



## **Audit Committee**

### **Minutes**

**25 July 2019**

**City of Bunbury**  
4 Stephen Street  
Bunbury WA 6230  
Western Australia  
*Correspondence to:*  
Post Office Box 21  
Bunbury WA 6231



## **Audit Committee Terms of Reference**

*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 and matters related to financial management;*
  - b) *Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;*
  - c) *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;*
  - d) *Examine the reports of the auditor after receiving a report from the CEO on the matters to:*
    - *determine if any matters raised require action to be taken by the local government; and*
    - *oversee the implementation of any action so determined in respect of those matters;*
  - e) *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;*
  - f) *Review the scope of the internal audit plan and program and its effectiveness;*
  - g) *Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or the CEO;*
  - h) *Review the level of resources allocated to internal audit and the scope of its authority;*
  - i) *Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;*
  - j) *Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;*
  - k) *Review the local government's draft annual financial report, focusing on:*
    - *accounting policies and practices;*
    - *changes to accounting policies and practices;*
    - *the process used in making significant accounting estimates;*
    - *significant adjustments to the financial report (if any) arising from the audit process;*
    - *compliance with accounting standards and other reporting requirements; and*
    - *significant variances from prior years;*
  - l) *Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;*
  - m) *Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;*
  - n) *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;*
  - o) *Review the annual Compliance Audit Return and report to the council the results of that review,*
  - p) *Having regard to the culture and capability of the organisation, consider the CEO's reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews;*
  - q) *Monitor and advise the CEO when the CEO is carrying out functions in relation to a review of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance;*
  - r) *Oversee the implementation of any action required following receipt of the review of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance;*
  - s) *Monitor and advise the CEO when the CEO is carrying out functions in relation to a review of the appropriateness and effectiveness of the financial management systems and procedures;*
  - t) *Oversee the implementation of any action required following receipt of a review of the appropriateness and effectiveness of the financial management systems and procedures.*
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## Minutes

### 25 July 2019

Members of the public to note that recommendations made by this committee are not final and will be subject to adoption (or otherwise) at a future meeting of the Bunbury City Council.

#### 1. Declaration of Opening

The Presiding Member declared the meeting open at 10.02am.

#### 2. Disclaimer

Not applicable to this committee.

#### 3. Announcements from the Presiding Member

Nil

#### 4. Attendances

##### *Committee Members:*

Member Name	Representing
Cr Jaysen Miguel (Presiding Member)	City of Bunbury
Mayor Gary Brennan	City of Bunbury
Cr Michelle Steck	City of Bunbury
Mr Stephen Foster	Community Member
Mr John Barratt	Community Member

##### *Support Staff/Visitors:*

Name	Title
Mr Mal Osborne	Chief Executive Officer
Mrs Leanne French	Acting Manager Governance
Mr David Ransom	Manager Finance
Mr Jordan Hunt	Internal Audit Officer

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**4.1 Apologies**

Nil

**4.2 Approved Leave of Absence**

Nil

**5. Declaration of Interest**

IMPORTANT: Committee members to complete a “Disclosure of Interest” form for each item on the agenda in which they wish to disclose a financial/proximity/impartiality interest. They should give the form to the Presiding Member <u>before</u> the meeting commences. After the meeting, the form is to be forwarded to the Administration Services Section for inclusion in the Corporate Financial Disclosures Register.
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Nil

**6. Public Question Time**

Not applicable to this committee.

**7. Confirmation of Minutes**

Committee Decision:

Moved: Cr Steck

Seconded: Mr Foster

***The minutes of the Audit Committee Meeting held on 1 March 2019 are confirmed as a true and accurate record.***

***CARRIED***

**8. Presentations**

Nil

**9. Method of Dealing with Agenda Business**

Items were dealt with in the order they appeared in the agenda with the exception of item 10.7 which was brought forward and discussed following item 10.4. The remaining items have been renumbered with the items listed in sequence of discussion.

