SHIRE OF BRUCE ROCK

AUDIT AND RISK COMMITTEE MEETING MINUTES – 4 February 2025

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1. **Declaration of Opening**
   The Chair, Cr Ram Rajagopalan declared the meeting open at 2.44pm

2. **Record of Attendance / Apologies / Leave of Absence (Previously Approved)**

Chair	Cr R Rajagopalan
Deputy Chair	Cr AR Crooks (via Teams)
Councillor	Cr SA Strange (via Teams)
Chief Executive Officer	Mr M Furr
Independent Community Representative	Mrs Catherine Negri
Manager of Finance	Mr M Darby
Executive Services Officer	Ms S Wood (Minutes)

3. **Response to Previous Public Questions Taken on Notice**

4. **Public Question Time**

5. **Petitions / Deputations / Presentations / Submissions**

6. **Confirmation of Minutes**

   Audit Committee Meeting held on 17 October 2024.

OFFICER RECOMMENDATION AND COMMITTEE DECISION
Resolution ARCM Feb 25 – 6.1

Moved: Mrs C Negri
Seconded: Cr Strange

That the minutes of the Audit and Risk Committee Meeting held on 17 October 2024 be confirmed as a true and correct record.

For: Cr AR Crooks, Cr R Rajagopalan, Cr S Strange, C Negri
Against: Nil
Carried 4/0

7. Reports of Officers

7.1. Adoption of the 2023/4 Shire of Bruce Rock Annual Report

File Reference	8.2.6.1
Disclosure of Interest	Neither the Author nor Authorising Officer have any Impartiality, Financial or Proximity Interest that requires disclosure.
Applicant	Nil
Previous Item Numbers	Nil
Date	20 January 2025
Author	Mark Furr - Chief Executive Officer
Authorising Officer	Mark Furr - Chief Executive Officer
Attachments 1. Shire of Bruce Rock 2023/2024 Annual Report (containing Annual Financial Report and Independent Audit Report) – (separate cover) 2. Auditors Management Letter (Confidential – sent under separate cover)	

Summary
The Local Government Act 1995 requires that Council accepts the draft Annual Report each financial year, including the Financial and Auditor's Reports, no later than 31 December or within two months of the Auditor's Report becoming available, if that is not received prior to 31 December. The Auditor's report was received on the 19 December 2024. The Audit and Risk Committee has met (prior to the scheduled Special Council Meeting) and officers have recommended the Audit Committee and the Council to accept the Annual Financial Statements and Independent Audit Report.

Background
In accordance with section 5.53 of the *Local Government Act 1995*, a local government is required to prepare an annual report for each financial year. The report provides is to provide the following:
- A report from the Shire President and Chief Executive Officer;
- The 2023/24 Financial Report;
- The 2023/24 Auditor Report; and
- Any other prescribed information

Council is also requested to give consideration to determining the date, time and location of the Annual General Meeting of Electors. The meeting must be held within 56 days from the date Council accepts the Annual Report and Financial Statements. If Council accepts the Annual Report at this meeting, the latest possible date for the meeting is Tuesday 01 April 2025. It is proposed that the Electors Meeting be held on the 20 February 2025 at 3pm.

A copy of the 2023/24 Annual Report has been circulated with the Special Council meeting agenda for Council's review and consideration. Following its adoption, the Annual Report will be made available to the public and presented at the Annual General Meeting of Electors.

Consultation
Consultation has been undertaken with the following:

- Office of the Auditor General Auditors;
- Audit and Risk Committee;
- Senior Management Team; and
- Executive Services Manager.

Statutory Environment
Adoption of the report is a statutory requirement to ensure compliance with the Act and facilitate transparency and accountability to the community. The following references to the Local Government Act 1995, are applicable to this item:

- Local Government Act 1995 Section 5.27 – Electors' general meetings;
- Local Government Act 1995 Section 5.29 – Convening electors' meetings;
- Local Government Act 1995 Section 5.53 – Annual reports;
- Local Government Act 1995 Section 5.54 – Acceptance of annual reports;
- Local Government Act 1995 Section 5.55 – Notice of annual reports; and
- Local Government Act 1995 Section 5.55A – Publication of annual report.

