



Audit and Risk Management Committee Meeting

Minutes

Tuesday 11 June 2019

Venue: Council Chambers,
9 Lynch Street Corrigin

TERMS OF REFERENCE

Regulation 16 of the Local Government (Audit) Regulations 1996 states that:

“An audit committee —

- a) is to provide guidance and assistance to the local government —
 - i. as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and
 - ii. as to the development of a process to be used to select and appoint a person to be an auditor; and
- b) may provide guidance and assistance to the local government as to —
 - i. matters to be audited; and
 - ii. the scope of audits; and
 - iii. its functions under Part 6 of the Act; and
 - iv. the carrying out of its functions relating to other audits and other matters related to financial management; and
- c) is 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.”

1.0 INTRODUCTION

The Council of the Shire of Corrigin (hereinafter called the "Council") hereby establishes a committee under the powers given in Section 5.8 and Section 7.1 A of the Local Government Act 1995, Local Government Amendment Act 2004 and Audit Regulations, such committee to be known as the Audit and Risk Management Committee, (hereinafter called the "Committee"). The Council appoints to the Committee those persons whose names appear in Section 4.0 below.

Membership of the Committee shall, unless otherwise specified, be for a term ceasing at the date of the Local Government election in the year the Shire's local government elections are held, after which time the Council may appoint members for a further term. The Committee shall act for and on behalf of Council in accordance with provisions of the Local Government Act 1995, the Local Government Amendment Act 2004 and the Local Government (Audit) Amendment Regulations 2005, local laws and policies of the Shire of Corrigin and this Instrument.

2.0 NAME

The name of the Committee shall be the Audit and Risk Management Committee.

3.0 ROLE

The Committee's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its objectives in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.

4.0 OBJECTIVES OF THE COMMITTEE

- 4.1 To provide guidance and assistance to the Council in:
 - a) carrying out its audit functions under Part 7 of the Local Government Act;
 - b) the development of a process to be used to select and appoint an auditor;
 - c) determining the scope and content of the external and internal audit and advising on the general financial management of the Shire;
 - d) overseeing the audit process and meeting with the external auditor after each visit to discuss management issues and monitoring administration's actions on, and responses to, any significant matters raised by the auditor;
 - e) evaluating and making recommendations to Council on internal and external audit reports prior to them being presented to Council;
 - f) receiving and verifying the annual Local Government Statutory Compliance Return;

- g) review reports provided by the CEO on the Shire's systems and procedures in relation to:
 - i. risk management;
 - ii. internal control; and
 - iii. legislative compliance;
- h) at least once every 3 years and report to Council the results of that review. Ref: Functions of Audit Committees (Audit Regulations).

- 4.2 To advise Council on significant high level strategic risk management issues related to the Shire of Corrigin including issues involving:
- a) the community;
 - b) the workforce;
 - c) vehicles and plant;
 - d) buildings and similar property;
 - e) revenue streams;
 - f) legal liability;
 - g) electronically stored information;
 - h) environmental impact;
 - i) fraud; and
 - j) reputation.

5.0 MEMBERSHIP

The Committee shall consist of all Councillors. Additionally up to two independent consultants with expertise in financial or legal matters will be called upon as required to provide additional independent external advice to the Committee. The external independent persons will have senior business, legal or financial management/reporting knowledge and experience, and be conversant with the financial and other reporting requirements.

Appointments of external consultants shall be made by the CEO following a decision of Council and the allocation of sufficient funds to provide consultation fees using relevant professional fee schedules. No member of staff including the CEO is to be a member of the Committee, but the CEO may participate as Council's principal advisor, unless expressly excluded by resolution of the Committee.

6.0 PRESIDING MEMBER

The President will take the role of Presiding Member and Deputy President the role of Deputy Presiding Member to conduct its business. The Presiding Member shall ensure that minutes of the proceedings are kept and that business is conducted in accordance with the Shire of Corrigin Standing Orders (Local Law). The Local Government Act 1995 places responsibility for speaking on behalf of Council with the President, or the CEO if the President agrees. The Presiding Member if different from the President is to refrain from speaking publicly on behalf of the committee or Council, or to issue any form of written material purporting to speak on behalf of the committee or Council without the prior approval of the President.

