



Shire of Northam
Heritage, Commerce and Lifestyle

Shire of Northam

Agenda

Audit Committee Meeting

21 December 2016

NOTICE PAPER
AUDIT COMMITTEE
21 December 2016

Committee Members

I inform you that an Audit Committee meeting will be held in the Council Chambers, located at 395 Fitzgerald Street, Northam on 21 December 2016 at 4.30pm.

Yours faithfully



Jason Whiteaker
Chief Executive Officer

DISCLAIMER

This agenda has yet to be dealt with by the Council. The Recommendations shown at the foot of each item have yet to be considered by the Council and are not to be interpreted as being the position of the Council. The minutes of the meeting held to discuss this agenda should be read to ascertain the decision of the Council.

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1. DECLARATION OF OPENING

2. ATTENDANCE

Committee:

Councillors

S B Pollard
T M Little
D L Davidson
U Rumjantsev
J Proud
D G Beresford
R W Tinetti
D A Hughes
J E Williams
C R Antonio

Staff:

Chief Executive Officer
Executive Manager Corporate Services
Executive Assistant - CEO

J B Whiteaker
C J Young
A C Maxwell

2.1 APOLOGIES

Nil.

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3. DISCLOSURE OF INTERESTS

Item Name	Item No.	Name	Type of Interest	Nature of Interest

4. CONFIRMATION OF MINUTES 2 NOVEMBER 2016

4.1 COMMITTEE MEETING HELD 2 NOVEMBER 2016

RECOMMENDATION

That the minutes of the Audit Committee meeting held 2 November 2016 be confirmed as a true and correct record of that meeting.

5. COMMITTEE REPORTS

5.1 REGULATION 17 RISK REVIEW REPORT

Address:	N/A
Owner:	N/A
File Reference:	8.2.7.1
Reporting Officer:	Colin Young Executive Manager Corporate Services
Responsible Officer:	Colin Young Executive Manager Corporate Services
Voting Requirement	Simple Majority

BRIEF

For the Audit Committee to receive the Regulation 17 Review report that was conducted on behalf of the Chief Executive Officer by AMD Chartered Accountants between the 31 October and the 2 November 2016.

ATTACHMENTS

Attachment 1 Regulation 17 Report

BACKGROUND / DETAILS

Section 17 of the Local Government (Audit) Regulations requires the Chief Executive Officer to review the appropriateness and effectiveness of the Council's systems and procedures as they relate to the following areas;

- Risk management
- Internal controls, and
- Legislative compliance

Council engaged AMD Chartered Accountants to carry out the review and supply Council with a report of the findings.

CONSIDERATIONS

Strategic Community / Corporate Business Plan

Objective: G2 Improve organisational capability and capacity

Strategy: G2.3 Operate in a financially sustainable manner

Financial / Resource Implications

The cost \$9,800 will be allocated to account 04042132 consultants.

Legislative Compliance

Local Government (Audit) Regulations 1996 Section 17 sets out the following:

17. CEO to review certain systems and procedures
 - (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
 - (2) The review may relate to any or all of the matters referred to in sub-regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
 - (3) The CEO is to report to the audit committee the results of that review.

Policy Implications

Nil.

Stake Holder Engagement / Consultation

Executive Management,

Risk Implications

If a Risk Assessment was not carried out, Council may not be aware of any current risks identified.

OFFICER'S COMMENT

In assessing the Council's risk management, internal controls and legislative compliance a risk based approach has been applied. Appended to the agenda is a risk assessment which has been undertaken by AMD Chartered Accountants to assert identifiable risks from the following areas;

- Risk management
- Internal controls, and
- Legislative compliance

The assessment undertaken looked at potential causes of risk to Council within each of these areas, the key controls which currently exist to mitigate the risk, an assessment of the quality of the controls and an overall assessment of the risk rating for the area. Additionally the assessment looked at the key indicators currently in place to ensure we are monitoring the controls and a risk tolerance level, which implies the organisations appetite for risk in each of the areas. Finally the report / assessment undertaken identified the actions required to improve areas which are deemed inadequate or requiring attention.

There are a number of areas highlighted within the report that have been assessed as requiring either updating or improvement. These are clearly identified within the appended report, along with the necessary strategies to bring these up to an acceptable standard.

Each of the areas that require improvement will receive attention to ensure that adequate controls/documentation are in place into the future.

The report also highlights positive outcomes, where the auditors have assessed the Shire as proactive in the management risk, internal controls and legislative compliance.

RECOMMENDATION

That Council adopt the 2016 Chief Executive Officer, undertaken by AMD Chartered Accountants for the systems and procedures relating to;

- **Risk Management**
- **Internal Controls**
- **Legislative Compliance**

Attachment 1



T +61 (8) 9780 7555
F +61 (8) 9721 8982

AMD Audit & Assurance Pty Ltd
ACN 145 719 259 t/a AMD

E amd@amdonline.com.au
www.amdonline.com.au

Unit 1, 28-30 Wellington Street,
Bunbury, WA 6230
PO Box 1306, Bunbury, WA 6231

14 December 2016

Mr J Whiteaker
Chief Executive Officer
Shire of Northam
PO Box 613
NORTHAM WA 6401

Dear Jason

AGREED UPON PROCEDURE – LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 REGULATION 17 REVIEW

Pursuant to our Proposal dated 12 September 2016, we have performed the procedures agreed with you to report factual findings for the purpose of assisting you in complying with the Local Government (Audit) Regulations 1996 Regulation 17 Review.

