire staff depending on the severity of the risk, ranging from operational managers to the CEO. Given the consequences of ‘Extreme’ risks, there would be value in ownership of these risks and their mitigation actions resting with either Council or the Audit Committee.</li> </ul>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire considers revising the new Risk Management Framework and associated documents to:             <ol style="list-style-type: none"> <li>Incorporate a Fraud and Misconduct category.</li> <li>Specify ownership of the various levels of risk, with ‘Extreme’ risks assigned to either the Council or Audit Committee.</li> </ol> </li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire agrees and will consider incorporating a Fraud and Misconduct category when the Risk Management Framework is reviewed in 2023-24.</p> <p>The current role of the Council and Audit Committee is oversight and review. The Council or Audit Committee may become involved the management of extreme risks, where certain action is required to mitigate the risk e.g. Beyond the delegated authority of the CEO to act.</p> <p>The Shire will consider specific ownership of extreme risks when the Risk Framework is reviewed.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2023-24.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – The Shire’s Corporate Risk Register is being presented to the Audit and Risk Committee on 28 June 2023.</p> <p>The Risk Register will continue to evolve to reflect and update identified risks across the organisation, with updates presented at future Audit and Risk Committee meetings.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

<b>Observation(s) and Ratings</b>	<b>Recommendations</b>	<b>Management Responses</b>	<b>Progress Report - December 2023</b>	<b>Resourcing</b>
<p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• This is an opportunity for improvement, as such, there was no direct cause for this omission other than strict adherence to the ISO.</li> <li>• Practice of assigning risk ownership to operational/ executive management</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>• Possibility of not adequately identifying and mitigating fraud and misconduct risks.</li> <li>• Council not adequately aware of 'Extreme' risks, making resourcing of mitigation strategies more problematic.</li> </ul> <p><b>Inherent Risk Rating: Low</b></p>				
<p><b>5.1.2 Business Continuity</b></p> <p><b>Observations/Findings</b></p> <p>The Shire has developed and implemented a Business Continuity Plan and a Business Systems Disaster Plan. Both are comprehensive documents, and there is evidence that both have been reviewed at least annually.</p> <p>Good practice with Business Continuity Plans is to undertake an annual test of the Plan. There does not appear to be a process to test</p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>1. The Shire implements an annual testing regime for both the Business Continuity Plan and the Business Systems Disaster Plan. Testing should be documented, and any lessons learned</li> </ol>	<p><b>Management Response:</b></p> <p>The Shire Executive Management Team will allocate a project lead and schedule an appropriate day in the Corporate Calendar to test each plan.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p>Testing of the Business Continuity Plan is now scheduled for the first quarter of 2024 (January to March).</p> <p><b>Completion:</b></p> <p>First quarter of 2024 (Jan to Mar).</p>	<p>To date, no additional resourcing requirements have been identified.</p> <p>However, resourcing linked to additional staff hours is a possibility and will be costed</p>



<b>Observation(s) and Ratings</b>	<b>Recommendations</b>	<b>Management Responses</b>	<b>Progress Report - December 2023</b>	<b>Resourcing</b>
<p>the Business Continuity Plans nor evidence of any testing.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Both Plans are relatively new (June 21 and September 20 respectively) and testing has not been identified as a necessity.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Missing information/ steps within the Plans may not be identified or changed circumstances considered. Ultimately, this could result in the Plans being ineffective during an event.</li> <li>The benefits of familiarisation/ training of staff afforded by the testing process are not realised.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p>incorporated into the next iteration.</p> <p><b>Residual Risk Rating: Low</b></p>		<p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Organisational Development, Strategic Governance and Risk Coordinator &amp; Manager Business Systems.</p>	<p>through the planning for the exercise.</p> <p>Any associated costs will be reported in the next quarterly progress report to the committee.</p>
<p><b>5.1.3 Managing Operating Risks</b></p> <p><b>Observations/Findings</b></p> <p>There isn't a <b>formal</b> process in place guiding operational managers on the identification, mitigation, and reporting of operating risks. It is understood that this occurs informally as managers go about their day-to-day duties. It is noted that there are policies providing guidance for 'Legislative Compliance' and 'Fraud and Corruption', and processes in some work areas e.g., project management methodology.</p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>Once Risk Management Framework has been fully implemented and embedded, the Shire develop and implements a procedure to guide operational managers in determining,</li> </ol>	<p><b>Management Response:</b></p> <p>The Executive Management Team have endorsed a Risk Management Procedure that identifies the roles and responsibilities for determining, documenting and managing risks. Training is scheduled with relevant Shire officers on 13 and 15 June 2022. Compliance with the Risk Management Procedure will be expected</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - with a continual staff training review process for good practice purposes.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