7.0 CONDUCT OF MEETINGS

The Committee shall meet at least three times per year. A schedule of meetings will be developed and agreed to by the members. As an indicative guide, meetings would be arranged to coincide with relevant Council reporting deadlines, for example in February to discuss the Statutory Compliance Return, in July to discuss the year's financial performance and to discuss the annual audit program and in November to discuss the Annual Financial Report. Additional meetings shall be convened at the discretion of the Presiding Member.

Any three members of the Committee collectively or the internal or external auditor themselves may request the Presiding Member to convene a meeting. From a time management point of view, urgent matters which may arise should be referred directly to Council through the bi-monthly meetings or to a Special Council meeting.

- 7.1 Notice of meetings shall be given to members at least 3 days prior to each meeting.
- 7.2 The Presiding Member shall ensure that detailed minutes of all meetings are kept and shall, not later than 5 days after each meeting, provide Council with a copy of such minutes. Council shall provide secretarial and administrative support to the Committee.
- 7.3 All members of the Committee shall have one vote. If the vote of the members present is equally divided, the person presiding must cast a second vote.
- 7.4 The Chief Executive Officer should attend all meetings, except when the Committee chooses to meet in camera with the exclusion of the CEO.
- 7.5 Representatives of the external auditor should be invited to attend at the discretion of the Committee but must attend meetings either in person or by telephone link up considering the draft annual financial report and results of the external audit.
- 7.6 The internal auditor or representative shall be invited to attend meetings, at the discretion of the Committee, to consider internal audit matters.

8.0 QUORUM

Quorum for a meeting shall be at least 50% of the number of officers, whether vacant or not. A decision of the Committee does not have effect unless a simple majority has made it.

9.0 DELEGATED POWERS

The Committee has no delegated powers under the Local Government Act and is to advise and make recommendations to Council only. The Audit and Risk Management Committee is a formally appointed committee of Council and is responsible to that body. The Audit and Risk Management Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. The Committee does not have any management functions and is therefore independent of management.

The following guidelines are to provide further direction from Council for the operation of the Committee:

9.1 *The External Audit*

The Committee shall:

- Develop the process of appointment of the external auditor and recommend a suitable Auditor for appointment by Council. Prior to appointment, discuss the scope of the audit and any additional procedures required from the external auditor. Invite the external auditor to attend audit committee meetings to discuss the audit results and consider the implications of the external audit findings.
- Inquire of the auditor if there have been any significant disagreements with management and whether they have been resolved.
- Monitor management responses to the auditor's findings and recommendations.
- Review the progress by management in implementing audit recommendations and provide assistance on matters of conflict.
- Provide a report and recommendations to Council on the outcome of the external audit.

9.2 *Co-ordination of Auditors*

The Committee shall:

- Oversee the work of the internal audit function to facilitate co-ordination with the external auditor.
- Meet periodically with the Chief Executive Officer, senior management staff and internal and external auditors to understand the organisation's control environment and processes.

9.3 *Duties and Responsibilities*

The following duties and responsibilities of the Committee will include:

- i. To review the scope of the internal audit plan and program and the effectiveness of the function. This review should consider whether, over a period of years the internal audit plan systematically addresses:

- internal controls over significant areas of risk, including non-financial management control systems;
 - internal controls over revenue, expenditure, assets and liability processes;
 - the efficiency, effectiveness and economy of significant Council programs; and
 - compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.
- ii. Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or Chief Executive Officer.
 - iii. Review the level of resources allocated to internal audit and the scope of its authority.
 - iv. Review reports of internal audit and the extent to which Council and management react to matters raised by internal audit, by monitoring the implementation of recommendations made by internal audit.
 - v. Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs.
 - vi. Critically analyse and follow up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's terms of reference.
 - vii. Review management's response to, and actions taken as a result of the issues raised.
 - viii. Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems.
 - ix. Monitor ethical standards and related party transactions by determining whether the systems of control are adequate.
 - x. Review Council's draft annual financial report, focusing on:
 - accounting policies and practices;
 - changes to accounting policies and practices;
 - the process used in making significant accounting estimates;
 - significant adjustments to the financial report (if any) arising from the audit process;
 - compliance with accounting standards and other reporting requirements;
 - significant variances from prior years.
 - xi. Recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed.
 - xii. Discuss with the external auditor the scope of the audit and the planning of the audit.
 - xiii. Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters.
 - xiv. Review tendering arrangements and advise Council.
 - xv. Review the annual performance statement and recommend its adoption to Council.
 - xvi. Review issues relating to national competition policy, financial reporting by Council business units and comparative performance indicators.
 - xvii. Identify and refer specific projects or investigations deemed necessary through the Chief Executive Officer, the internal auditor and the Council if appropriate. Oversee any subsequent investigation, including overseeing of the investigation of any suspected cases of fraud within the organisation.
 - xviii. Monitor the progress of any major lawsuits facing the Council.
 - xix. Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's terms of reference.
 - xx. Report to Council after each meeting, in the form of minutes or otherwise, and as necessary and provide an annual report to Council summarising the activities undertaken during the year.
 - xxi. The Committee in conjunction with Council and the Chief Executive Officer should develop the Committee's performance indicators.
 - xxii. The Committee, through the Chief Executive Officer and following authorisation from the Council, and within the scope of its responsibilities, may seek information or obtain expert advice on matters of concern.
 - xxiii. Advise Council on significant risk management issues related to the Shire of Corrigin including major issues involving:
 - The Community;