The Shire of Northam is responsible for the adequacy or otherwise of procedures agreed to be performed by us. The Shire of Northam is responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the review.

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements.

Information acquired by us in the course of our engagement is subject to strict ethical and confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent.

1.0 SCOPE OF REVIEW

In accordance with our Proposal, we performed the following procedures and hereby report to you the factual findings resulting from our review, incorporating the following:

1.1 Terms of Reference – Risk Management

As part of our review in respect to risk management, we performed the following procedures:

- Assessed whether the Local Government has an effective risk management system and that material operating risks to the Local Government are appropriately considered.
- Assessed whether the Local Government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;

- Assessed the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:
 - 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; and
 - 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;
- Ensured the Audit Committee obtained regular risk reports, which identify 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;
- Assessed the adequacy of Local Government processes to manage insurable risks and ensured the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewed the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessed whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessed the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Assessed Audit Committee meeting practices ensuring periodically meeting with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and
- Ascertained whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented and communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

1.2 Terms of Reference – Internal Controls

As part of our review in respect to internal controls, we performed the following procedures:

- Review of segregation of roles and functions, processing and authorisation controls;
- Review of documented policies and procedures;
- Assessed approval of documents, letters and financial records;
- Assessed management internal reviews undertaken in respect to comparison of internal data with external sources of information;
- Assessed security controls in respect to physical access to assets and records;
- Assessed security controls in respect to computer applications and information systems (general and application IT controls);
- Assessed access limits placed on data files and systems;
- Assessed whether the maintenance and review of financial control accounts and trial balances is regular and appropriate;
- Assessed key management internal reviews undertaken in respect to comparison and analysis of financial results with budgeted amounts;
- Assessed key management internal reviews undertaken in respect to the arithmetical accuracy and content of records;
- Assessed controls in respect to purchasing and payment of accounts;
- Assessed reporting, review and approval of financial payment and reconciliations; and
- Assessed physical cash and inventory count records when compared to accounting records

1.3 Terms of Reference – Legislative Compliance

As part of our review in respect to legislative compliance, we performed the following procedures:

- Assessed internal monitoring of compliance with legislation and regulations;
- Assessed the local government's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;
- Assessed communications between key management and the Audit Committee to ensure the Audit Committee is informed in respect to the effectiveness of the local government's compliance and recommendations for changes as required;
- Reviewed the local government's procedures in respect to receiving, retaining and handling complaints, including confidential and anonymous employee complaints;
- Reviewed key managements internal review processes in respect to the identification of adverse trends and management plans to address these;
- Reviewed management disclosures in financial reports of the effect of significant compliance issues (if any);
- Ensured the internal and / or external audit contracts include an assessment of compliance and ethics risks in the development of the audit plan and in the conduct of audit projects, and report compliance and ethical issues to the Audit Committee; and
- Reviewed the Audit Committee's processes and procedures in respect to compliance with legislative and regulatory compliance ensuring no misuse of position through adequate disclosure of conflicts of interest.

Our assessment and review of the areas above were undertaken on a sample basis. As the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance opinion on the areas outlined above. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

2.0 FINDINGS AND RECOMMENDATIONS ARISING FROM REVIEW

2.1 General Comments

In accordance with Section 2.4 "Scope of Review" included within our Regulation 17 Review proposal, this is an exception based report, however we would like to take this opportunity to highlight some of our positive observations and actions already implemented whilst conducting the review:

Risk Management

- Council has a Risk Management Framework in place incorporating the Risk Management Policy, guidance set out in the Corporate Business Plan, Risk Dashboard and a number of other supporting policies and procedures.
- The development and implementation of the Business Continuity Plan in March 2016, including the subsequent desktop testing of the plan which resulting in a list of actions the Shire is currently working through.
- The Workplace Guidelines launched and rolled out to employees on 21 September 2016. The guidelines is an all-encompassing document which incorporates relevant human resources policies and procedures, training and occupational safety and health policies and procedures. All employees are required to confirm their understanding of the guidelines.
- Over the last 18 months the Shire of Northam has been documenting and implementing a number of key processes in Promapp. At the time of our onsite visit, the Shire of Northam had 38 processes had been finalised in Promapp with a many more processes still in development or awaiting review.

- The Insurance Register had recently been developed and implemented by the Governance Officer, and updating of the Lease Register

Internal Controls

- All key accounts are reconciled on a monthly basis with evidence that these reconciliations had been independently reviewed. No unreconciled differences were noted from our sample reviewed.
- Explanations are sought and provided for variances +/- 10% or \$10,000 between actuals and budget on a monthly basis. It was observed that the CEO reviews these variances almost on weekly basis and will seek explanations where deemed relevant.
- It appeared that the physical security currently in place at the Shire locations is adequate and that discussions with the Building Supervisor indicated that the protection of the Shire's assets including further enhancements was front of mind.
- The sample of BAS and FBT returns completed by the Shire indicated that these were lodged with the ATO on time and that there was evidence that these returns were independently reviewed.
- All purchases tested had undergone the appropriate procurement process correlating to the purchasing threshold.
- The Tender's Register was up to date and the Tender's Checklist form was populated for each tender.

Legislative Compliance

- There was evidence of timely communication of relevant information to Council, for example:
 - o Monthly financial activity including variations of +/- 10% or \$10,000 between actuals and budget has been communicated to Council in a timely manner;
 - o The mid-year budget was submitted to Council within 30 days of presentation to the Audit Committee and then subsequently submitted within 30 days to Local Government; and
 - o The 2015 Compliance Audit Return was adopted by Council on 16 March 2016 and was subsequently submitted to Local Government on 23 March 2016.
- In relation to the Councillor annual and primary returns, these were all maintained in a file with a schedule of communications for each Councillor in order for the CEO's Executive Assistant to appropriately manage. All annual and primary returns submissions for the Councillors for the period reviewed were submitted in the correct timeframe.