<b>Observation(s) and Ratings</b>	<b>Recommendations</b>	<b>Management Responses</b>	<b>Progress Report - December 2023</b>	<b>Resourcing</b>
<p>However, these do not currently align with the Risk Management Framework.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>The Risk Management Framework is newly introduced and has yet to incorporate processes for managing operating risks.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Not all risks are appropriately documented, assessed and mitigated.</li> <li>Insufficient visibility of operating risks across the organisation, so unable to identify multiple instances of the same risk.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p>documenting and managing material operating risks.</p> <p><b>Residual Risk Rating: Low</b></p>	<p>from this time. An ongoing review of Risk Management policies and procedures is planned.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022/23</p>	<p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator &amp; WHS Advisor.</p>	
<p><b>5.1.4 Risk Reporting</b></p> <p><b>Observations/Findings</b></p> <p>There has been no formal Risk reporting within the Shire since 2018.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>The previous Risk Register was last updated in late 2018 and was not operational since then. There had been no risk management process in place between then and the development of the new Risk Management Framework in late 2021/early</li> </ul>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire establishes a new risk reporting regime which includes: <ol style="list-style-type: none"> <li>Quarterly reporting of risks through to EMT and the Audit Committee and/or Council.</li> <li>Incorporates tables summarizing numbers of risk per</li> </ol> </li> </ol>	<p><b>Management Response:</b></p> <p>The newly developed Risk Register will be embedded in the Agenda for the monthly joint meeting of Executive Management Team and Managers and the three Audit Committees per year.</p> <p>The Shire will implement the use of written risk reports as recommended.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - As per the Officer's commentary for Observation 5.1.1.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator &amp; WHS Advisor.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

Observation(s) and Ratings	Recommendations	Management Responses	Progress Report - December 2023	Resourcing
<p>2022, so no associated reporting regime in place</p> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Senior Management and Council not aware of material risks, or mitigating actions, faced by the Shire.</li> </ul> <p><b>Inherent Risk Rating: High</b></p>	<p>category and risk rating.</p> <p>c. A summary of all 'Extreme' and 'High' rated risks.</p> <p>d. A link to the full Risk Register should readers wish to review in detail.</p> <p>A mock-up of a possible report format is available at Appendix 3</p> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Responsibility:</b> Strategic Governance and Risk Coordinator</p> <p><b>Implementation Date:</b> July 2022.</p>		
<p><b>5.1.5 Insurance</b></p> <p><b>Observations/Findings</b></p> <p>The audit concluded that there is a robust process in place for reviewing the Shire's insurable risks on an annual basis with the Insurer, LGIS. This includes communication about any major changes in the Shire's operations and assets and plant holdings.</p> <p>Notwithstanding this, the current economic conditions within Western Australia have resulted in changes which may impact the adequacy of the Shire's insurance coverage, these include:</p>	<p><b>It is recommended that:</b></p> <p>1. The Shire urgently commission:</p> <p>a. An insurance revaluation of all buildings and plant to assure there will be adequate coverage in the event of loss or destruction.</p> <p>b. An assessment of the Shire's Business Interruption Insurance to</p>	<p><b>Management Response:</b></p> <p>Asset revaluation for financial reporting is addressed in the Local Government (Financial Management) Regulations 1996. Further direction is given by the Office of the Auditor General Western Australian local government position paper 2. There is a requirement for assets to be revalued within a period of no more than five years. This applies to land, buildings, infrastructure and investment property. Plant and</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED –</b> Revaluations were completed across the Shire's entire asset base excluding Land and Buildings which are scheduled to be revalued during 2023-24.</p> <p><b>Devolved Responsible Officer(s):</b></p>	<p>Land and Buildings Revaluation project cost \$31,000 ex GST and included in the 2023-24 Annual Budget.</p> <p>The revaluation of all Shire Land and Buildings</p>

<b>Observation(s) and Ratings</b>	<b>Recommendations</b>	<b>Management Responses</b>	<b>Progress Report - December 2023</b>	<b>Resourcing</b>
<ul style="list-style-type: none"> <li>• Significant increases in the costs of building materials, plant and equipment.</li> <li>• Delays in delivery of materials and plant.</li> <li>• Shortage of skilled labour to undertake repair and/ or construction works.</li> <li>• Availability of construction contractors.</li> </ul> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• Change in revaluation cycle from three to five years.</li> <li>• External factors include rising costs, labour shortages and delivery delays.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>• Insufficient insurance coverage to replace or repair critical buildings and/ or infrastructure.</li> <li>• Increased business interruption if the Shire's administration building or depot were to be destroyed or damaged.</li> </ul> <p><b>Inherent Risk Rating: High</b></p>	<p>accommodate for likely delays in replacing or rebuilding critical buildings and/ or infrastructure.</p> <p><b>Residual Risk Rating: Low</b></p>	<p>equipment are now carried at depreciated cost.</p> <p>An insurance valuation is completed when a financial valuation is completed. An annual internal assessment is made of the insurance value for each asset on the insurance schedules, as part of the review of the Shire's insurable risks. The local government sector acknowledges the volatility in the cost and availability of resources and materials for asset replacement.</p> <p>An assessment of major assets should be completed to identify critical assets that, if lost, would cause major business interruption. It should then be decided if an external insurance valuation of these assets should be completed to ensure a process of adequate coverage. These valuations would occur outside the years when a financial valuation takes place for an asset class.</p>	<p>Manager Finance and Director Community &amp; Corporate.</p>	<p>is now finalised.</p> <p>Revised revaluation calculations will be presented in the 2023-24 Annual Financial Statements.</p>

