



# Audit & Risk Committee

Minutes

Tuesday 6 December 2022

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**1. Official Opening**

The Presiding Member opened the meeting at 4:32pm and welcomed Councillors, Staff and representative of the Office of the Auditor General. The Presiding Member also acknowledged the Traditional Owners of the land on which we meet the Whadjuk Noongar people.

**2. Attendance, Apologies and Leave of Absence Previously Approved**

**Councillors**

**South East Ward**

John Giardina

Geoff Stallard

**South West Ward**

**North West Ward**

Sue Bilich

Lisa Cooper (by telephone)

**North Ward**

Kathy Ritchie

Margaret Thomas JP (Mayor) Presiding Member

**Members of Staff**

**Chief Executive Officer**

Rhonda Hardy

**Executive Team**

Gary Ticehurst - Director Corporate Services

Brett Jackson - Director Asset Services

Peter Varelis - Director Development Services

**Management Team**

Alida Ferreira - Manager Financial Services

Waruni DaSilva - Coordinator

Nicole O'Neill - Manager Customer & Public Relations

**Administration Support**

Darrell Forrest - Governance Advisor

Donna McPherson - Executive Assistant to the CEO

**Office of the Auditor General**

Patrick Arulsingham – Senior Director, Financial Audit

Syrah Karki – Assistant Director, Financial Audit

**Members of the Public 0**

**Members of the Press 0**

### **Apologies**

Cr Janelle Sewell  
Cr Mary Cannon  
Cr Kellie Miskiewicz  
Cr Brooke O'Donnell  
Cr Andrew Osenton  
Cr Dylan O'Connor

**Leave of Absence Previously Approved Nil.**

### **3. Public Question Time**

3.1. Nil.

### **4. Petitions/Deputations**

4.1. Nil.

### **5. Confirmation of Minutes from Previous Meeting**

5.1 That the Minutes of the Audit & Risk Committee Meeting held on 30 August 2022, as published and circulated, are confirmed as a true and accurate record of the meeting.

Moved: **Cr Kathie Ritchie**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (6/0)**

### **6. Announcements by the Member Presiding Without Discussion**

6.1. Nil.

### **7. Matters for Which the Meeting may be Closed**

7.1 Item 9.3.1 - Information Systems Audit Results for the year ended 30 June 2022

*Reason for Confidentiality: Local Government Act 1995 (WA) Section 5.23 (2) (e) - "matter that if disclosed, would reveal - (i) a trade secret; (ii) information that has a commercial value to a person; or (iii) information about the business, professional, commercial or financial affairs of a person; - where the trade secret or information is held by, or is about a person other than the local government"*

- 7.2           Item 9.5.1 - Adoption of Annual Financial Report 2021/2022  
*Reason for Confidentiality: Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety"*

**8.           Disclosure of Interest**

**8.1.       Disclosure of Financial and Proximity Interests**

- a.   Members must disclose the nature of their interest in matter to be discussed at the meeting. (Section 5.56 of the *Local Government Act 1995*.)
  
- b.   Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Section 5.70 of the *Local Government Act 1995*.)

8.1.1       Nil.

**8.2.       Disclosure of Interest Affecting Impartiality**

- a.   Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee had given or will give advice.

8.2.1       Nil.

## 9. Reports to Council

The Director Corporate Services provided information in relation to changes which have occurred since the publication of the agenda.

The Presiding Member invited representatives of the Auditor General to present the annual audit report to the meeting.

Councillors sought clarification of issues raised in the Audit Report.

### 9.3. Corporate Services Reports

#### 9.3.1. Information Systems Audit Results for the year ended 30 June 2022

*Declaration of financial / conflict of interests to be recorded prior to dealing with each item.*

Previous Items	OCM 33/2021
Directorate	Corporate Services
Business Unit	Financial Services
File Reference	
Applicant	N/A
Owner	N/A
Attachments	Nil
Confidential Attachments	1. 2022 Information Systems Audit Results Report 2. 2022 City of Kalamunda IS Capability Maturity Model

*Reason for Confidentiality: Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety"*

#### TYPE OF REPORT

Advocacy	When Council is advocating on behalf of the community to another level of government/body/agency
Executive	When Council is undertaking its substantive role of direction setting and oversight (eg accepting tenders, adopting plans and budgets
□ Information	For Council to note