- The Workforce;
 - Vehicles and Plant;
 - Buildings and Similar Property;
 - Revenue Streams;
 - Legal Liability;
 - Electronically Stored Information;
 - Environmental Impact;
 - Fraud; and
 - Reputation.
- xxiv. Review reports on the appropriateness and effectiveness of the Shire's systems and procedures in relation to:
- risk management;
 - internal control; and
 - legislative compliance and report to Council.

9.4 Reporting Powers

The Committee:

- Shall report to Council and provide recommendations on matters pertaining to its terms of reference by assisting elected members in the discharge of their responsibilities for oversight and corporate governance of the local government.
- Does not have executive powers or authority to implement actions in areas that management has responsibility.
- Is independent of the roles of the Chief Executive Officer and his senior staff as it does not have any management functions.
- Does not have any role pertaining to matters normally addressed by the Local Emergency Management Committee and Council in relation to financial management responsibilities in relation to budgets, financial decisions and expenditure priorities.
- Is a separate activity and does not have any role in relation to day-to-day financial management issues or any executive role or power.
- Shall after every meeting forward the minutes of that meeting to the next Ordinary meeting of the Council, including a report explaining any specific recommendations and key outcomes.
- Shall report annually to the Council summarising the activities of the Committee during the previous financial year.

10.0 TERMINATION OF COMMITTEE

Termination of the Committee shall be:

- a) in accordance with the Local Government Act 1995; or
- b) at the direction of the Council.

11.0 AMENDMENT TO THE INSTRUMENT OF APPOINTMENT AND DELEGATION

This document may be altered at any time by the Council.

12.0 COMMITTEE DECISIONS

The Committee recommendations are advisory only and shall not be binding on Council

1. DECLARATION OF OPENING

The Chairperson, Cr L Baker opened the meeting at 6.00pm.

2. ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE

ATTENDANCE

Shire President
Deputy Shire President

Cr. L Baker
Cr. D L Hickey
Cr. M A Weguelin
Cr. M B Dickinson
Cr. J A Mason
Cr. F R Gilmore
Cr. S G Hardingham

Chief Executive Officer

N A Manton

APOLOGIES

NIL

LEAVE OF ABSENCE

NIL

3. DECLARATIONS OF INTEREST

NIL

4. CONFIRMATION AND RECEIPT OF MINUTES

Minutes of the Shire of Corrigin Audit and Risk Management Committee meeting held in the Council Chambers on 14 May 2019 (Attachment 4.1).

COMMITTEE'S RESOLUTION

Moved: Cr Mason Seconded: Cr Hickey

That the minutes of the Shire of Corrigin Audit and Risk Management Committee meeting held in the Council Chambers on 14 May 2019 (Attachment 4.1) be confirmed as a true and correct record.

Carried 7/0

5. MATTERS ARISING FROM MINUTES

NIL

6. REPORTS

7. MATTERS REQUIRING A COMMITTEE DECISION

7.1 INTERNAL AUDIT - RISK MANAGEMENT REVIEW

Applicant:	Shire of Corrigin
Date:	6/06/2019
Reporting Officer:	Natalie Manton, Chief Executive Officer
Disclosure of Interest:	NIL
File Ref:	RM.0006
Attachment Ref:	Attachment 7.1 – Risk Management Review Dashboard

SUMMARY

This Internal Audit - Risk Management Review report seeks to provide an update on the assessment, impact and controls to mitigate risks using a risk management tool.