Policy Implications
The Council's Policy Manual contains no policies that relate and nor are there any proposed.

Financial Implications
The are no matters of significance for the Council to be appraised other than noting that the actual audited final surplus for the year ending 30 June 2024 is $2,572,112, as opposed to the adopted budgeted surplus brought forward being $2,787,665, some $215,552 less than predicted. Savings of at least this amount will need to be identified in the Budget Review proposed for the February Council Meeting to retain the Council's proposed Nil budget position forecast for 30 June 202**5**.

Net debt as at 30 June 2024 sits at $1.38M, down from $1.52M with Cash Backed Reserves at $4.9M, down slightly from $5.3M and Net Assets under management being $166.7M, up slightly from $165.9M in 2023.

Other Key Takeaways:

- Total Equity:
  - $231.76M (up from $93.81M in 2023, due to physical asset revaluation).
- Revenue Performance:
  - Total Revenue: $6.59M.
- Key Contributors:
  - Rates: $1.81M.
  - Operating and Capital Grants: $3.28M.
  - Fees and Charges: $1.31M.
- Expense Highlights:
  - Total Operating Expenses: $9.97M (down from $10.01M in 2023).
- Largest Cost Centres:
  - Employee Costs: $3.11M.
  - Depreciation: $3.57M.

- Cash Flow Position:
  - Closing Cash: $2.97M, down from $5.70M in 2023.

- Operating Activities:
  - Generated a net inflow of $189k.
- Investing Activities:
  - Recorded a net outflow of $3.39M due to purchases of property, plant and equipment, and purchase and construction of infrastructure.
- Capital Investments:
  - Asset and Infrastructure Development: $5.80M invested.
- Liabilities and Borrowings:
  - Current Liabilities: $3.71M, up from $3.12M in 2023.
- Lease liabilities $27K from $11k in 2023.

Strategic Implications

Shire of Bruce Rock Strategic Community Plan 2022-2032	
Outcome:	1.0 Community Priorities
Strategy:	1.1 Our community are engaged and have a healthy lifestyle.
Strategy:	1.3 Shire facilities are maintained in a strategic manner to meet community need.
Outcome:	2.0 Economic Priorities
Strategy:	2.2 Roads are a key economic driver across the Shire.
Outcome:	4.0 Governance Priorities
Strategy:	4.1 Our organisation is well positioned and has capacity for the future.
Strategy:	4.2 Shire communication is regular, clear and transparent.
Strategy:	4.3 A proactive and well governed Shire.

Comment/Conclusion

It is recommended that the Annual Report be considered by the electors of the Shire at the Annual Electors' Meeting to be held on Thursday 20 February 2025 (which would coincide with the February 2024 Ordinary Meeting of Council), commencing at 3:00 pm, which is within the 56-day period from the date of Council accepting the draft Annual Report.

Audit Opinion

The OAG has expressed an unqualified audit opinion for 2023/24 Annual Financial Report.
The opinion stated by the auditor was that the financial report was:

- Based on proper accounts and records;
- Presented fairly, in all material respects, the results of the operations of the Shire for the year ending 30 June 2024 and its financial position at the end of that period; and
- in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Management Letter

It was encouraging to note that the audit identified zero (0) significant findings throughout the audit. A total of five (5) findings were presented in the letter, two (2) of which were rated moderate, and three (3) rated minor. Details are as follows:

1. Review of Policies & Procedures:
Rating: Moderate
- There is no documented Information Technology (IT) policies and procedures in place which
- was previously raised in 2023 financial year;
- There is no policy in place to ensure security of outgoing information;
- There is no formal change management policy which was previously raised in 2023 financial
- year;
- There is no policy & procedures governing physical access and logical access to IT applications
- & Infrastructure which was previously raised in 2023 financial year;
- There is no cyber security policies & procedures in place forming part of the cyber security
- framework;
- The shire has not developed an IT related strategy to guide its technological decisions and
- initiatives which was previously raised in 2023 financial year; and
- There is no disaster recovery plan in place as at 30 June 2024 which was previously raised in 2023 financial year.