Legislative	Includes adopting Local Laws, Town Planning Schemes and Policies. When Council determines a matter that directly impacts a person's rights and interests where the principles of natural justice apply. Examples include town planning applications, building licences, other permits or licences issued under other Legislation or matters that could be subject to appeal to the State Administrative Tribunal
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## STRATEGIC PLANNING ALIGNMENT

*Kalamunda Advancing Strategic Community Plan to 2031*

### Priority 4: Kalamunda Leads

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

## EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the findings of the Information Systems Audit Results Report (Confidential Attachment 1 and 2).
2. The Information Systems Audit Results Report for the financial year ending 30 June 2022 was undertaken by the Office of the Auditor General.
3. It is recommended Council accept the 2021/2022 Information Systems Audit Results Report (Confidential Attachment 1 and 2).

## BACKGROUND

4. On 28 October 2017, the Local Government Amendment (Auditing) Act 2017 was proclaimed, giving the Auditor General the mandate to audit Western Australia's 139 local governments and 9 regional councils.
5. The Act allowed the Auditor General to conduct performance audits of local government entities from 28 October 2017. From the 2018/2019 financial year the City's audit has been performed by the Officer of the Auditor General (OAG).

## DETAILS AND ANALYSIS

6. The OAG Information Systems Audit was conducted as part of their audit of the annual financial report for the year ending 30 June 2022.

7. In May 2022, City staff and the Chair of the Audit and Risk Committee met with relevant officers from the OAG, to discuss the audit plan. The Information Systems Audit field work was carried out from June 2022 to November 2022, with (Confidential Attachment 1 and 2) being the outcome of the Information Systems Audit.
8. OAG completed the audit field work, with the outcome as detailed in (Confidential Attachment 1). The City aims to implement recommendations from OAG using a risk based approach.
9. The OAG Audit had a larger scope for the year, and the results of the audit found no significant deficiencies.

#### **APPLICABLE LAW**

10. *Local Government Act 1995 and Local Government Amendment (Auditing) Act 2017.*  
*Local Government (Financial Management) Regulations 1996.*

#### **APPLICABLE POLICY**

11. There are no policy implications.

#### **STAKEHOLDER ENGAGEMENT**

12. The Administration worked closely with the Auditors.

#### **External Referrals**

13. Although no community engagement consultation is required, the findings of OAG are reported to Parliament and a report is published on the OAG website.

#### **FINANCIAL CONSIDERATIONS**

14. The Budget includes provision for the cost of having the accounts, the Annual Financial Report and the Information Systems audited by an externally appointed registered auditor.

#### **SUSTAINABILITY**

15. Nil.



**RISK MANAGEMENT**

16.	<b>Risk:</b> With inefficient systems, processes, policies and procedures in place, the City could be susceptible to data breaches.		
	<b>Consequence</b>	<b>Likelihood</b>	<b>Rating</b>
	Significant	Likely	High
	<b>Action/Strategy</b>		
	Employ qualified suitably skilled staff. Educate City staff on cyber issues. Test cyber defenses on a regular basis. Maintain controls and compliance with policy. Ensure an effective internal audit program.		

**CONCLUSION**

17. The Information Systems Audit field work was carried out in accordance with the planning summary from 05 July 2022 to 28 November 2022, with (Confidential Attachment 1 and 2) being the outcome of the IT system audit.

**Voting Requirements: Simple Majority**

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council ACCEPT the Information Systems Audit findings Report for the financial year ending 30 June 2022 (Confidential Attachment 1).

Moved: **Cr John Giardina**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (6/0)**

**9.4. Office of the CEO Reports**

**9.5. Chief Executive Officer Reports**

**9.5.1. Adoption of Annual Financial Report 2021/2022**

*Declaration of financial / conflict of interests to be recorded prior to dealing with each item.*

Previous Items	Nil.
Directorate	Chief Executive Officer
Business Unit	Office of the Chief Executive Officer
File Reference	
Applicant	N/A
Owner	N/A
Attachments	<ol style="list-style-type: none"> <li>1. Audited Financial Statements - City of Kalamunda year ended 30 June 2022 - 29 November 2022 [9.5.1.1 - 60 pages]</li> <li>2. Memo to the Minister [9.5.1.2 - 2 pages]</li> </ol>