Observation(s) and Ratings	Recommendations	Management Responses	Progress Report - December 2023	Resourcing
		<p>It would also apply to assets that are not required to be valued for financial reporting such as heavy plant.</p> <p>Agree that an assessment of the Shire’s business interruption insurance be completed to report on the level and scope of coverage.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022/23.</p>		

## 5.2 Internal Controls

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>5.2.1 Purchasing Policy v2</b></p> <p><b>Observations/Findings</b></p> <p>This updated policy has become inaccurate in relation to Section 11f which refers to Purchase Orders and Requisitions, however, we understand the Shire does not use requisitions currently.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>There are no current procedures for the raising or authorising of Purchase Orders to show clarity in the process.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Confusion leading to inefficiency.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>Procedures are adopted for the whole Procurement Process including the raising, approving, and issuing of Purchase Orders.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree to review and update the purchasing policy to remove any inaccuracies and reflect changes since the last review. Review and update management procedures on raising, approving and issuing of purchase orders.</p> <p>The Shire is currently using manual patching to rectify deficient system capabilities with the ERP and this creates workflow inefficiencies. The Shire will review the ERP in 2022/23 and a resolution to recommendations 5.2.1, 5.2.2, 5.2.3, 5.2.4, will be investigated.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – The Shire’s Purchasing Policy and Management Procedure was adopted by the Council during the March 2023 OCM.</p> <p>Since this time, Procurement training sessions for all staff have been conducted across the organisation to ensure the new policy/framework is adhered to when Officers procure goods and services for the Shire.</p> <p><b>Devolved Responsible Officer(s):</b> Manager Finance &amp; Finance Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>5.2.2 Purchasing Policy v2</b></p> <p><b>Observations/Findings</b></p> <p>There is no segregation of duties between order raising and order approval, with one officer required to undertake both tasks.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Lack of focus on segregation of duties, possibly due to lack of clarity with no procedures as in the above cause.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Lack of segregation of duties, as well as possible inefficiency with Senior Officers' time, spent raising documents.</li> <li>Possibility for fraud and misconduct to occur.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>A different officer raises the order from the officer whom it is directed to for approval. Note if this recommendation is actioned the officer raising the order could also receive the order if recommendation 8 below leads to 3-way matching.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree to review and update the purchasing policy and management procedures to address the issue of segregation of duties.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – Through the review of the Shire's Purchasing Policy, a requisition system has been introduced to allow for the segregation of duties between the Officer raising and approving the requisition. The new requisition system is due to 'go live' on Monday 3 July 2023.</p> <p><b>Devolved Responsible Officer(s):</b> Manager Finance &amp; Finance Officer.</p>	<p>As per above.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>5.2.3 Accounts Payable</b></p> <p><b>Observations/Findings</b></p> <p>The accounts' payable function operates a 2-way match process for all non-manually processed invoices.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>The Shire does not receive goods or services on the accounting system. Instead, the AP officer sends out all invoices for manual signoff.</li> </ul> <p><b>Potential Impact:</b></p> <ul style="list-style-type: none"> <li>Inefficiency and possible increased risk of inaccuracy in the accounts payable process.</li> </ul> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire investigates whether the current Synergy software for 3-way matching offers a suitable solution prior to any alternative module implementation being considered. If acceptable, then 3-way matching should commence with the receiving functionality being introduced.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree to conduct an investigation of current software to improve the efficiency and accuracy of the matching process.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p>Work in progress – processing mapping exercise currently in progress.</p> <p>Considering this functionality through the onboarding of a new finance system during the Enterprising Resourcing Product (ERP) investigations.</p> <p><b>Completion:</b> Ongoing - consideration through investigation of new ERP.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Finance &amp; Finance Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p> <p>Projected resourcing requirements related to new ERP integration will be presented to the Council in April.</p>
<p><b>5.2.4 Accounts Payable</b></p> <p><b>Observations/Findings</b></p> <p>We understand the matching process of invoice to purchase order on Synergy allows a 10% overspend before a warning is given on the system, but that does not prevent the matching from taking place.</p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire undertakes an assessment of whether this level of flexibility is necessary as 10% appears a high level of tolerance.</li> </ol>	<p><b>Management Response:</b></p> <p>Agree with undertaking an assessment on the levels of tolerance and the management procedures. Additional controls will be considered during this assessment.</p>	<p><b>Management Update:</b></p> <p>Work in progress continuing. System controls will be assessed for the feasibility of adjusting the % tolerances. During this time, a review will be completed on the number of occurrences which exceed 100% of the payable amount and assess the level of financial risk</p>	<p>To date, no additional resourcing requirements have been identified.</p>



Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Parameters in the system have been set at this level we understand due to typical GST errors.</li> </ul> <p><b>Potential Impact:</b> Overpayments. <b>Inherent Risk Rating: Medium</b></p>	<p>It is commonplace that a warning occurs at 90% and that any invoices over 100% of the order value require either a new order or an amendment to be raised for matching to succeed.</p> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23</p>	<p>this poses on the Shire's cash flow position.</p> <p><b>Completion:</b> Extended review and completion period to January / February 2024.</p> <p><b>Devolved Responsible Officer(s):</b> Manager Finance &amp; Finance Officer.</p>	
<p><b>5.2.5 General Ledger Reconciliations</b></p> <p><b>Observations/Findings</b></p> <p>The following month-end reconciliations for March 2022 had the following issues.</p> <ul style="list-style-type: none"> <li>Rates: no evidence of independent review.</li> <li>Creditors: at the time of the audit had an unreconciled difference of \$100.</li> <li>Payroll: not performed due to software problems with the new definitive module. The provider is working on a solution.</li> </ul>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>When all software issues have been resolved the Shire should reconcile all balance sheet accounts monthly leaving an audit trail, and also demonstrate evidence with independent reviews over differences actioned by the following month.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>All balance sheet reconciliations to be reviewed with evidence of that review. Any variances to be noted at the time of reviewing the reconciliations and the process being followed to resolve the difference be noted. Monthly evidence of review to be completed.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - As per the 2022-23 Interim Audit Recommendation, payroll reconciliations are now completed on a fortnightly basis, aligning with the fortnightly pay runs.</p> <p><b>Devolved Responsible Officer(s):</b> Manager Finance &amp; Payroll Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<ul style="list-style-type: none"> <li>Fixed Assets: no full reconciliation was performed for March; a monthly YTD report was however prepared.</li> </ul> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Absence of timeliness and full testing prior to software purchase.</li> </ul> <p><b>Potential Impact:</b> Build-up of inaccurate transactions leading to inaccurate balance sheet and potential for fraud.</p> <p><b>Inherent Risk Rating: High</b></p>				
<p><b>5.2.6 Access to Synergy Finance Modules</b></p> <p><b>Observations/Findings</b></p> <p>On review of the access to Synergy Finance modules, it was noted that there are multiple users, named and unnamed who have access to all modules allowing transactions to be raised (for example in Accounts Payable) and then reported on through the general ledger, with the potential for prior manipulation.</p> <p><b>Causes</b></p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The Shire needs to perform a review of all access to Finance modules with a view to restricting all individuals' access such that no one officer can enter or change transaction data whilst also having access to change the reporting of such changes.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>A review of access to finance modules is in progress. Changes have been made to access levels with this work continuing.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2022-23.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> - with ongoing monitoring necessary.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Business Systems.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<ul style="list-style-type: none"> <li>Absence of automated systems controls.</li> <li>Allowance in the system for employees to cover or rotate in other peoples' roles without having their access halted or removed from their previous or substantive roles.</li> </ul> <p><b>Potential Impact:</b> Potential for fraud and theft.</p> <p><b>Inherent Risk Rating: Medium</b></p>				
<p><b>5.2.7 Definitive Payroll – Higher Duties</b></p> <p><b>Observations/Findings</b></p> <p>The Payroll does not have a separate classification for higher duties. When these higher duties occur, the rates are manually changed but do not appear on the face of the payroll report as a changed status.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>Absence of appropriate controls and new payroll software.</li> </ul>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The software supplier should be requested to add this classification</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire has a process for approval of higher duties, including written confirmation of the agreement and rate. These changes are approved in fortnightly variance reports with supporting commentary.</p> <p>Manual processes to show higher duty approval have been tested within the current software.</p>	<p><b>Management Update:</b></p> <p>Work in progress.</p> <p>Working with IT Vision to provide a software solution to recognise this classification in the Payroll system.</p> <p><b>Completion:</b></p> <p>Mid-financial year 2023-24</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Manager Organisational Development &amp; Payroll Officer.</p>	<p>To date, no additional resourcing requirements have been identified.</p> <p>If required, software solution costs will be identified through future budget planning.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>Potential Impact:</b> Inability to substantiate accuracy and compliance to third parties, and potential overpayments.</p> <p><b>Inherent Risk Rating: Low</b></p>		<p>They have proven unsuccessful, and the Shire will continue to work with the software provider to find a way to improve the identification of higher duties.</p> <p><b>Responsibility:</b> Director Community and Corporate</p> <p><b>Implementation Date:</b> 2023-24</p>		