Taking the above into consideration including our comparison of the Shire of Northam to various other regional Councils where we have completed Regulation 17 reviews, we identified that the Shire of Northam appears proactive in taking the necessary steps to ensure appropriate risk management, internal controls and legislative compliance policies and practices are in place, subject to recommendations raised by us.

2.2 Findings and Recommendations

Our findings on each of the three areas are detailed in the attached appendices as follows:

- Appendix A – Risk Management;
- Appendix B – Internal Controls; and
- Appendix C – Legislative Compliance.

Findings reported by us are on an exceptions basis, and do not take into account various areas where we confirmed compliance, and various appropriate internal controls tested during our review which were determined to operate effectively.

Overall our review indicates the Shire of Northam team is proactive in managing risk, internal controls and legislative compliance subject to the findings attached.

3.0 OTHER MATTERS

We would like to express our appreciation to Colin, Zoe and the team for the assistance provided to us in completing our review.

Should there be any matters outlined within the appendix of our report requiring clarification we would be pleased to discuss further. We would be pleased to meet with the Audit Committee should we be requested to.

This report relates only to procedures and items specified above and do not extend to any financial report of Shire of Northam taken as a whole.

Yours sincerely

AMD Chartered Accountants



TIM PARTRIDGE FCA
Director

APPENDIX A

SHIRE OF NORTHAM

RISK MANAGEMENT

- *Assessed whether the Local Government has an effective risk management system and that material operating risks to the Local Government are appropriately considered.*
- *Assessed whether the Local Government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;*
- *Assessed the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:*
 - *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; and*
 - *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;*
- *Ensured the Audit Committee obtained regular risk reports, which identify 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;*
- *Assessed the adequacy of Local Government processes to manage insurable risks and ensured the adequacy of insurance cover, and if applicable, the level of self-insurance;*
- *Reviewed the effectiveness of the local government's internal control system with management and the internal and external auditors;*
- *Assessed whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;*
- *Assessed the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;*
- *Assessed Audit Committee meeting practices ensuring periodically meeting with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and*
- *Ascertained whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.*

APPENDIX A
SHIRE OF NORTHAM
RISK MANAGEMENT

FINDINGS:

	Finding	Finding Rating	Implication	Recommendation	Management Comment
1	<p>Shire of Northam have not developed an organisational-wide risk register which identifies risks, assesses the impact of the risk and identifies controls to mitigate risk.</p> <p>We would expect the organisational risk register to encompass each business unit incorporating the following categories for each business unit:</p> <ul style="list-style-type: none"> • Operational; • Strategic; • Finance; • Technological; and • Compliance risks (also refer Appendix C) <p>While we acknowledge Shire of Northam has developed a Risk Management Framework, Risk Dashboard and many individual policies and operational procedures, the risk identification process is the first step to effective risk management.</p> <p>In addition, we noted Shire of Northam's Risk policies and procedures do not include:</p> <ul style="list-style-type: none"> (a) Litigation/Claims Policy; (b) Fraud Control Policy; and (c) Whistleblower/Public Interest Disclosure (PID) Policy (allowing anonymous reporting and to be available on the Shire's website to ensure external parties can report). 	Medium	Lack of documentation in place to evidence risks have been identified.	<p>We recommend the Shire of Northam develop an organisational risk register. This should include conducting a comprehensive risk identification process to identify potential Shire of Northam risks within each business unit and incorporating the following categories:</p> <ul style="list-style-type: none"> (a) Operational; (b) Strategic; (c) Finance; (d) Technological; and (e) Compliance risks. <p>The risk register should identify the risk, analyse the risk by determining the likelihood, consequence and current controls in respect to each identified risk; evaluate the risk by deciding whether the risk is to be treated/controlled, reassessed or accepted and determine the action to be taken to treat or control each risk.</p>	<p>A current register exists even though it is not as extensive as that suggested, the risk register will be updated in the future as recommended.</p> <p>Agree, the three identified policies will be developed.</p>

