



# MINUTES

AUDIT COMMITTEE MEETING

THURSDAY 30 JULY 2020

TIME: 4.00PM

CITY OF STIRLING

---

*Winning Back Waste*

*Constituent Members: Cities of Perth, Joondalup, Stirling, Vincent and Wanneroo*

*Towns of Cambridge and Victoria Park*



## 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chair declared the meeting open at 4.22 pm

The Chair welcomed Mr Philip Draber to the meeting as a visitor.

## 2 ATTENDANCE / APOLOGIES

### ATTENDANCE

Cr Stephanie Proud JP (Chair)	City of Stirling
Cr Karen Vernon (Deputy Chair)	Town of Victoria Park
Cr David Boothman	City of Stirling

### MRC OFFICERS

Mr Gunther Hoppe	Chief Executive Officer
Ms Andrea Slater	Director Corporate Services
Ms Deborah Toward	PA Executive Support

### APOLOGIES

Cr Keri Shannon	Town of Cambridge
-----------------	-------------------

## 3 TERMS OF REFERENCE

At an Ordinary Council Meeting held on 7 July 2005 the Audit Committee was established by Council under s7.1A of the Local Government Act 1995 and at an Ordinary Council Meeting held on 27 October 2005 Council adopted the Terms of Reference for the operation of the Audit Committee. The terms of reference were subsequently revised by Council at an Ordinary Council Meeting held on 12 December 2019.

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

The Committee is to facilitate:

- The enhancement of the credibility and objectivity of external financial reporting;
- Effective management of financial and other risks and the protection of Council assets;
- Compliance with laws and regulations as well as use of best practice guidelines relative to auditing;
- The provision of an effective means of communication between the external auditor, the CEO and the Council.

<b>6</b>	<b>REPORTS</b>
----------	----------------

**6.1 INTERIM AUDIT MANAGEMENT LETTER 2019/2020****SUMMARY**

The Office of the Auditor General (OAG) contracted Macri Partners, to conduct an interim audit during March 2020. The audit covered a review of accounting and internal control procedures in operation, as well as testing of transactions.

The review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.

The Interim Audit Management Letter is at ***Attachment 1***.

Appropriate steps have been taken to address the matters raised in the letter.

**RESPONSIBLE OFFICER RECOMMENDATION**

**That the Audit Committee note the Interim Audit Management Letter issued by the Auditors.**

Moved Cr Vernon, seconded Cr Boothman

**RESOLVED**

**That the recommendation be adopted**

(CARRIED UNANIMOUSLY 3/0)

## 6.3 RISK REGISTER SUMMARY

### SUMMARY

The MRC's initial Risk Register summary was tabled at the Audit Committee meeting held 24 November 2014.

At the meeting it was agreed that a summarised risk register would be tabled with the Audit Committee twice every financial year.

At the Audit Committee meeting held on 7 November 2018 it was requested that once a financial year we table the full risk register for noting by the committee, this is included as **Attachment 3** to this agenda.

Management have prepared management plans for each of the risks included in the summary.

Management conducted a full risk register review in June 2020, and the following risks have been changed, removed from or added to the summary risk register since it was last presented to the Audit Committee:

Whole Document	EMMP replaced by Site Management Plan Document
OPS-22	Lithium battery fires added as a causal factor
OPS-22	EDL reporting of landfill hot spots (expected July 2020) added to existing controls
OPS-32	COVID-19 added to Pandemics and risk re-assessed

*A discussion took place in the meeting and it was noted that attachment 3 is the High Risk Register not the Full Risk register. The Full Risk register was distributed separately after the meeting and will be formally presented at the next Audit Committee meeting.*

### RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee note the Full Risk Register as presented.

Moved Cr Boothman, seconded Cr Vernon

### AMENDED RECOMMENDATION

**That the Audit Committee note the High Risk Register as presented.**  
(CARRIED UNANIMOUSLY 3/0)

*5.27 pm Phillip Draber left the meeting.*

**7 NEW BUSINESS**

Nil


**8 NEXT MEETING**

To be arranged.

**9 CLOSURE**

The Chair closed the meeting at 5.51 pm.

These minutes were confirmed by the Audit Committee as a true and accurate record of the Audit Committee meeting held on 30 July 2020.