Implication
- The absence of clear IT policies exposes organizations to security risks, data breaches, and inefficiencies. Undefined roles and inadequate incident plans worsen the situation, impacting the organization's overall resilience. An IT framework involves well-defined security, data protection, operational policies, clearly defines roles, facilitates effective incident response and guides procurement thereby enhancing security, ensuring compliance and optimising costs;
- The absence of policies for physical and logical access to the Shire's IT applications such as Synergysoft and infrastructure poses a significant security risk, potentially increasing the risk of unauthorised individuals gaining access to sensitive information and systems;
- The absence of a formal change management policy makes it difficult to track and control changes to IT systems and infrastructure, increasing the risk of unintended consequences and disruptions to operations;
- Lack of documentation evidencing risk management procedures and assessments; and
- Without a disaster recovery plan, it is likely to be more difficult to recover from an incident or crisis in a timely and effective manner. There is an increased risk that key business functions will remain out of operation for extended periods of time following a major incident.

Recommendation
- The Shire should develop and implement policies and procedures mentioned above.;
- The Shire should create an IT-related strategy to guide technological decisions and initiatives, aligning them with the Shire's overall business objectives; and
- The Shire should implement the disaster recovery plan and develop a process to test and evaluate the IT Disaster Recovery Plan to ensure it is adequate and will effectively mitigate disruption in the event of unforeseen circumstances. The plan should also address the storage and testing of IT system backups.

Management comment
The Shire of Bruce Rock has developed an IT Disaster Recovery Plan, which was approved by the Chief Executive Officer on 1 October 2024. The Plan provides a framework to adequately and effectively mitigate operational disruptions that might arise from unforeseen events. The Plan addresses the storage of IT system back-ups, as well as testing. A copy of the Plan has been provided to the audit team. Refer to 2-115.3.

The Shire of Bruce Rock has been selected as one of only five Local Governments in Western Australia to participate in the Local Government Cyber Security Pilot Project being delivered by the Department of Local Government, Sport and Cultural Industries and the Office of Digital Government of the Department of the Premier and Cabinet. This is a two-year project, which will assist the Shire in identifying and assessing cyber security risks, and in taking actions to address these.

The Shire’s development of the IT policies identified in this audit finding will be informed and guided by the project pilot.

2. Cyber Security Assessment
Rating: Moderate

- There is no cyber security response plan in place;
- There is no IT risk register in place therefore management have not formally evaluated the risks associated with the overall security policy;
- The data stored in the server is not encrypted;
- There is no periodic testing to ensure that the software and network infrastructure are secure;
- The entity has not ensured that the cloud provider is ISO 27001 accredited;
- The entity has no hardware tracking measures in place; and
- Application control & hardening not enabled.

<u>Implications</u>

- Without an appropriate plan in place, the Shire may not be sufficiently prepared to act in the event of a cyber security threat or staff may not be aware of processes that should be followed. This may lead to the Shire's system being compromised, impacts on service delivery, unauthorised access to sensitive information, and potentially financial loss to the Shire;
- Lack of adequate risk assessment identification, evaluation and mitigating internal control processes in relation to Information Technology and Cyber Security risks;
- In the absence of appropriate sensitive data encryption, there is an increased risk that unprotected sensitive data could lead to identity theft, fraud or theft of financial resources from employees and / or third parties in the event of a data breach; and
- Increased risk of cyber-attacks and unauthorised access to the Shire’s IT systems and sensitive data.

<u>Recommendation</u>

- A cyber security plan should be developed, including (but not limited to) covering the following key areas:
  - Risk assessment of the Shire’s IT security control environment;
  - Identification of safeguards and protections in place; and
  - Action plan in the event of a cyber security event, including outlining the roles and responsibilities of staff during such an event.
- We recommend a comprehensive risk identification, evaluation and mitigation process be undertaken to ensure all potential risks associated with Information technology, specifically Cyber Security are considered and documented. Subsequently we recommend the risk register be updated to include specific Information Technology and Cyber Security risks such as Ransomware breaches, data breaches due to phishing emails, general data breaches, reputational damage and related media which may be required in the event of a Cyber Security breach etc;
- Conduct regular Vulnerability Assessment and Penetration testing to identify and address potential security vulnerabilities;
- Ensure the Shire’s cloud provider is ISO 27001 accredited; and

- Ensure the Shire implement a security framework based on the ACSC Essential 8 Guidelines.