	Finding	Finding Rating	Implication	Recommendation	Management Comment
				The risk register should also be monitored and reviewed on a regular basis to ensure up to date and integrates with existing Shire of Northam Risk Management Framework policies and procedures.	
2	<p>We noted at the time of our on-site visit the following plans are currently under review and require finalisation:</p> <ul style="list-style-type: none"> (a) Landfill Site Waste Management Plan; (b) Local Emergency Response Plan; (c) Bushfire Management Plan; (d) Asset Management Plan; and (e) Long Term Financial Management Plan. 	Medium	<p>Risk of significant delays and business interruption in the event of unforeseen circumstances in respect to Northam Community and District operations.</p> <p>Risk of the plan being out of date and non-compliance with the plan.</p>	Once the plans have been completed, we recommend they are endorsed and communicated to all staff, implemented and monitored on a regular basis including testing the plans to ensure that in the event of a disaster, appropriate actions can be taken.	Noted, all plans are expected to be finalized and adopted early 2017, current plans in place reduce the risk until the reviews are completed.
3	<p>We noted that the following from the sample of lease agreements tested:</p> <ul style="list-style-type: none"> (a) Lease agreement for Northam Aero Club Management is not signed and the details on the lease register are out of the date; (b) Lease register not updated to reflect the lease agreement terms for Northam Airport – Hanger 13; and (c) The commencement date in the lease register for Blackberry Close Bakers Hill differs to that reflected in the lease agreement. 	Medium	Risk the Shire is exposed to risks due to lessee non-compliance with lease terms.	We recommend a sample lessee compliance check be completed to ensure lessees are complying with stated lease terms, including obtaining documentation to support adequate insurance is maintained by the lessee. This could be completed on a rolling basis over several years to ensure all lessees are contacted at least once within the lease term.	<ul style="list-style-type: none"> (a) As discussed with the Auditor, the lease agreement for Northam Aero Club is not yet signed because it is with them (Aero Club) for their approval and signing. (b) Register for Hangar 13 has been updated. (c) The reason is that the original lease commenced in 2004 and went for 5 years, a new lease was initiated 1/7/2009 for two years with 4x2year options to renew. The lease register is currently being updated so this will be rectified.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
					The Governance officer is the designated officer with the responsibility for ensuring compliance and random checks are done several times a year to ensure compliance.
4	<p>While the "Declaration of Interest" step was added to the Purchasing Process in Promapp post the Projects and Contracts Administration Officer and Procurement Officer attending the WALGA procurement training in August 2016, there is no centrally maintained register that records any disclosed Councillor and staff conflicts of interests.</p> <p><i>We acknowledge the Shire of Northam records those interests disclosed at the Council and Committee meetings in the Register of Financial Interest. However this register does not currently record any conflicts (whether perceived or actual) disclosed outside these meetings.</i></p>	Medium	Risk that a Councillor/staff have a perceived/actual conflict of interest which is not recorded and managed appropriately by the Council.	We recommend that the Shire of Northam design and implement a conflict of interest register. This register should be monitored to ensure that all conflicts (whether perceived/actual) are disclosed. All conflicts of interest should be managed accordingly by the Shire.	Noted, management will investigate the establishment of a central register
5	Our inquiries of the Human Resources Officer identified that the Shire of Northam does not maintain a central Contractor/Sub-contractor Insurance Register and that the responsibility for checking insurances currently rests with the Responsible Officer who has arranged the Contract.	Medium	Risk that the Contractors/Sub-contractors insurances expire whilst providing the service to the Shire and that this is not identified in a timely manner.	We recommend that the Shire designs and implements a central Contractor/Sub-contractor Insurance Register which is maintained by one or two individual to ensure that all insurances are up to date.	Noted and will implement.
6	Our inquiries indicated Shire of Northam has no documented policy or procedure in respect to personally owned IT devices including laptops, smartphones, tablets, thumb drives etc.	Medium	Risk that existing procedures and practices in respect to personally owned devices are not formally documented.	In accordance with the Department of Local Government IT Framework (best practice guidelines), we recommend policies and procedures outlining the terms and conditions in respect to the use of personally owned devices and access be documented, approved, implemented and monitored on an ongoing basis.	Noted, a policy will be developed and implemented.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
7	While our inquiries indicate that the Shire of Northam's prior period Audit Regulation 17 Risk Report (being the risk dashboard) was presented to the Audit Committee, an updated risk report is not provided to the Audit Committee / Council on a regular basis.	Low	Lack of communication with those charged with governance.	Once the development of the organisation risk register (as noted at number 1 above) is completed, we recommend this register and / or risk dashboard is tabled at Audit Committee and subsequent Council meetings on a periodic basis.	Notes, currently in the process of reviewing the functions for the Audit committee.
8	We note Shire of Northam does not currently hold Cybercrime insurance.	Low	Risk of being uninsured against cybercrime.	We recommend Council investigate obtaining cybercrime insurance.	Insurance coverage is reviewed annually in consultation with the council Insurance Company (LGIS), in the past this has not been identified as a 'high' risk area, will investigate as part of the annual insurance review.
9	We noted the Shire of Northam Insurance Register does not currently record the date insurance claims are submitted to the Shire of Northam, to ensure insurance claims are subsequently lodged and followed up in a timely manner after an incident.	Low	Untimely recovery of costs associated with insurance events.	We recommend insurance claims be lodged on a timely basis after incidents occur (we suggest no longer than one month) and the date the claim is submitted to the Shire be recorded in the insurance claims register.	Noted.
10	Our review identified that the: <ul style="list-style-type: none"> (a) Community Engagement Plan was last endorsed on 12 October 2011; and (b) Management of Council Property Leases was last reviewed on 16 October 2013. 	Low	Risk that outdated documents are being referenced by Council staff.	We recommend all Council plans, policies and procedures are reviewed and updated regularly. We also recommend that reviews of policies and procedures include ensuring all references to legislation / guidelines are current and if legislation / guidelines have changed, the policy is updated to reflect those changes.	Plans and policies are monitored and reviewed (as required) internally on a regular basis.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
11	Our inquiries of the Executive Manager, Corporate Services indicated that there is currently no Council signature specimen list in place.	Low	Risk that someone without the appropriate delegated authority signs a document approving a Contract, transaction etc. which could be enforceable by another party.	We recommend that the Shire of Northam develops a signature specimen list for all those with delegated authority.	A signature register is currently being developed.
12	Our inquiries of the Projects and Contracts Administration Officer identified that Council has not developed any probity plan(s) or Statement of Purchasing Ethics requiring acknowledgement by third parties.	Low	Risk of the third party not acting in accordance with the Shire's policies and procedures.	We recommend that the Shire develops and implements a Statement of Purchasing Ethics which sets out the way the third party conducts business with the Shire. Terms and conditions included within supplier contracts would require suppliers to comply with Council's Statement of Purchasing Ethics.	Will investigate the implementation.
13	We noted that there is currently no process documented in Promapp which covers the following: <ul style="list-style-type: none"> • Receiving of goods/services; • Matching of purchase order to invoice; • Invoice verification; and • Invoice authorisation ready for payment. 	Low	Lack of a formalised documented processes.	We recommend that the Shire designs and implements in Promapp an all-encompassing purchasing process which includes the following (in addition to the current Purchasing Process documented in Promapp): <ul style="list-style-type: none"> • Receiving of goods/services; • Matching of purchase order to invoice; • Invoice verification and authorisation 	Staff are currently in the process of developing a procedure with the Promapp system for creditor payments this will cover the identified areas.