BACKGROUND

Council adopted a Risk Management Framework - Policy and Procedures in September 2018 to document the Shire's commitment and objectives regarding managing risk that may impact the Shire's strategies, goals or objectives.

The Risk Management Framework - Policy and Procedures document was initially prepared with assistance from LGIS as part of the overall Risk Management Governance Framework.

The Risk Management Review Dashboard summaries the following risks:

- Asset Sustainability
- Business and Community Disruption
- Compliance Requirements
- Document Management
- Employment Practices
- Engagement Practices
- Environmental Management
- Errors, Omissions and Delays
- External theft and fraud
- Management of Facilities/Venues and Events
- IT Communication systems
- Misconduct
- Project/ Change Management
- Safety and Security practices
- Supplier Contract management

COMMENT

Internal risk management reviews are completed twice per annum with the previous report in September 2018.

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996

Section 17 CEO to review certain systems and procedures

POLICY IMPLICATIONS

3.1 Risk Management Policy

FINANCIAL IMPLICATIONS

NIL

COMMUNITY AND STRATEGIC OBJECTIVES

Shire of Corrigin Strategic Community Plan 2017-2027 and Corporate Business Plan 2017-2021:

Objective: Leadership

Strong Governance and leadership

Outcome 4.1 - A strategically focussed dynamic Council serving the community

Strategic Community Plan		Corporate Business Plan	
Outcome	Strategies	Action No.	Actions
4.1.3	Maintain accountability and financial responsibility to ensure the stability of the Shire	4.1.3.1	Council maintain financial stability
		4.1.3.3	Provide Council adequate and appropriate financial information on a timely basis

VOTING REQUIREMENT

Simple Majority

COMMITTEE'S RESOLUTION

Moved: Cr Weguelin Seconded: Cr Gilmore

That the Audit and Risk Management Committee recommend that Council receive the updated Internal Audit Risk Management Report- Dashboard update.

Carried 7/0

7.2 INTERNAL AUDIT – FINANCIAL MANAGEMENT REVIEW

Applicant:	Shire of Corrigin
Date:	6/06/2019
Reporting Officer:	Natalie Manton, Chief Executive Officer
Disclosure of Interest:	NIL
File Ref:	FM.0023
Attachment Ref:	Attachment 7.2 - 2019 Financial Management System Review

SUMMARY

The audit and Risk Management Committee is requested to consider the independent Financial Management Review.

BACKGROUND

The Shire of Corrigin CEO, Ms Natalie Manton, requires assurance of the integrity of the Shire of Corrigin financial management systems to confirm the appropriateness and effectiveness of the systems and processes. An improvement plan will be to develop to work towards achieving best practice in future.

The Shire of Corrigin engaged AMD Chartered Accountants to provide the following services in relation to the requirements of Local Government *Financial Management Regulation 5* and the *Audit Regulation 17*.

- review current risk management policies, procedures and plans;
- evaluate the financial internal control systems and procedures;
- evaluate the operational internal control systems and procedures;
- assess systems and processes for maintaining legislative compliance;
- provide a list of any improvements identified during the review; and
- provide a report including recommendations to assist the CEO to assess the appropriateness and effectiveness of the systems and procedures.

Financial Management Review

The consultants conducted a Financial Management Review for the Shire of Corrigin under of the Local Government (*Financial Management*) *Regulations 1996 Regulation 5* which requires the Chief Executive Officer (CEO) to ensure efficient systems and procedures are established for the local authority at least every three years. The last Financial Management Review *Reg 5* was conducted in June 2016.

The table below lists the key areas reviewed for the period 1 July 2018 to 31 March 2019:

- Bank reconciliations and Petty Cash
- Trust Funds
- Receipts and receivables
- Rates
- Fees and Charges
- Purchases, payments and payables (Including Purchase Orders)
- Salaries and wages
- Credit Card procedures
- Fixed Assets (Including acquisition and disposal of property)
- Cost and administration overhead allocations
- Minutes of meetings
- Budget
- Financial Reports
- Registers (including Annual and Primary Returns)
- Delegations
- Audit Committee
- Insurance
- Storage of documents/record keeping
- Plan for the future
- General compliance and other matters

COMMENT

The intent of the report is to provide the CEO with a clear understanding as to the appropriateness and effectiveness of the Shire's current systems and processes. The review includes a list of recommendations for improvements to systems and processes.