Management comment

The Shire of Bruce Rock has been selected as one of only five (5) Local Governments in Western Australia to participate in the Local Government Cyber Security Pilot Project being delivered by the Department of Local Government, Sport and Cultural Industries and the Office of Digital Government of the Department of the Premier and Cabinet. This is a two-year project, which will assist the Shire in identifying and assessing cyber security risks, and in taking actions to address these.

The Shire will work with the Department and the Office of Digital Government to address the recommendations of this audit finding.

3. Credit Card Exceptions

Rating: Minor

- Our testing of the internal controls for credit cards identified that the invoice for monthly Internet fees paid via the CEO credit card is in the name of the previous Deputy CEO rather than being issued to the Shire of Bruce Rock.

Implication

- Risk of unauthorised goods and services being purchased, and liabilities being incurred.

Recommendation

- We recommend all invoices and documentation supporting payments should be issued in the Shire's name.

Management comment

The Shire will undertake a review of contact details for its creditors in Synergy Soft to ensure invoices and documentation supporting payments are issued in the Shire's name.

4. Payroll Exceptions

Rating: Minor

- Our sample testing of the internal controls for terminated employees identified 1 instance out of 5, where there was no termination checklist completed for an employee who had resigned verbally.

Implication

- Risk that tasks required to be undertaken and following an employee's departure are not completed on a timely basis.

Recommendation

- We recommend completing and signing off on a 'Termination Checklist' for all employees who resign or are terminated, whether notice is given verbally or in writing.

Management comment

All managers and the payroll officer will be notified of the requirement to complete and sign off the Termination Checklist for all employees who resign or are terminated, whether notice is given verbally or in writing.

5. Excess Leave Balance

Rating: Minor (2023: Minor)

- Our audit procedures identified three out of 34 employees had annual leave balances in excess of eight weeks (40 days) as at 30 June 2024.

Implication

- Excessive annual leave balances increase the risk of an adverse impact through excessive liabilities. In addition, fraud can also be more easily concealed by staff who do not take leave.

Recommendation

- We recommend the Shire continue to manage and monitor the excessive annual leave balances to reduce the liability, risks of business interruption and potential fraud.

Management comment

The Shire will actively pursue a process on managing excess leave balances for those identified in the forthcoming year.

Voting Requirements

Simple Majority Recommendations 1 and 2.

OFFICERS' RECOMMENDATION AND COMMITTEE DECISION 1 and 2
Resolution ARCM Feb 25 – 7.1

Moved: **Cr Strange**
Seconded: **Mrs C Negri**

That with respect to Annual Financial Report for Financial Year 2023/24 the Audit and Risk Committee note the items discussed in the Confidential Management Letter and Independent Audit Report and the Administration's responses regarding:

- **Policies and Procedures;**
- **Cyber Security;**
- **Credit Cards;**
- **Payroll Exceptions; and**
- **Excess Leave Balances**

That with respect to Annual Financial Report for Financial Year 2023/24 the Audit and Risk Committee recommend to Council:

- **The acceptance of the Annual Report including the Annual Financial Report and Audit Report for the 2023/2024 year, noting that it is 'unqualified' and there are no matters of significance raised by the Auditors;**
- **Convene the Annual Electors' Meeting on the 20 February 2025, in the Shire Hall, commencing at 3:00PM; and**
- **3) Publish the Annual Report, Audit Report, Notice of Meeting and give public notice(s) to the above effect, pursuant to the Local Government Act 1995, sections 5.29, 5.55, 5.55A, on the Shire's Website, official Notice Boards and Facebook site.**

For: Cr AR Crooks, Cr R Rajagopalan, Cr S Strange, and C Negri
Against: Nil
Carried 4/0

8. New Business of an urgent nature introduced by discussion of the meeting.

9. Confidential Items.

10. Closure of Meeting.

The Chair Cr R Rajagopalan closed the meeting at 2.58pm

These minutes were confirmed at a meeting on

Cr Ram Rajagopalan

Chair