**TYPE OF REPORT**

Advocacy	When Council is advocating on behalf of the community to another level of government/body/agency
□ Executive	When Council is undertaking its substantive role of direction setting and oversight (e.g. accepting tenders, adopting plans and budgets)
Information	For Council to note
Legislative	Includes adopting Local Laws, Town Planning Schemes, and Policies. When the Council determines a matter that directly impacts a person's rights and interests where the principles of natural justice apply. Examples include town planning applications, building licenses, other permits or licenses issued under other Legislation or matters that could be subject to appeal to the State Administrative Tribunal

## STRATEGIC PLANNING ALIGNMENT

*Kalamunda Advancing Strategic Community Plan to 2031*

### Priority 4: Kalamunda Leads

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

## EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the Audited Financial Report for the 2021/2022 Financial Year (Attachment 1). Additionally, the Management Letter received from the Office of the Auditor General (Confidential Attachment 1) together with the memorandum prepared outlining the City's response to the Auditors report (Attachment 2) is provided for Council.
2. The Audit of the Financial Report was undertaken by the Office of the Auditor General (OAG) who completed an audit of the report for the financial year ending 30 June 2022. The audit identifies two significant findings (Confidential Attachment 1) that will be addressed in the coming months as detailed in Attachment 2.
3. It is recommended that the Council:
  1. ACCEPT the 2021/2022 Annual Financial Report (Attachment 1) prepared in accordance with *Section 6.4 of the Local Government Act 1995*.
  2. NOTE the content of the OAG Management Letter (Confidential Attachment 1)
  3. NOTE the content of the memorandum prepared to address the significant issues identified in the Auditor's report. (Attachment 2).

## BACKGROUND

4. *Section 6.4 (1) of the Local Government Act 1995* (The Act) requires a local government to prepare an Annual Financial Report for each financial year and details what the Annual Financial Report is to contain.
5. *Section 6.4 (2) of the Act* requires a local government to submit by 30 September following each financial year, or as such time as the Minister allows, to its auditor –
  - a) The accounts of the local government balanced up to the last day of the preceding financial year; and
  - b) The annual financial report of the local government for the preceding financial year.

6. *Section 7.12A (3)* of the Act requires the local government to examine the report of the auditor, under section 7.9 (1) and any other report prepared under section 7.9 (3) forwarded to it, and is to –
  - (a) Determine if any matters raised by the report or reports require action to be taken by the local government; and
  - (b) Ensure that appropriate action is taken in respect of those matters.
  
7. *Section 7.12A (4)* of the Act requires the City to –
  - a) Prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
  - b) Forward a copy of that report to the Minister, within three months after the audit report is received by the local government.
  
8. The City continues to strengthen its financial position with a surplus of \$5.1 million for the year before non-cash adjustments flowing from the revaluation of certain non-current assets. The overall surplus as reported in the Rate Setting Statement amounted to \$3.0 million. The net assets of the City increased by \$5.0 million to \$549 million mainly due to the net surplus reported during the year.

## **DETAILS AND ANALYSIS**

### **Annual Financial Report**

9. The 2021/2022 Annual Financial Report is presented for Council's acceptance and compared with the adjusted results of 2020/2021.

### **Comprehensive Income Statement**

10.
  - a) In comparison with 2020/2021, revenue increased by 6%, or \$3.4 million.
    - i. Rates rose by \$1.6 million predominately due to 2.15% increase in the rate in the dollar across all properties, along with interim rates raised over the year.
    - ii. Operating grants, subsidies and contributions increased by \$1.1 million. The increase is mainly due to the early receipt of Financial Assistance grants of \$2.1 million in 2021/2022.
    - iii. Fees and Charges increased by \$0.7 million. The variance is primarily due to the increase in waste collection income by \$0.6 million.
    - iv. Interest earnings decreased by \$0.1 million. This is primarily due to the lower interest rates offered in the market during the year.
  - b) Operating expenditure increased by 10.2% or \$6.3 million compared to 2020/2021.