The draft report was submitted to the CEO for review prior to being submitted to the Audit Committee and Council and management comments have been added.

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996

Local Government (*Financial Management*) Regulations 1996 Regulation 5

POLICY IMPLICATIONS

3.1 Risk Management Policy

FINANCIAL IMPLICATIONS

NIL

COMMUNITY AND STRATEGIC OBJECTIVES

Shire of Corrigin Strategic Community Plan 2017-2027 and Corporate Business Plan 2017-2021:

Objective: Leadership
Strong Governance and leadership

Outcome 4.1 - A strategically focussed dynamic Council serving the community

Strategic Community Plan		Corporate Business Plan	
Outcome	Strategies	Action No.	Actions
4.1.3	Maintain accountability and financial responsibility to ensure the stability of the Shire	4.1.3.1	Council maintain financial stability
		4.1.3.3	Provide Council adequate and appropriate financial information on a timely basis

VOTING REQUIREMENT

Simple Majority

COMMITTEE'S RESOLUTION

Moved: Cr Gilmore Seconded: Cr Mason

That Audit and Risk Management Committee recommend that Council receives and notes the Chief Executive Officer's Financial Management System Review (in accordance with Regulation 5 of the Local Government (Financial Management) Regulations 1996) which reports on the efficiency of the Shire of Corrigin systems and procedures.

Carried 7/0

7.3 INTERNAL AUDIT - RISK MANAGEMENT REVIEW

Applicant:	Shire of Corrigin
Date:	6/06/2019
Reporting Officer:	Natalie Manton, Chief Executive Officer
Disclosure of Interest:	NIL
File Ref:	FM.0047
Attachment Ref:	Attachment 7.3 – 2019 Regulation 17 Review

SUMMARY

The Audit and Risk Management Committee is requested to consider the independent Regulation 17 Review.

BACKGROUND

The Shire of Corrigin CEO, Ms Natalie Manton, requires assurance of the integrity of the Shire of Corrigin risk management systems, internal controls and legislative compliance. It is also necessary to confirm the appropriateness and effectiveness of the systems and processes and to develop an improvement plan to work towards achieving best practice in future.

The Shire of Corrigin engaged AMD Chartered Accountants to provide the following services in relation to the requirements of Local Government *Financial Management Regulation 5* and the *Audit Regulation 17*.

- review current risk management policies, procedures and plans;
- evaluate the financial internal control systems and procedures;
- evaluate the operational internal control systems and procedures;
- assess systems and processes for maintaining legislative compliance;
- provide a list of any improvements identified during the review; and
- provide a report including recommendations to assist the CEO to assess the appropriateness and effectiveness of the systems and procedures.

Risk Management, Internal Control and Legislative Compliance

The Local Government *Audit Regulations 1996 Regulation 17* requires the CEO to review the appropriateness and effectiveness of a local government's systems in relation to risk management, internal control and legislative compliance. Each of these areas is to be the subject of a review at least once every three calendar years and reported to the Audit and Risk Management Committee.

The external Risk Management Review (*Audit Regulation 17*) was conducted at the same time as the Financial Management Review. The last formal review under Regulation 17 was conducted in house and reported to the Audit Committee in December 2016.

Risk Management

The scope of the Regulation 17 review included the following areas as outlined in the Department of Local Government Guidance Note 9 Audit in Local Government:

- Review risk management systems and operating risks.
- Review business continuity plan.
- Assess the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, with regard to;
 - potential non-compliance with legislation, regulations and standards and local government's policies.
 - important accounting judgements or estimates that prove to be wrong.
 - litigation and claims.
 - misconduct, fraud and theft.
 - significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government.
- Risk reports identifying key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported.
- Assess the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover.
- Review the effectiveness of the local government's internal control system with management and the internal and external auditors.
- Assess whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more a high degree of risk.
- Assess the local government's procurement framework and whether these policies and procedures are being applied.
- Ascertain whether fraud and misconduct risks have been identified, analysed, evaluated, an appropriate treatment plan has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

Internal Control

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government. An effective and transparent internal control environment is built on the following key areas:

- integrity and ethics;
- policies and delegated authority;
- levels of responsibilities and authorities;
- audit practices;
- information system access and security;
- management operating style; and
- human resource management and practices.