5.3 Legislative Compliance

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>5.3.1 Compliance Register</b></p> <p><b>Observations/Findings</b></p> <p>Although we have not found any evidence that changes to Regulations are not being tracked and actioned, there is no current compliance register being used to record that process.</p> <p><b>Causes</b></p> <p>Absence in personnel business continuity.</p> <p><b>Potential Impact:</b></p> <p>Non-compliance with Regulations., including the potential for the absence of appropriate delegated authorities.</p> <p><b>Inherent Risk Rating: Medium</b></p>	<p><b>It is recommended that:</b></p> <p>1. The Shire:</p> <ul style="list-style-type: none"> <li>• Expedites the purchase of the ATTAIN software package which we have been advised is currently being considered.</li> </ul> <p>And/or</p> <ul style="list-style-type: none"> <li>• Refreshes the previous register used for this purpose but refreshes it with all relevant legislation and other regulations rather than just the LGA 1995 material.</li> </ul> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>The Shire is currently procuring the Attain by Integrity software package.</p> <p><b>Responsibility:</b> Strategic Governance and Risk Coordinator</p> <p><b>Implementation Date:</b> 2022.</p>	<p><b>Management Update:</b></p> <p><b>COMPLETED</b> – Attain Software has been integrated and is now in use to track compliance actions against legislative requirements and broadening its use to include a compliance calendar function.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Strategic Governance and Risk Coordinator.</p>	<p>To date, no additional resourcing requirements have been identified.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>5.3.2 Capital Expenditure Requirements for Long Term Financial Plan and Asset Management Plan</b></p> <p><b>Observations/Findings</b></p> <p>As per The OAG Audit Report 20/21, Section 50(1)(c) of the Local Government (Financial Management) Regulations 1996 requires the Shire to report the Asset Renewal Funding Ratio in its annual report. This has not been done for 2019, 2020, and 2021. To do this the Capital Expenditure for the Long-Term Financial Plan and the Asset Management Plan needs to be estimated. This estimation process was not evidenced.</p> <p><b>Causes</b></p> <p>Asset Management Plan data not ready to be presented.</p> <p><b>Potential Impact:</b></p> <p>Lack of funding provision for asset maintenance and assets fall into a state of disrepair.</p> <p>Regulatory non-compliance.</p>	<p><b>It is recommended that:</b></p> <ol style="list-style-type: none"> <li>The capital expenditure be estimated for both reports mentioned, and the reports completed to the satisfaction of the OAG.</li> </ol> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Management Response:</b></p> <p>Agree with the recommendation. The Shire is investigating the onboarding of a new Asset Management Plan and supporting the asset management system.</p> <p>This issue is being considered by DLGSC as part of the Local Government Act reform program.</p> <p><b>Responsibility:</b> Director Community and Corporate.</p> <p><b>Implementation Date:</b> 2023-24.</p>	<p><b>Management Update:</b></p> <p>Investigations into suitable Asset Management software solutions have been conducted, with a view to onboarding the solution mid to late 2023-24 financial year.</p> <p><b>Completion:</b></p> <p>During the 2023-24 financial year.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Director Community &amp; Corporate, Director Infrastructure &amp; Development &amp; Manager Asset &amp; Technical.</p>	<p>The 2023-24 Annual Budget identifies \$20,000 to procure and onboard an Asset Management software solution to support the monitoring and maintenance of the Shire's Asset Management Strategy.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p>Poor accounting of/for capital assets.</p> <p><b>Inherent Risk Rating: High</b></p>				
<p><b>5.3.3 Internal Audit</b></p> <p><b>Observations/Findings</b></p> <p>The Shire does not have a regular Internal Audit function, rather they go to market as and when required, usually to conduct the regulated audits (Reg 5 and Reg 17).</p> <p>In the absence of an Internal Audit function, the Shire does not have a Strategic Internal Audit Plan to identify and document areas of audit risk and audit focus.</p> <p><b>Causes</b></p> <ul style="list-style-type: none"> <li>• Business maturity with respect to Internal Audit.</li> <li>• Limited resources to dedicate to an internal audit function.</li> </ul>	<p><b>It is recommended that the Shire consider:</b></p> <ol style="list-style-type: none"> <li>1. Commissioning the production of a Strategic Internal Audit Plan (1-, 2- or 3-year horizon) to identify areas of risk (strategic through to operational). This would be considered and prioritised by the Audit Committee to guide future internal audit and review activities.</li> <li>2. Establish a part-time IA function. While it is understood an in-house function is not economically viable, it may be possible to call for quotes to provide a fixed number of hours per year from firms on the CUA or WALGA panel to deliver</li> </ol>	<p><b>Management Response:</b></p> <p>Agree with undertaking an investigation into the feasibility and viability of establishing an internal audit function. Consider implementing this function through options including:</p> <ol style="list-style-type: none"> <li>1. 0.50 FTE appointment of an Internal Audit Officer to perform duties.</li> <li>2. External quote process with suitable organisations to perform internal audit functions on an agreed fixed hour contract basis.</li> <li>3. Partner with a larger LG that has the capacity to outsource their Internal Audit Staff to perform Internal Audit functions for the Shire.</li> </ol>	<p><b>Management Update:</b></p> <p>Work in progress continuing. Future budget consideration for financing additional works by a contractor or managing in-house.</p> <p>Currently in discussions with neighbouring LGs on best practice methods for managing an internal compliance function.</p> <p><b>Completion:</b></p> <p>A recommendation will come to the Audit and Risk Committee once a suitable solution has been determined.</p> <p><b>Devolved Responsible Officer(s):</b></p> <p>Director Community &amp; Corporate &amp; Manager Finance.</p>	<p>A recommendation will come to the Committee once a suitable solution has been determined and costed for inclusion in future budget preparations and additional work force planning considerations.</p>