Signed  .....Chair

Dated ..... day of 25/2/ .....~~2020~~ 2021



Our Ref: 8654

Chairperson  
Mindarie Regional Council  
PO Box 2746  
CLARCKSON WA 6030



Office of the Auditor General  
Serving the Public Interest

7th Floor, Albert Frey House  
169 Wellington Street, Perth

Mail to: Perth BC  
PO Box 8489  
PERTH WA 6846

Tel: (08) 6557 7500

Fax: (08) 6557 7600

Email: [info@auditorwa.gov.au](mailto:info@auditorwa.gov.au)

Dear Chairperson

**ANNUAL FINANCIAL REPORT  
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2020**

We have completed the interim audit for the year ending 30 June 2020. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate the overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

**Management Control Issues**

I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of the Mindarie Regional Council and may not be suitable for other purposes.

We have forwarded a copy of this letter to the CEO. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7609 if you would like to discuss these matters further.

Yours faithfully

JORDAN LANGFORD-SMITH  
ACTING ASSISTANT AUDITOR GENERAL  
INFORMATION SYSTEMS AND PERFORMANCE AUDIT  
26 June 2020

Attach

**MINDARIE REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2020**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**1. Supplier Background Checks**

**Finding**

We noted that there were no background checks (e.g. ASIC company extracts obtained to view shareholders' and directors' details, etc.) performed on new suppliers before entry into the Navision system. Such checks serve as an anti-fraud control and can assist to identify current or past council employees, elected members, etc.

**Rating: Moderate**

**Implication**

The lack of background checks for new suppliers increases the risk that Mindarie Regional Council (MRC) may make inappropriate or fraudulent payments.

**Recommendation**

MRC should:

- (i) perform background checks on new suppliers where considered appropriate;
- (ii) retain documentary evidence of these checks for record keeping purposes.

**Management Comment**

The checks done currently by MRC before raising a credit account consist of; independent bank detail verification and ABN check. An ASIC check would result in a small charge. MRC are happy to proceed with these checks and adopt this recommendation.

**Responsible Person:** Andrea Slater  
**Completion Date:** Effective Immediately

**MINDARIE REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2020**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**3. Long Outstanding Payable**

**Finding**

During our review of the accounts payable listing as at 31 January 2020, we noted that there is a long outstanding GST payable to Australian Taxation Office (ATO) amounting to \$122,415.72. We were unable to establish if this balance was in fact payable to ATO in the absence of any supporting documentation.

**Rating:** Moderate

**Implication**

Either the GST balances reported to the ATO or the relevant account balance in the general ledger may be incorrect.

**Recommendation**

MRC should investigate the account balance and deal with it appropriately.

**Management Comment**

Management view this as a minor rating

This has currently been flagged as a system issue with our General Ledger support maintenance provider.

**Responsible Person:** Andrea Slater  
**Completion Date:** 30 June 2020



**MINDARIE REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2020**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**5. Approval of Journals**

**Finding**

We noted that there was no evidence that journals being authorised by an independent senior officer prior to entry into the accounting system. The authorisation of journals before posting to the general ledger is not supported by the current software.

This matter was raised by the previous auditors, Macri Partners in their management letter dated 9 May 2019. In response, MRC implemented a process whereby an independent officer receives a listing of all journals processed in the month and independently reviews a sample of journals. However, this process does not fully mitigate the risks associated with journal approvals.

**Rating: Moderate**

**Implication**

If journals are not independently reviewed and approved prior to entry into the accounting system, there is a risk that erroneous or fraudulent transactions may pass undetected. Accounting journals can represent significant adjustments to previously approved accounting transactions and should therefore be appropriately reviewed and approved.

**Recommendation**

We recommend that a person more senior than the preparer authorises all journal entries, and evidence of authorisation is retained.

**Management Comment**

Council have approved the funding for a new General Ledger package which is currently out for tender and is expected to be completed by 30 June 2021. This, when implemented, will resolve the journal authorisation issue. MRC has a compensating system in place where spot checking of Journals is conducted.

**Responsible Person:** Andrea Slater  
**Completion Date:** 30 June 2021

**MINDARIE REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2020**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**7. Financial Activity Statements**

**Finding**

We noted that the Statement of Financial Activity for the months of July, August and November were not presented to Council within 2 months as required by Local Government (Financial Management) Regulations 1996 34 (4).

**Rating: Minor**

**Implication**

Actions or decisions required as a result of information in these reports may not be carried out in a timely manner.

**Recommendation**

Monthly financial activity statements should be presented at the ordinary council meeting in a time consistent with those prescribed in the Local Government (Financial Management) Regulations 1996.

**Management Comment**

Management acknowledges the recommendation. At the Ordinary Council meeting of 21 November 2019, Council adopted the meeting dates for the Calendar year 2020 accepting that, on occasion, that reports would not presented to Council within 2 months as required by Local Government (Financial Management) Regulations 1996 34 (4).