APPENDIX B

SHIRE OF NORTHAM

INTERNAL CONTROLS

- *Reviewed segregation of roles and functions, processing and authorisation controls;*
- *Reviewed documented policies and procedures;*
- *Assessed approval of documents, letters and financial records;*
- *Assessed management internal reviews undertaken in respect to comparison of internal data with external sources of information;*
- *Assessed security controls in respect to physical access to assets and records;*
- *Assessed security controls in respect to computer applications and information systems (general and application IT controls);*
- *Assessed access limits placed on data files and systems;*
- *Assessed whether the maintenance and review of financial control accounts and trial balances is regular and appropriate;*
- *Assessed key management internal reviews undertaken in respect to comparison and analysis of financial results with budgeted amounts;*
- *Assessed key management internal reviews undertaken in respect to the arithmetical accuracy and content of records;*
- *Assessed controls in respect to purchasing and payment of accounts;*
- *Assessed reporting, review and approval of financial payment and reconciliations; and*
- *Assessed physical cash and inventory count records when compared to accounting records*

APPENDIX B
SHIRE OF NORTHAM
INTERNAL CONTROLS

FINDINGS:

	Finding	Finding Rating	Implication	Recommendation	Management Comment
1	<p>Our inquiries of the Executive Manager, Corporate Services identified that the Shire of Northam does not currently have a formal documented IT Disaster Recovery Plan in place.</p> <p><i>We acknowledge that IT Disaster Recovery is briefly commented on in the Business Continuity Plan and that by coincidence the Shire put to test the recovery of the Shire's back-up due to an incident that occurred on 22 September 2016.</i></p>	Medium	Risk of significant delays and business interruption in the event of unforeseen circumstances in respect to Council organisational business.	<p>We recommend the IT Disaster Recovery Plan be developed and implemented by the Shire of Northam.</p> <p>Once the plan has been completed, we recommend it is endorsed and communicated to all staff, implemented and monitored on a regular basis including testing the plan to ensure that in the event of a disaster, appropriate actions can be taken.</p>	Staff are currently looking to develop an IT disaster recovery plan.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
2	We noted there is a Contractor Induction process in place. However, testing identified no evidence that the contractor had attended/completed the Contractor Induction process.	Medium	Risk of non-compliance with stated policies, procedures including relevant health and safety requirements.	We recommend contractors be required to complete some level of induction (the level of induction completed should be determined based on the risks associated with the service or product provided) and the induction process be formally documented as evidence of attendance.	A current register exists even though it is not as extensive as that suggested, the risk register will be updated in the future as recommended.
3	Our inquiries of the Executive Manager, Corporate Services indicated that the Shire of Northam does not currently have an ICT Framework in place.	Medium	Risk that existing procedures and practices in respect to information and communication technology are not formally documented.	<p>We recommend the ICT Framework be developed to ensure procedures and practices in respect to information and communication technology is documented and presented to Council for review and adoption. The framework should be monitored on a pre-determined basis to ensure compliance with stated policies and procedures. As part of the development of the ICT framework, we suggest consideration be given to:</p> <ul style="list-style-type: none"> • A formal cost v benefit analysis or feasibility study be completed prior to major ITC projects, including post implementation reviews; • KPI's are set for the IT process and regular monitoring against KPI be performed, including user satisfaction reviews; • Confidentiality clause be included in key service level 	Currently investigating available options.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
				agreements with external supplies; and <ul style="list-style-type: none"> Review of external service level agreements be completed against targets included within those agreements. 	
4	Our inquiries of Council's Building Supervisor indicated the Shire of Northam does not currently have a signed contract in place with the external security companies used for monitoring and call-outs.	Medium	Risk of the Shire of Northam locations not being protected from break-ins, vandalism etc.	We recommend that contracts are in place with all third parties engaged to provide said security services.	Staff will develop an agreement.
5	Our inquiries of the Executive Manager, Corporate Services indicated there is no ongoing security awareness program in respect to IT.	Low	Risk of security breaches due to changing security environment.	We recommend an ongoing security awareness program be developed to ensure security needs of the Shire is updated as required (for example due to IT infrastructure or application changes) and to prevent any security breaches from occurring. This could be incorporated as part of Shire of Northam's overall Risk Management Framework.	Staff to investigate. While there is no formal program the Council IT Officer regularly sends notifications in regards to 'cyber alerts' and other potential IT related issues.
6	Our inquiries of the Executive Manager, Corporate Services identified that the Shire of Northam computers do not currently automatically log out when left dormant for a period of time. <i>We acknowledge that the licensing computers at the front counter does automatically log out when left dormant.</i>	Low	Risk of someone else using the computer to access information that they do not currently have authority to view and/or amend details in order to receive some benefit etc.	We recommend that the Shire of Northam implements a policy where all Shire owned computers are automatically logged out after five minutes of being dormant (or as considered appropriate time limit).	Staff to investigate and implement.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
7	Our inquiries of the Governance Officer identified that there is currently no cash handling policies and procedures in place.	Low	Risk that cash is not being handled appropriately by staff.	We recommend that cash handling policies and procedures are developed and implemented. Once developed, these policies and procedures should be reviewed and approved by Council and then communicated to all staff that handles the Shire's cash.	Staff are verbally informed of the procedures, these however are not written, and staff will look at developing a written procedure.
8	We note that there is currently no independent review of the general journal adjustments posted to Synergy Soft.	Low	Risk that errors will not be identified in a timely manner.	We recommend that all general journal adjustment journals are independently reviewed and physically signed off by the reviewer as evidence of this review.	The measure will be implemented.
9	We note that that credit card statements were not signed off to evidence review as required by policy HR 2.7 Credit Card Use.	Low	Risk that fraud or errors will not be identified in a timely manner.	We recommend that all credit card statements are signed off by the reviewer as evidence of this review, as per stated policy.	Credit Cards are independently reviewed by Finance Officer, Accountant, Exec Manager of Corporate Services and finally the Credit Card Holder. It is noted however that the reviewing persons do not sign to indicate the review has been completed. This has been corrected. It is also noted that that all credit card payments are itemised and presented to Council monthly for review.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
10	We note that the Vehicle Management Policy was currently under review at the time of our on-site visit.	Low	Risk of inappropriate usage of the Shire's fuel cards.	We recommend that the Vehicle Management Policy is finalised and approved by Council. This policy should detail limits and permissible usage. Once endorsed, the policy should be communicated to all staff, implemented and monitored on a regular basis including testing fuel card usage is in accordance with the policy.	Policy expected to be adopted early 2017.
11	Our testing identified instances where the purchase order was raised post receiving the invoice. This finding was raised previously when the Financial Management System Review was performed (report issued in June 2016) and we acknowledge that there have been no unexplainable instances of this occurring post the issuance of the report.	Low	Risk of non-compliance with policies and procedures. Risk of fraud or error not being identified in a timely manner.	We recommend purchase orders are raised and approved prior to the goods/services being incurred by the Shire.	Noted.
12	While best practice methods are used in respect to procurement practices, our testing identified one instance where a Purchasing Procedures Checklist was not attached to the payment documentation for All-ways Foods (invoice number 20368).	Low	Risk of non-compliance with policies and procedures.	We recommend that the Purchasing Procedures Checklist is completed, signed off and attached to all payment documentation in accordance with stated policy.	Noted.
13	While best practice methods are used in respect to tendering processes, our testing identified that Tender Checklist form was not signed off by the senior checking officer for tender 1 of 2016.	Low	Risk of non-compliance with policies and procedures.	We recommend that the Tender Checklist is reviewed and signed off by the senior checking officer once the tender process has been completed, in accordance with stated policy.	All staff involved have been reminded of the importance of following procedures.