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government. Aspects of an effective control framework will include:

- delegation of authority;
- documented policies and procedures;
- trained and qualified employees;
- system controls;
- effective policy and process review;
- regular internal audits;
- documentation of risk identification and assessment; and
- regular liaison with auditor and legal advisors.

The following controls were reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations; and
- comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. The review considered the Audit Committee's monitoring of compliance programs including:

- Compliance with legislation and regulations;
- Annual Compliance Audit Return and reporting to Council the results of that review;
- Procedures for receiving and treating complaints, including confidential and anonymous employee complaints.
- Obtain assurance that adverse trends are identified and review management's plans to deal with these.
- Management disclosures in financial reports.
- Whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects and report compliance and ethics issues to the Audit Committee.

- Compliance frameworks dealing with relevant external legislation and regulatory requirements.
- Legislative and regulatory requirements imposed on Audit Committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.

COMMENT

The intent of the report is to provide the CEO with a clear understanding as to the appropriateness and effectiveness of the Shire's current systems and processes and articulate any areas for improvement. The review includes a list of recommendations for improvements to systems and processes.

The draft report was submitted to the CEO for review prior to being submitted to the Audit Committee and Council and management comments have been added.

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996

Local Government *Audit Regulations 1996 Regulation 17*

POLICY IMPLICATIONS

3.1 Risk Management Policy

FINANCIAL IMPLICATIONS

NIL

COMMUNITY AND STRATEGIC OBJECTIVES

Shire of Corrigin Strategic Community Plan 2017-2027 and Corporate Business Plan 2017-2021:

Objective: Leadership

Strong Governance and leadership

Outcome 4.1 - A strategically focussed dynamic Council serving the community

Strategic Community Plan		Corporate Business Plan	
Outcome	Strategies	Action No.	Actions
4.1.3	Maintain accountability and financial responsibility to ensure the stability of the Shire	4.1.3.1	Council maintain financial stability
		4.1.3.3	Provide Council adequate and appropriate financial information on a timely basis

VOTING REQUIREMENT

Simple Majority

COMMITTEE'S RESOLUTION

Moved: Cr Weguelin Seconded: Cr Mason

That Audit and Risk Management Committee recommend that Council receives and notes the Chief Executive Officer's review (in accordance with Regulation 17 of the Local Government (Audit) Regulations 1996) on the appropriateness and effectiveness of the Shire of Corrigin systems and procedures with regard to risk management, internal control and legislative compliance.

Carried 7/0

7.4 INTERNAL AUDIT - ANNUAL LEAVE ACCRUALS AND LONG SERVICE LEAVE

Applicant:	Shire of Corrigin
Date:	6/06/2019
Reporting Officer:	Natalie Manton, Chief Executive Officer
Disclosure of Interest:	NIL
File Ref:	PER.0051
Attachment Ref:	Attachment 7.4 - Excess Annual and Long Service Leave Accrual Report

SUMMARY

Council resolved in 2017 that Shire management continue to provide Annual Leave and Long Service Leave progress reports to the Committee.

BACKGROUND

Excess annual leave was previously noted as an area of risk by auditors. Over the past year the Audit and Risk Management Committee have reviewed the excess annual and long service leave at the quarterly meetings.

In June 2018 there was a significant leave liability of \$498,900 and 10 staff members with excess leave. The previous management culture of the organisation did not identify excess leave and encourage it to be taken. In June 2018 staff were sent a memo outlining the importance of taking and encouraging them to reduce leave balances over the next 2-3 months. The memo outlined the following risks associated with excess leave excessive leave accruals:

- Increased financial liability due to accumulated leave accruals;
- Wellbeing effects of employees not having time away from work and risk of burnout;
- Decrease in productivity;
- Risk of covering up fraudulent activities; and
- Increase in contract or relief staff to cover periods of extended leave.

At this time there were eight employees in the works department with annual leave in excess of two years. With a works staff of approximately 20 it was challenging having staff on leave while ensuring there were enough resources available to complete the capital works program and shire activities.