Observation(s) and Ratings	Recommendations	Management Response	Progress Report - December 2023	Resourcing
<p><b>Potential Impact:</b> Missed opportunity for early identification/prevention of control and governance breakdowns, and limited improvement prospects for strengthening of operations.</p> <p><b>Inherent Risk Rating: Medium</b></p>	<p>against an approved Strategic Internal Audit Plan (as per recommendation 15)</p> <p><b>Residual Risk Rating: Low</b></p>	<p><b>Responsibility:</b> Director Community &amp; Corporate</p> <p><b>Implementation Date:</b> Feasibility study to be completed during 2022-23 and 2023-24 financial years with a recommendation report to Audit and Risk Committee.</p>		



## Summary

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Shire Officers have provided a quarterly progress report for each observation/ recommendation, including proposed actions, a timeline for implementation and projected resourcing requirements.

Continuing progress reports will be provided to future Audit & Risk Committees with the intent that all recommendations will be finalised by 30 June 2024, with the exception of recommendations linked to the onboarding of a new ERP system or where physical resourcing requirements are linked to the Shire's Workforce Plan, which may exceed the preferred completion timeframe.

## Voting Requirements

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Simple majority.

### Officer's Recommendation – 7.5

#### **AC017/2023 – Officer's Recommendation / Committee Decision 7.5**

*Moved Cr Kitchen, Seconded Cr Mogg.*

**That the Audit and Risk Committee performs its role set out in Regulation 16 of the *Local Government (Audit) Regulations 1996* to receive and review the quarterly Regulation 17 Progress Report.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*

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## 7.6 Final Financial Audit Results for the year ending 30 June 2023

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<b>Author</b>	Director Community and Corporate Services, Samantha Chamberlain
<b>Authorising Officer</b>	Chief Executive Officer, Gordon MacMile
<b>Nature of the Decision</b>	Legislative
<b>Confidential Status</b>	This item is not a confidential matter.
<b>Attachments:</b>	7.6.1 Shire of Capel Final Audit Management Report 7.6.2 Independent Auditor's Report 7.6.3 Annual Financial Report 22/23

### Proposal

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Review and consider the findings detailed in the attached Audit Management Report for the year ending 30 June 2023.

### Officer's Recommendation

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That the Audit and Risk Committee:

1. Considers the final audit findings for the year ending 30 June 2023 and notes the Shire has received an 'Unqualified Opinion' endorsing a clean audit outcome for the Shire.
2. Recommends that the Council endorses the Final Audit Management Report.
3. Notes the Independent Auditor's Report and Annual Financial Report (AFR) will be included in the 2022-23 Annual Report.

### Background

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Changes to the Local Government Act 1995 that were enacted in 2005 required that the Council establish an Audit Committee. The delegation of powers and duties to the Audit Committee were agreed by the Council to accept responsibility for oversight of the financial affairs of the Shire of Capel.

The primary objective of an Audit Committee is to accept responsibility for the annual external audit and liaise with the local government's auditor, so the Council can be satisfied with the performance of the local government in the management of its financial affairs.