APPENDIX C

SHIRE OF NORTHAM

LEGISLATIVE COMPLIANCE

- *Assessed internal monitoring of compliance with legislation and regulations;*
- *Assessed the local government's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;*
- *Assessed communications between key management and the Audit Committee to ensure the Audit Committee is informed in respect to the effectiveness of the local government's compliance and recommendations for changes as required;*
- *Reviewed the local government's procedures in respect to receiving, retaining and handling complaints, including confidential and anonymous employee complaints;*
- *Reviewed key managements internal review processes in respect to the identification of adverse trends and management plans to address these;*
- *Reviewed management disclosures in financial reports of the effect of significant compliance issues (if any);*
- *Ensured the internal and / or external audit contracts include an assessment of compliance and ethics risks in the development of the audit plan and in the conduct of audit projects, and report compliance and ethical issues to the Audit Committee; and*
- *Reviewed the Audit Committee's processes and procedures in respect to compliance with legislative and regulatory compliance ensuring no misuse of position through adequate disclosure of conflicts of interest.*

APPENDIX C
SHIRE OF NORTHAM
LEGISLATIVE COMPLIANCE

FINDINGS:

	Finding	Finding Rating	Implication	Recommendation	Management Comment
1	<p>Our inquiries indicated Shire of Northam does not have a documented legislative compliance manual which is linked to each business unit risk management assessment.</p> <p>While we understand the Chief Executive Officer and Executive Managers Annual Delivery Plan sets out key compliance milestones, however there does not appear to be an overall compliance manual which identifies the legislation (as the first step) and follows the process from this initial point, to risk management.</p>	Medium	Risk of non-compliance with all legislative requirements.	<p>We recommend a compliance manual linked to each business unit risk management assessment be completed and implemented.</p> <p>We would expect the manual to be divided into each business unit section (as identified within the organisation structure) and to:</p> <ul style="list-style-type: none"> • Identify relevant legislation to that business unit (for example the Health Act 1911 or the Planning and Development Act 2005 or the Dog Act 1976); • Identify key relevant sections within each legislation and note within the compliance manual; • Who is responsible for ensuring controls in place to ensure compliance with each identified legislation section; • The mechanism in place to ensure compliance, for example a policy or procedure (this component of 	Noted.