Management distribute a detailed management account pack to Councillors on a monthly basis.

**Responsible Person:** Andrea Slater  
**Completion Date:** No further action required.

**ATTACHMENT 2**  
**TO ITEM 6.2**  
**AUDIT COMMITTEE MEETING**  
**30 JULY 2020**  
**FRAUD AND ERROR ASSESMENT 2020**

## Explanatory Information

The purpose of this form is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make enquiries of the Audit Committee under auditing standards.

### Background

Under the Australian Auditing Standards, auditors have specific responsibilities to communicate with the Audit Committee.

Australian Auditing Standards ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and ASA 260 *Communication with Those Charged with Governance* now make it mandatory for auditors to make enquiries of management and those charged with governance (audit committees) regarding matters that are indicated in the template form. The enquiries with those charged with governance (audit committees) are made in part to corroborate the responses to the enquiries of management.

### Respective Responsibilities

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

### Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight to address fraud risk.

This form includes a series of questions on each area with provision for responses from both management and the Audit Committee.

**We suggest that Management complete the relevant sections before submitting these responses to the Audit Committee.**

**The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.**

5. As a result of COVID19 have internal or external factors impacted the operations of the Council adversely? If yes, briefly explain how, and what mitigating actions have been taken.

*Response*

No adverse impact of COVID 19.

6. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (e.g. because of undue pressure to achieve financial targets such as a surplus position or better performance indicators)?

*Response:*

No.

7. What arrangements are in place to report fraud issues and risks to the Audit Committee?

*Response:*

Any fraud/risks are reported to the audit committee. A summary of key strategic risks is presented to the audit committee twice yearly and a full risk register annually.

8. How does the Council communicate and encourage ethical behaviour of its staff and contractors?

*Response:*

Cultural training and cultural optimisation team (COT). Policies and procedure training for all staff is conducted regularly.

9. How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?

*Response:*

The culture of the MRC is to report any concerns without prejudice. None reported.

## Fraud and Error Assessment – Audit Committee MRC

FOR THE YEAR ENDED 30 JUNE 2020

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We are preparing to perform our Interim Audit risk assessment of your Council in relation to the audit for the year ended 30 June 2020. We would appreciate if you could briefly answer the following questions in the spaces provided, and return this signed letter.

1. Has the Council's management communicated to you its processes for identifying/responding to risks of fraud?

*Response:*

Yes, the significant risks register is presented monthly to Council and the Audit Committee and the Audit Committee reviews the register twice a year.

2. How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?

*Response:*

Through regular meetings, reporting and actions.

3. Is the Audit Committee aware of any actual, suspected or alleged fraud? If yes, please provide details.

*Response:*

No.

4. Has the council's management communicated to you about changes it has made to the system of internal controls as a result of COVID 19 and has the Audit Committee assessed the impact of such changes (if any) on the operations of the Council?

*Response:*

Management have confirmed to the Audit Committee that no changes impacting on internal controls have been made as a result of COVID 19.

### Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial report may contain a material misstatement resulting from fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- Tips or complaints to the auditor about alleged fraud.

Conflicting or missing evidence, including:

- Missing documents.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes or changes in trends or important financial statement ratios or relationships – for example receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from enquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Missing or non-existent cancelled cheques in circumstances where cancelled cheques are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.
- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- An unwillingness to add or revise disclosures in the financial report to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.

**ATTACHMENT 3**

**TO ITEM 6.3**

**AUDIT COMMITTEE MEETING**

**30 JULY 2020**

**HIGH RISK REGISTER**



Ref No	Context (Strategy, Activity, Function, Phase)	Sub-Context (Critical Success Factor, Key Dependency)	Risk Description	Causal Factors	Risk Theme	Resulting In	Existing Controls	Consequence Category	Consequence	Likelihood	Level of Risk	Risk Treatment Options
OPS-033	Landfill	Contain landfill gas	Inability to contain landfill gas within leased site boundaries	Stage 1 unlined Insufficient capture Natural migration of gas Power station failure Infrastructure failure Liner failure	Managing Onsite Hazards Environmental	Environmental impacts Financial penalties Loss of license Poor public perception	Power station Monitoring DWER License conditions Third party design of landfill BEPM Liners and membranes Stakeholder relationships CSM Contract arrangement with EDL Engaged GHD consultancy services Implementation of recommendations from MAR	Natural Environment Financial Compliance Reputation	5 5 5 5	2 2 2 2	10	Implementation of the gas management plan Extensive gas well drilling campaign