At the Audit and Risk Management Committee meeting on 11 June 2018 and the following resolution was passed:

1. *That a policy/procedure be developed to provide guidelines for the management of leave for Shire of Corrigin employees.*
2. *The CEO and Manager of Works direct employees in the works department to reduce the excess leave in the next two months prior to the commencement of the 2018/19 road construction program or consider cash out option to reduce leave accruals over eight weeks.*

The Memo sent to employees in June 2018 noted that employees with excess annual leave would need to reduce their excess leave within the next two months prior to the commencement of the 2018/19 road construction program.

Employees covered by the existing Enterprise Agreement 2014 were advised that they were entitled to cash out their annual leave with the following conditions:

- At least four weeks annual leave must be retained.
- There must be a signed, written agreement with their employer on each occasion (that outlines the amount of leave being cashed out, the amount they will be paid and the date it will be paid).

- The payment for the cashed out leave has to be the same as what the employee would have been paid if they took the leave.
- It is unlawful for an employer to force (or try to force) an employee to make (or not make) an agreement to cash out annual leave.

At the September 2018 meeting of the Audit and Risk Management Committee the leave liability had been reduced to \$450,000 and the number of staff with leave in excess of 8 weeks was reduced to seven.

In October 2018 five staff members were sent letters directing them to take their excess leave. All five of the employees had taken leave between June and September 2018 but their annual leave balance was still in excess of two years. A complicating factor was the Enterprise Agreement which only allowed a maximum of two weeks leave to be paid out and some staff having both excess annual and long service leave.

A new leave policy was adopted by Council on 16 October 2018 outlining the management of annual and long service leave.

COMMENT

The Shire of Corrigin previously had a significant current liability for annual and long service leave and this was previously raised by auditors as an issue to be managed to ensure financial stability as well as maintain adequate staff resources to deliver services to the Council and community.

Having employees with excessive leave accruals can have the following impact:

- Increased financial liability due to accumulated leave accruals;
- Increased financial liability due to increments in employee rate of pay, as the rate of pay is the current rate at the time at which is taken or paid, not the time at which it was accrued;
- Wellbeing effects of employees not having time away from work and risk of burnout;
- Decrease in productivity;
- Risk of covering up fraudulent activities; and
- Increase in contract or relief staff to cover periods of extended leave.

As per the Long Service Leave Regulations, the rate of pay for Long Service Leave entitlement is capped at 10 years and 6 months meaning that any future increases in a staff member's pay beyond 10 years and 6 months does not automatically apply to the rate of pay at the time they take Long Service Leave. The Regulations provide for at least two months' notice in writing of an intention to take the leave.

In July 2019 any staff with an excess of two years leave will be sent a letter reminding them to reduce their leave balance by either taking leave or cashing out up to the maximum allowable limit. Works staff with excess leave will be encouraged to take leave in July and August prior to the commencement of the new roads construction program.

STATUTORY ENVIRONMENT

Local Government Act 1995,
Local Government (Long Service Leave) Regulations
Shire of Corrigin Enterprise Agreement 2018

POLICY IMPLICATIONS

5.26 Leave Policy

FINANCIAL IMPLICATIONS

Current liability for annual and long service leave has been reduced during 2018 and 2019 to \$293,026 and will be further reduced in the next 3 months with leave already booked to be taken.

COMMUNITY AND STRATEGIC OBJECTIVES

Shire of Corrigin Strategic Community Plan 2017-2027 and Corporate Business Plan 2017-2021:

Objective: Leadership

Strong Governance and leadership

Outcome 4.1 - A strategically focussed dynamic Council serving the community

Strategic Community Plan		Corporate Business Plan	
Outcome	Strategies	Action No.	Actions
4.1.3	Maintain accountability and financial responsibility to ensure the stability of the Shire	4.1.3.1	Council maintain financial stability
		4.1.3.3	Provide Council adequate and appropriate financial information on a timely basis

VOTING REQUIREMENT

Simple Majority

COMMITTEE'S RESOLUTION

Moved: Cr Hickey Secoded: Cr Mason

That the Audit and Risk Management Committee receive and note the Excess Annual and Long Service Leave Report.

Carried 7/0

8. GENERAL BUSINESS

Cr Baker noted

In discussion with the Shire of Quairading the Auditor General suggested that it was preferable to have a limited number of people on the Audit Committee rather than the whole Council.

The Committee felt that the whole Council on Audit and Risk Management was beneficial.

9. MEETING CLOSURE

The Chairperson, Cr L Baker closed the meeting at 7.33pm.

President: Gynette Baker Date: 1.7.2019