	Finding	Finding Rating	Implication	Recommendation	Management Comment
				the compliance manual would link each relevant section of legislation to a policy, procedure, person or other control). <ul style="list-style-type: none"> • Regular testing of compliance, for example if the mechanism for compliance is a policy, regular review and spot checking (internal audit) of that policy; any • Key milestone / reporting dates applicable to that legislative section and how compliance is met. Once the compliance manual is implemented, we recommend a standing agenda item be added to the Audit Committee meeting agenda to assess the effectiveness of compliance through the review and assessment of the compliance manual.	
2	We noted two Audit and Risk Management Committee meetings were held during the year.	Medium	Risk of governance and oversight responsibilities not being met.	Local Government Operational Guideline Number 09 – Audit in Local Government outlines it is best practice for the Audit Committee to meet on at least a quarterly basis.	Noted and agreed that the committee should be meeting on more regular basis.



	Finding	Finding Rating	Implication	Recommendation	Management Comment
3	<p>Our inquiries of the Chief Executive Officer identified the current Internal Audit Framework incorporates the:</p> <ul style="list-style-type: none"> (a) Financial Management System Review (conducted every four years, last conducted for the period 1 July 2015 to 30 April 2016); (b) Regulation 17 Review (conducted every two years, the current review for the period 1 July 2015 to 30 October 2016); and (c) DLGC Better Practice Review (conducted every four years, last conducted the end of 2015). 	Medium	Risk that internal controls are not being adhered to.	We recommend that Council consider conducting relevant internal audits in the years between Financial Management System reviews and Regulation 17 reviews.	Currently developing a framework for internal audits.

5.2 REVIEW TERMS OF REFERENCE

Address:	N/A
Owner:	N/A
File Reference:	8.2.7.1
Reporting Officer:	Colin Young Executive Manager Corporate Services
Responsible Officer:	Colin Young Executive Manager Corporate Services
Voting Requirement	Absolute Majority

BRIEF

For the Audit Committee to review and endorse the Terms of Reference.

ATTACHMENTS

Attachment 1 Terms of Reference.

BACKGROUND / DETAILS

The role of the audit committee is to support Council in its endeavours to provide effective corporate governance and fulfil its responsibilities in relation to directing and controlling the affairs of the local government. The essential role for an audit committee is oversight for all matters that relate to the conduct of audits. An audit committee cannot be given a management task where the Act and Regulations make the Chief Executive Officer specifically responsible.

At the Ordinary Meeting of Council held on the 14 October 2016, Council Resolved as follows;

COUNCIL DECISION

Minute No: C.2547

Moved: Cr Beresford

Seconded: Cr Little

That Council by Absolute Majority;

1. In accordance with provisions of Section 5.8 of the Local Government Act 1995 establishes an Audit Committee;
2. In accordance with the provisions of Section 5.10(1)(a) of the Local Government Act 1995 appoints by name those Councillors who are to comprise the Committee, being:
 - Whole of Council
3. That Council adopts the Shire of Northam 'Terms of Reference – Audit Committee' as presented.

CARRIED 10/0
BY ABSOLUTE MAJORITY

CONSIDERATIONS

Strategic Community / Corporate Business Plan

Objective G1: Provide accountable and transparent leadership.

Objective G2: Improve organisational capability and capacity.

Strategy G2.3: Operate in a financially sustainable manner.

Financial / Resource Implications

Nil.

Legislative Compliance

Local Government Act 1995 Section 7.1A. Audit committee

- (1) A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.
- (2) The members of the audit committee of a local government are to be appointed*by the local government and at least 3 of the members, and the majority of the members, are to be council members.

* Absolute majority required.

- (3) A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent him or her as a member of an audit committee.
- (4) An employee is not to be a member of an audit committee.

Local Government Act 1995 Section 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 his or her 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.

Local Government Act 1995 Section 5.16. Delegation of some powers and duties to certain committees

- (1) Under and subject to section 5.17, a local government may delegate* to a committee any of its powers and duties other than this power of delegation.

** Absolute majority required.*

- (2) A delegation under this section is to be in writing and may be general or as otherwise provided in the instrument of delegation.

Local Government Act 1995 Section 5.17. Limits on delegation of powers and duties to certain committees

- (1) A local government can delegate —
 - (a) to a committee comprising council members only, any of the council's powers or duties under this Act except —
 - (i) any power or duty that requires a decision of an absolute majority or a 75% majority of the local government; and
 - (ii) any other power or duty that is prescribed;
 - (b) to a committee comprising council members and employees, any of the local government's powers or duties that can be delegated to the CEO under Division 4; and

- (c) to a committee referred to in section 5.9(2)(c), (d) or (e), any of the local government's powers or duties that are necessary or convenient for the proper management of —
 - (i) the local government's property; or
 - (ii) an event in which the local government is involved.
- (2) A local government cannot delegate any of its powers or duties to a committee referred to in section 5.9(2)(f).

Local Government Act 1995 Section 5.11(2)(b). Committee membership, tenure of

- (2) *Where a person is appointed as a member of a committee other than under section 5.10(4) or (5), the person's membership of the committee continues until —*
 - (b) the local government removes the person from the office of committee member or the office of committee member otherwise becomes vacant;*

Local Government Act 1995 section 5.10. Committee members, appointment of

- (1) A committee is to have as its members —
 - (a) persons appointed* by the local government to be members of the committee (other than those referred to in paragraph (b)); and
 - (b) persons who are appointed to be members of the committee under subsection (4) or (5).

* Absolute majority required.

- (2) At any given time each council member is entitled to be a member of at least one committee referred to in section 5.9(2)(a) or (b) and if a council member nominates himself or herself to be a member of such a committee or committees, the local government is to include that council member in the persons appointed under subsection (1)(a) to at least one of those committees as the local government decides.
- (3) Section 52 of the Interpretation Act 1984 applies to appointments of committee members other than those appointed under subsection (4) or (5) but any power exercised under section 52(1) of that Act can only be exercised on the decision of an absolute majority of the local government.