Local governments undergo an external financial audit on an annual basis and auditors are appointed through the Office of the Auditor General (OAG).

For financial years 2020-21, 2021-22 and 2022-23 the OAG contracted Moore Australia (WA) to complete the Shire's annual financial audit and three Officers from Moore Australia (WA) attended the site to complete the audit functions.

The audit process involves a series of on and off-site testing of the Shire's internal financial controls, a review of general risk areas and items relating to previous financial audits.

Other key matters such as accounting irregularities, illegal acts of non-compliance with laws and regulations and appropriateness of accounting policies and practices are also included in the audit process.

### **Audit Scope**

The primary audit scope and objective is to express an opinion as to whether the Shire's annual financial report is free from material misstatements (whether due to fraud or error) and is prepared (in all material respects) in accordance with applicable Australian Accounting Standards, the *Local Government Act 1995* (as amended) and the *Local Government (Financial Management) Regulations 1996* (as amended).

The audit also reports on the following matters in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

Significant adverse trends in the financial position or the financial management practices of the Shire.

Non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law.

Whether all required information and explanations were obtained by the auditor.

Whether all audit procedures were satisfactorily completed in conducting the audit.

### **Audit Approach**

The audit process generally contains three phases - planning, fieldwork, and completion.

The planning phase is critical to the audit process as this is where audit risk is addressed. The methodology focuses on the Shire's underlying business risks, recognising that audit risk is affected by the business risks of the Shire, as well as by how well Management and the Council address those risks.

The most critical aspect of audit planning is the assessment of risk and consideration of where material misstatements could occur.

The audit approach focuses on areas that represent a higher risk to the business. The auditor's methodology uses a risk-based approach to evaluate and, when appropriate, to test the effectiveness of internal controls with the expectation that a moderate level of reliance can be placed on the operating controls.

A combined assessment of inherent and control risk for significant accounts and the related financial statement assertions will be made. This will establish a portfolio of audit procedures that are customised based on the Shire's significant accounts, critical areas, disclosures, and classes of transactions, as well as the assessment of risk, including the risk of fraud.

Audit procedures include both substantive tests of account details and tests of internal controls for significant account balances, transactions, and disclosures.

## Previous Council Decisions

### AC009/2023 – AMENDED RECOMMENDATION/ COMMITTEE DECISION 7.2

- '1. Consider the Interim Audit results for the year ending 30 June 2023.
2. Recommends that the Council endorse the Interim Audit Report and the accompanying 'Management Comment'.
3. The Shire writes to the OAG to get confirmation that the process relating to '1. Payroll reconciliation not performed.' Is now satisfied with the Shire's newly implemented reconciliation and authorisation process. '

## **Decision Framework**

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### **Shire of Capel Strategic Community Plan 2023-2033**

Direction 4 - Deliver good leadership, governance, and decision-making.

Community Outcomes:

- 4.1 Effective and compliant governance.
- 4.2 Informed and transparent decision-making.

### **Shire of Capel Corporate Business Plan – 2023-2027**

- FIN 1 – Annual and Monthly Reporting Requirements.
- FIN 4 – Financial Auditing.
- FIN 5 – Fair Valuation of Assets.

## **Statutory Framework**

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### Local Government Act 1995

#### **Division 5 – Annual reports and planning**

##### 5.53. Annual reports

- (1) The local government is to prepare an annual report for each financial year.
- (2) The annual report is to contain –
  - (a) a report from the mayor or president; and
  - (b) a report from the CEO; and
  - [(c), (d) deleted]*
  - (e) an overview of the plan for the future of the district made in accordance with section 5.56, including major initiatives that are proposed to commence or to continue in the next financial year; and
  - (f) the financial report for the financial year; and
  - (g) such information as may be prescribed in relation to the payments made to employees; and
  - (h) the auditor's report prepared under section 7.9(1) or 7.12AD(1) for the financial year;

and

**Division 3 – Conduct of audit**

## 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.

## 7.12AD. Reporting on a financial audit

- (1) The auditor must prepare and sign a report on a financial audit.

Local Government (Audit) Regulations 1996

## 16. Functions of audit committee

An audit committee has the following functions –

- (a) to guide and assist the local government in carrying out –
  - (i) its functions under Part 6 of the Act; and

## (ii) its functions relating to other audits and other matters related to financial management;

- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;

- (c) to review a report given to it by the CEO under regulation 17(3) (the *CEO's report*)

and is to –

- (i) report to the council the results of that review; and
- (ii) give a copy of the CEO's report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under –
  - (i) regulation 17(1); and
  - (ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government –
  - (i) is required to take by section 7.12A(3); and
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
- (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
- (iv) has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.