- i. Employment costs were increased by \$0.3 million. The variance is an aggregate result of minor variances in several business units.
- ii. Materials and Contracts increased by \$3.0 million. This is mainly attributed to;
  - A. Infrastructure assets maintenance costs increased by \$1.7 million. This is mainly due to the impact of COVID-19 in 2020/2021 financial year with the reduction in maintenance and operational activities. In 2021/2022 financial year those costs have returned to pre-COVID-19 levels hence the variance of \$1.7M
  - B. Non recurrent project expenses increased by \$1.3 million. During 2020/2021 certain projects were place on hold due to uncertainty regarding the impact of COVID-19, with projects commencing again in 2021/2022.
- iii. Depreciation expense was increased by \$0.4 million. This is mainly due to the increase in depreciation from new assets constructed and gifted to the City.
- iv. Other expenditure was increased by \$2.5 million. The variance is mainly due to;
  - A. The Forrestfield Industrial area scheme stage 1 land acquisition costs for road projects in 2021/2022 \$1.8 million. The amounts paid for Forrestfield Industrial area scheme infrastructure works are reimbursed by the Forrestfield Industrial Area scheme 1 Reserve account.
  - B. Classification of Intangible assets to "Software as a Service contract" is \$0.8 million as required under International Financial Reporting interpretations.
- c) Non-operating grants, subsidies, and contributions decreased by \$1.1 million. The variance is mainly due to the funding received for construction of the Kalamunda Community Centre in 2021/22, with project being completed early in 2021/2022.
- d) Loss on disposal of assets increased by \$0.7 million, the increase was primarily due to the transfer of land assets to Main Roads for the Roe Highway expansion project.

### **Statement of Financial Position**

- 11.
  - a) Cash increased by \$6.6 million due mainly to the classification of fixed deposits with maturity less than 3 months as cash.
  - b) The value of the investment in the EMRC increased by \$0.8 million due to the increase in the share of net assets in EMRC.
  - c) The value of the Property, Plant & Equipment, and Infrastructure increased by \$4.0 million mainly due to the new additions during 2021/2022.

- d) Borrowings decreased by by \$1 million, which is mainly due to the annual loan repayments applied to reduce the borrowings. The City borrowed \$0.2 million in new loans for the Forrestfield North Structure Planning as planned in the original budget for 2021/2022.
- e) In Equity, the cash-backed reserves increased by \$0.8 million. The variance is due to the increase in funds transferred to the Unexpended Capital Works and Specific Purpose Grants Reserve.

### Statement of Cash Flows

- 12.
  - a) Operating Activities produced \$13.0 million as compared to \$13.2 million in 2021.
  - b) A total of \$20.8 million was invested in capital works during the year.

### Audit Report

- 13. The Auditors, (OAG), conducted the fieldwork in May and October 2022 and issued their report in November 2022.
- 14. The Auditors did not identify any significant financial control issues during the financial audit 2021/2022. However, there were two significant issues raised with regards to the reporting and valuation of assets, primarily related to gifted and found assets contained within the infrastructure assets class and the reporting of Fair Value of Infrastructure assets. These significant items resulted in the City receiving a qualified audit opinion.
- 15. For the City's Annual Financial Statements for the year ended 30 June 2022, the OAG's opinion is that the financial report is a fair representation of the City's results and financial position *other than* unrecognised infrastructure assets. Due to the unrecognised assets, it is a qualified audit opinion with an emphasis of matter on the restatement of comparative balances. The assets referred to in the Audit Report, typically include storm water pits and drains and traffic islands.
- 16. The City's response to the issues raised is detailed in the Attachment 2. Management acknowledges the issues around the unrecognised assets and the restatement of comparative balances. Management has reviewed the overall process involved with the above matters and made following observations and commitments:
  - 1. As there is no way to determine the condition of these 'nil' value assets in a timely manner, we are not currently able to reliably measure the value of these assets.

2. The City will review current processes and internal controls with the view to improve and ensure more regular reconciliations between the Fixed Asset Register and MyData. Additionally, ensuring when assets are entered into MyData a value is added.
  3. In 2022/2023 the infrastructure asset class is subject to full revaluation cycle and all issues identified will be addressed during the process.
  4. Given the nature and extent of underground services it is impractical to “dig up” each asset to validate its nature and condition. It is proposed that representative sampling is undertaken of each underground asset type currently recorded to validate assumptions made which can then guide the “whole of asset” class validation and valuation. During the infrastructure revaluation process, the City will follow the industry standard revaluation methods to determine the value of these categories
17. Reserves have increased by \$0.8 million over the year. The variance in reserves is primarily due to the adjustments made to unexpended capital works and specific purpose grants reserve.
  18. The City’s reserves will continue to be closely monitored to ensure the long-term financial sustainability of the City.

#### **APPLICABLE LAW**

19. Sections 6.4, 7.9, 7.12A of the *Local Government Act 1995*.
20. Regulation 51 of the Local Government (*Financial Management*) Regulations 1996.