Interpretations Act Section 52. Power to appoint includes power to remove, suspend, appoint acting officer etc.

- (1) Where a written law confers a power or imposes a duty upon a person to make an appointment to an office or position, including an acting appointment, the person having such power or duty shall also have the power —
 - (a) to remove or suspend a person so appointed to an office or position, and to reappoint or reinstate, any person appointed in exercise of such power or duty;

Policy Implications

Nil.

Stake Holder Engagement / Consultation

Nil.

Risk Implications

Nil.

OFFICER'S COMMENT

Previously Council has chosen to have all Elected Members on the Audit Committee. It is suggested the committee review this position with the view of developing a smaller 'Committee' which would then report through to Council on matters. It is considered that four to five would be an adequate number.

As noted in the recent regulation 17 review it is recommended that Council ensures a best practice approach and holds at least three Audit Committee meetings per annum as stated in the Local Government Operational Guideline Number 9. Staff are recommending that an audit committee be held once per quarter.

RECOMMENDATION

That Council by Absolute Majority;

1. **Adopt the Shire of Northam 'Terms of Reference – Audit Committee' as presented with the following changes.**
 - **Point 3 - Reduce membership from 'all elected members' to 'four elected members'**
 - **Point 4 – Meetings: remove 'at least annually' and replace with 'quarterly'**

2. **In accordance with the provisions of Section 5.10(1)(a) of the Local Government Act 1995 appoints by name those Four Councillors who are to comprise the Committee, being:**
 - Councillor -**
 - Councillor -**
 - Councillor -**
 - Councillor -**

Attachment 1

Audit Committee Terms of Reference 2015 to 2017

TERMS OF REFERENCE SHIRE OF NORTHAM AUDIT COMMITTEE

1. Objectives of Audit Committee

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

Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of local government's financial accounting systems and compliance with legislation.

The committee is to facilitate:

- the enhancement of the credibility and objectivity of external financial reporting;
- compliance with laws and regulations as well as use of best practise guidelines relative to auditing;
- the provision of an effective means of communication between the external auditor, the CEO and the Council.

2. Powers of the Audit Committee

The committee is a formally appointed committee of Council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

The committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.

Audit Committee Terms of Reference 2015 to 2017

3. Membership

The committee shall consist of all elected members. All members shall have full voting rights.

The CEO and employees are not members of the committee.

The CEO and or their nominee is to attend all meetings to provide advice and guidance to the committee.

The local government shall provide secretarial and administrative support to the committee.

4. Meetings

The committee shall meet at least annually.

Additional meetings shall be convened at the discretion of the presiding person.

5. Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

6. Duties and Responsibilities

The duties and responsibilities of the committee will be -

- a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits.
- b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor.
- c) Develop and recommend to Council –
 - a list of those matters to be audited; and
 - the scope to be undertaken.
- d) Recommend to Council the person or persons to be appointed as auditor.
- e) Develop and recommend to Council a written agreement for the appointment of the auditor. The agreement is to include –

Audit Committee Terms of Reference 2015 to 2017

- the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the local government to communicate with, and supply information to, the auditor.
- f) Meet with the auditor once in each year.
- g) Liaise with the CEO to ensure that the local government does everything in its power to –
- assist the auditor to conduct the audit and carry out his or her other duties under the Local Government Act 1995; and
 - ensure that audits are conducted successfully and expeditiously.
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters and –
- determine if any matters raised require action to be taken by the local government; and
 - ensure that appropriate action is taken in respect of those matters.
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time.
- j) Review the scope of the audit plan and program and its effectiveness.
- k) Address issues brought to the attention of the committee that are within the parameters of the committee's terms of reference.
- l) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council.

7. Guiding Principals

The guiding principles are in accordance with the Local Government Operational Guidelines (No 9) for Audit Committees in Local Government – Their appointment, function and responsibilities.

Audit Committee Terms of Reference 2015 to 2017

8. Tenure of Membership

Shall be in accordance with the Local Government Act, section 5.11.

9. Delegated Authority Of

The authority to meet with the Auditor of the local government at least once in every year, pursuant to Section 7.12A(2) the Local Government Act 1995.

10. Committee

10.1 Chairperson

The members shall appoint the Chairperson.

10.2 Secretary

A Shire employee will fulfil the role of non-voting Secretary.

Standing Ex-Officio Members

Nil.

10.4 Quorum

The quorum at any meeting shall be half plus one of the number of offices. Therefore the number for a Quorum shall be six (6) voting members.

10.5 Voting

Shall be in accordance with the Local Government Act, Section 5.21

10.6 Minutes

Shall be in accordance with the Local Government Act, Section 5.22.

10.7 Who Acts If No Presiding Member

Shall be in accordance with the Local Government Act, Section 5.14.

10.8 Meetings

Meetings shall be generally open to the public pursuant to Section 5.23 of the Local Government Act and include question time for members of the pursuant to Section 5.24 of the Local Government Act.

10.9 Members Interests to be Disclosed

Members of the Committee are bound by the provisions of the Local Government Act Section 5.65 with respect to disclosure of financial, impartiality or proximity interests.

6. URGENT BUSINESS APPROVED BY PERSON PRESIDING OR BY DECISION

7. DATE OF NEXT MEETING

To be confirmed.

8. DECLARATION OF CLOSURE