**Policy Framework**


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Policy 2.35 – Legislative Compliance.

## Implications

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### Risk

Risk	Likelihood	Consequence	Mitigation
<b>Risk 1</b> Financial <b>Rating: Medium</b>	Unlikely	Moderate	Ensure compliance with state legislation and Financial Management Regulations through contemporary financial control mechanisms and accurate financial reporting.
<b>Risk Description:</b> Failure to fulfil compliance requirements both statutory and regulatory.			

### Financial - Budget

Costs associated with the 2022-2023 audit are included within the 2023-24 Annual Budget and are a statutory requirement through the Office of the Auditor General WA.

### Long Term

There are no long-term costs relevant to this matter.

## Consultation/Engagement

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The following timetable is a broad outline of the key deliverables and timing aspects of the audit process:

Engagement Activity	Timing
Audit Planning	March 2023
Entrance Meeting	30 March 2023
Interim Audit Visit	3 April - 5 April 2023
Interim management report (if any matters to be reported)	Mid May 2023
Receipt of complete and balanced draft financial report	End September 2023
Final Audit Visit	18-20 October 2023
Issuance of Audit Concluding Memorandum	Mid November 2023
Concluding (Exit) Meeting	End November 2023
Date CEO sign off on financial statements	E November 2023
Final sign-off of Auditor's report & management report	Early December 2023

The timely delivery and completion of the audit process is contingent on the Auditors having access to review and test key financial documents / samples, supported by the Shire's finance team to provide further evidence if required.

## **Officer's Comment**

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The following information and attached reports identify one finding arising from the Shire's final external audit for the year ending 30 June 2023, and details the nature of the finding, including the rating and management comment provided by Officers on what actions will be taken to rectify the finding.

The below detail has been extracted from the Final Auditor's Management Report:

### **Bank Reconciliation**

#### Finding

We have noted that the Municipal bank reconciliation for the month of June 2023 has not been reconciled. There is a difference of \$29K between the bank reconciliation and the general ledger.

Rating: Moderate

#### Implication

The absence of an effective bank reconciliation process increases the risk of errors, omissions or fraud remaining undetected. In turn, this could lead to misstatements in financial reporting and the Shire not reporting its true cash position.

#### Recommendation

The Shire should ensure that the monthly bank reconciliation is appropriately prepared and independently reviewed.

#### Management Comment:

Agree with the finding, implication, and recommendation of the audit finding. There has been difficulty in reconciling the amount due to the incorrect interpretation of the amount being municipal funds when an examination of the original transaction shows them as trust funds.

ACTION: Funds to be transferred to the correct account to resolve the bank reconciliation issue.

Responsible Person: Manager Finance

Completion Date: December 2023 (completed)

#### Interim Audit Report 2022-23

As presented to the Audit and Risk Committee in June 2023, the Auditor's Interim Management Report identified a finding related to the fortnightly reconciliation of the payroll reports, which has now been actioned by Officers and recognised as complete by the Auditors.

## Summary

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By way of continuous improvement and external oversight, Officers welcome the finding identified by the Auditors and can confirm the remedial process to reverse the incorrect income posting has now been actioned.

For financial year 2022-23, audit findings relating to the Interim and Final Audit processes have been completed with no further actions requiring Officers attention.

The Shire's Executive Team commend the Finance Team on their efforts in achieving a successful financial audit outcome for 2022-23.

The attached audit reports are presented to the committee for review and endorsement.

## Voting Requirements

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Simple majority.

### Officer's Recommendation – 7.6

#### AC018/2023 – Officer's Recommendation / Committee Decision 7.6

*Moved Cr Kitchen, Seconded Cr McCleery.*

**That the Audit and Risk Committee:**

- 1. Considers the final audit findings for the year ending 30 June 2023 and notes the Shire has received an 'Unqualified Opinion' endorsing a clean audit outcome for the Shire.**
- 2. Recommends that the Council endorses the Final Audit Management Report.**
- 3. Notes the Independent Auditor's Report and Annual Financial Report (AFR) will be included in the 2022-23 Annual Report.**

**Carried 3/0**

*For - Cr Kitchen, Cr McCleery and Cr Mogg.*

*Against – Nil*



**8. GENERAL BUSINESS**

**8.1 Note for the Local Emergency Management Committee**

The Audit Committee would like to note for the Local Emergency Management Committee to consider the discussing resilience risks for the Shire in relation to a local emergency.

This subject will be raised by the Shire President at the next Committee Meeting.

The Chief Executive Officer also expressed thanks to the Finance, Governance and Asset areas for the Audit Improvement Initiatives completed to produce the Finding's Report.

**9. MEETING CLOSURE**

There being no further business the meeting was declared closed at 1:55pm.