#### **APPLICABLE POLICY**

21. There are no policy implications.

#### **STAKEHOLDER ENGAGEMENT**

22. The City worked closely with the Auditors and the Executive were briefed on the findings associated with the Annual Financial Report for 2021/2022.
23. Although no community engagement consultation is required in the preparation of the Annual Financial Report, Section 5.55 of the Act requires that the Chief Executive Officer give local public notice of the availability of the Annual Report as soon as the practicable following acceptance of the Annual Report by the local government. The Annual Financial Report forms one component of the Annual Report.

**FINANCIAL CONSIDERATIONS**

24. The 2021/2022 Budget includes provision for the cost of having the accounts and the Annual Financial Report audited by an externally appointed registered auditor.

**SUSTAINABILITY**

**Social Implications**

25. Nil.

**Economic Implications**

26. Nil.

**Environmental Implications**

27. Nil.

**RISK MANAGEMENT**

28.

<b>Risk:</b> Matters raised through the Audit process are not addressed in a timely fashion.		
<b>Consequence</b>	<b>Likelihood</b>	<b>Rating</b>
Unlikely	Moderate	Low
<b>Action/Strategy</b>		
Regular briefing to the City’s Executive Management Team and to the Audit and Risk Committee regarding progress in addressing audit findings. Review of policies, procedures relating the management and reporting of assets.		

<b>Risk:</b> Failure to lodge the Annual Financial Report with the Local Government Department within the required timeframe.		
<b>Consequence</b>	<b>Likelihood</b>	<b>Rating</b>
Rare	Moderate	Low
<b>Action/Strategy</b>		
Lodge the report with the Department of Local Government within 30 days of the signing of the auditor’s report.		



## CONCLUSION

29. The 2021/2022 Annual Financial Report includes:
- a) Statement by the Chief Executive Officer
  - b) Statement of Comprehensive Income by Nature and Type
  - c) Statement on Financial Position
  - d) Statement of Changes in Equity
  - e) Statement of Cash Flows.
  - f) Rate Setting Statement
  - g) Notes to and forming part of the Financial Report
  - h) Independent Auditor's Report
- The City acknowledges the findings
30. The City acknowledges the two findings contained in the Audit Report primarily relating to the reporting and valuation of gifted and found assets contained within the infrastructure assets class and the reporting of Fair Value of Infrastructure assets. The City is committed to addressing these matters.
31. Regulation 51 of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to provide a copy of the Annual Financial Report to the Department of Local Government, Sport, and Cultural Industries within 30 days of the receipt of the auditor's report on that financial report.

<b>Voting Requirements: Simple Majority</b>
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## COMMITTEE RECOMMENDATION TO COUNCIL

That Council:

1. ACCEPT the 2021/2022 Annual Financial Report (Attachment 1) prepared in accordance with Section 6.4 of the *Local Government Act 1995*.
2. NOTE the content of the Management Letter issued by the Office of the Auditor General (Confidential Attachment 1).

3. NOTE the content of the memorandum prepared to address the significant audit findings mentioned in the auditor's report. (Attachment 2).

Moved: **Cr John Giardina**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (6/0)**

**10. Motions of Which Previous Notice has been Given**

10.1 Nil

**11. Questions by Members Without Notice**

11.1 Nil

**12. Questions by Members of Which Due Notice has been Given**

12.1 Nil

**13. Urgent Business Approved by the Presiding Member or by Decision**

13.1 Nil

**14. Meeting Closed to the Public**

14.1 That the meeting be closed to the public and go behind closed doors to discuss matters in relation to confidential attachments presented to reports.

Moved: **Cr Sue Bilich**

Seconded: **Cr John Giardina**

Vote: **Carried Unanimously (6/0)**

The live streaming ceased while the meeting was closed to the public at 4:46pm.

14.2 That the meeting be open to the public.

Moved: **Cr Geoff Stallard**

Seconded: **Cr John Giardina**

Vote: **Carried Unanimously (6/0)**

The live streaming recommenced once the meeting reopened to the public at 4:53pm.

**15. Closure**

There being no further business, the Presiding Member declared the Meeting closed at 4:55pm.

I confirm these Minutes to be a true and accurate record of the proceedings of this Council.

Signed: \_\_\_\_\_  
Presiding Member

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2022.