

10.1.4 2020/21 AUDIT - SECTION 7.12A (4) ACTION REPORT

Section 5.23 – Applicability

Location:

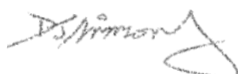
Portfolio: Governance, Administration and Finance
 Cr JM Stratford

File Reference: ADM 0114

Disclosure of Interest: No interest declared by the CEO

Author: Darren Simmons, Chief Executive Officer

Signature of CEO



Attachment: Nil

Background:

In accordance with s7.12A (4) of the Local Government Act 1995, a local government must —

- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
- (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

By way of summary, the items of concern raised through the 2020/21 Audit process are listed as follows:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Compliance with procurement policies	✓		
2. Review of financial management systems	✓		
3. Annual review of Corporate Business Plan and workforce plan	✓		
4. Risk management policies and risk register	✓		
5. Asset management policy		✓	
6. Rates reconciliation and rate notices		✓	
7. Audit committee terms of reference		✓	
8. User logout due to inactivity		✓	

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Untimely review of journals		✓	
2. Disposal of asset		✓	
3. Compliance with procurement policies - Delegated authority		✓	

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

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

Comment:

As required under s7.12A (4) of the Act, this report relates to the significant matters identified in the 2020/21 auditor's report as provided below in blue text with the black text being the management comment and recommended action. It is further recommended that the CEO report to the Audit Committee on the outcome of action taken by 30 June 2022.

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) The following material matters indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any other relevant written law were identified during the course of my audit:
 - a) The Shire has not reported the Asset Renewal Funding Ratio for 2019 in the annual financial report as required by section 50(1) of the FM Regulations, as management could not confirm the reliability of the available information on planned capital renewals and required capital expenditure in the long-term financial plan and asset management plan respectively.

The management team supported the finding and recommendation and engaged specialist external consultants in the 2019/2020 FY to assist staff in developing and maintaining a new combined asset management and long-term financial plan in order to provide the verifiable information and see the development of reasonable assumptions to support an accurate and robust calculation of the asset renewal funding ratio for the 2019/2020 and future financial years.

Shire action:
Noted.

- b) For approximately 7% of purchase transactions we sampled, there was no evidence that a sufficient number of quotations were obtained to test the market. We also noted two of the purchase orders we sampled were dated after the dates of the corresponding supplier invoices. In addition, we noted three invoices were approved for payments above the approver's delegated limit. For one invoice, there was no evidence of approval for payment. These practices increase the risk of fraud or favouritism of suppliers, not obtaining value for money in procurement, and inappropriate or unnecessary purchases.

Shire action:

As part its 1 July 2021 financial management system (IT Vision's SynergySoft) installation, staff will develop and implement appropriate procedures and processes to ensure compliance.

- c) A review of the appropriateness and effectiveness of the Shire's financial management systems and procedures was last completed in 2015. Regulation 5(2)(c) of the FM Regulations requires a review to take place at least once in every three financial years.

Shire action:

In noting the finding and agreeing with the recommendation, Council's decision to procure and implement a new financial management system (IT Vision's SynergySoft) from 1 July 2021 as a result of previous audit concerns of the prevailing financial management system, the CEO is of the view that it would be more practical and beneficial to undertake a review of the financial management systems and procedures of the local government following the installation and implementation of SynergySoft.

- d) The Corporate Business Plan and Workforce Plan were last reviewed in 2016 and 2015 respectively. Section 19DA(4) of the Local Government (Administration) Regulations requires the corporate business plan to be reviewed every year. Matters relating to resources, which includes workforce planning, are developed and integrated with the corporate business plan, as per Section 19DA(3)(c).

Shire action:

Due to the COVID-19 Pandemic, the review of the Shire's integrated planning and reporting (IPR) documents scheduled for 2020 was delayed and is now part of the DLGSC/ LG Professionals WA and NEWROC pilot IPR programme currently underway.

Council has engaged an external consultant to assist with community consultation (undertaken in late 2021) and IPR document preparation with it anticipated that draft IPR documentation will be presented to Council for adoption in May 2022.

- e) There were no written comprehensive risk management policies, and the risk register has not been reviewed since 2018.

Shire Action:

Management will develop suitable and comprehensive risk management policies and ensure the risk register is updated, reflecting the material risks relevant to the Shire's activities and functions for Audit Committee consideration by 30 June 2022.

Consultation:

Nil

Statutory Environment:

Local Government Act 1995

7.12A. Duties of local government with respect to audits

- (1) A local government is to do everything in its power to —
- (a) assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government must —
- (aa) examine an audit report received by the local government; and
 - (a) determine if any matters raised by the audit report, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government must —
- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

[Section 7.12A inserted: No. 49 of 2004 s. 8; amended: No. 5 of 2017 s. 19.]

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.

[Regulation 16 inserted: Gazette 26 Jun 2018 p. 2386-7.]

Policy Implications:

Nil

Financial Implications:

Nil

Strategic Implications:

4.2.4 - Operate in a financially sustainable manner (ongoing)

4.3.3 - Provide reporting processes in a transparent, accountable and timely manner (short term, in progress)

Voting Requirement:

Absolute majority

COUNCIL DECISION

Committee Recommendation

Moved CR GL Boyne

Seconded CR NJ Chandler

That the action report under section 7.12A (4) of the Local Government Act 1995 for the Shire of Koorda's 2020/2021 audit, as presented, be adopted.

**PUT & CARRIED ABSOLUTE MAJORITY: 5/0
RESOLUTION NO: 070322**