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**10. Reports**

**10.1 Interim Audit Report and Financial Management Systems Review**

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	David Ransom, Manager Finance
<b>Responsible Manager:</b>	David Ransom, Manager Finance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
<b>Attachments:</b>	CONFIDENTIAL Appendix 1: Interim Audit Report 30 June 2019 CONFIDENTIAL Appendix 2: 2019 Financial Management Systems Review

**Summary**

The purpose of this report is for the Audit Committee to receive the Interim Audit Report for the year ending 30 June 2019 and the Financial Management Systems Review (FMSR) June 2019 prepared by the Office of the Auditor General (OAG) and AMD Chartered Accountants respectively.

**Executive Recommendation**

That the Audit Committee recommends that Council receive the Interim Audit Report for the year ending 30 June 2019 and Financial Management Systems Review June 2019 as presented.

**Strategic Relevance**

Theme 4	Our City
Goal	Civic leadership, partnerships and sound governance in delivering with and for the community
Objective 4.4	A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

**Regional Impact Statement**

Not applicable

**Background**

In May 2019, AMD Chartered Accountants conducted the Interim Audit for the year ending 30 June 2019 on behalf of the City’s Auditor, the Auditor General. During this audit, AMD also undertook a review of the City’s financial management systems and procedures in accordance with Regulation 5(1) of the Local Government (Financial Management) Regulations 1996.

The resulting reports have now been completed and are presented to the Audit Committee for information. A copy of these reports are **attached** at Appendices 1 and 2.

**Council Policy Compliance**

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There is no current Council Policy relevant to this item.

### **Legislative Compliance**

The Interim Audit is completed as part of the Annual Audit required under Section 7.2 of the Local Government Act 1995 that requires the accounts and annual financial report to be audited.

Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 outlines the Chief Executive Officer's duties as to financial management.

### **Officer Comments**

Both reports include recommendations to improve the City's internal controls and a management response to each of these recommendations.

Findings identified during the interim audit were in the following areas:

1. Annual report
2. Payroll master file changes
3. Purchase orders dated after invoice
4. Termination pay review
5. Financial Management Systems Review

The areas that were reviewed as part of the Financial Management Systems Review were:

1. Collection of money
2. Custody and security of money
3. Maintenance and security of financial records
4. Accounting for municipal or trust transactions
5. Authorisation for incurring liabilities and making payments
6. Maintenance of payroll, stock control and costing records
7. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

AMD have provided the following comment in the FMSR report:

*Following the completion of our review and subject to the recommendations outlined within sections 2 to 8, we are pleased to report that in context of the City's overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.*

### **Analysis of Financial and Budget Implications**

Nil

### **Community Consultation**

Community Consultation has not been sought on this matter.

### **Councillor/Officer Consultation**

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### **Applicant Consultation**

Not applicable

### **Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

### **Outcome of Meeting 25 July 2019**

General discussion took place regarding the content and findings in the Interim Audit Report and Financial Management Systems Review. The Manager Finance advised that the auditors were pleased the City had implemented the recommendations from the 2018 report. Overall, the Committee are pleased with the comprehensive nature of the report.

The executive recommendation as printed was moved Mr Barratt and seconded Mr Foster and was carried unanimously as follows:

***That the Audit Committee recommends that Council receive the Interim Audit Report for the year ending 30 June 2019 and Financial Management Systems Review June 2019 as presented.***

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## 10.2 Status Report – Previous Audit Recommendations

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	David Ransom, Manager Finance Jordan Hunt, Internal Audit and Business Improvement Coordinator
<b>Responsible Manager:</b>	David Ransom, Manager Finance Greg Golinski, Manager Governance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
<b>Attachments:</b>	CONFIDENTIAL Appendix 3: Audit Recommendations Database

### Summary

The City of Bunbury has established a database and follow-up process to monitor and ensure that management's actions to audit findings have been effectively implemented.

### Executive Recommendation

The Committee note the information provided in this report.

*Voting Requirement: Simple Majority*

### Strategic Relevance

Theme 4	Our City
Goal	Civic leadership, partnerships and sound governance in delivering with and for the community
Objective 4.4	A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

### Regional Impact Statement

N/A

### Background

The International Standards for the Professional Practice of Internal Auditing requires the Internal Audit Coordinator to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The attached database has been developed in order to capture audit findings from all engagements, both internal and external.

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**Council Policy Compliance**

N/A

**Legislative Compliance**

*The International Standards for the Professional Practice of Internal Auditing 2500.A1*

**Officer Comments**

The Internal Audit Coordinator will be responsible for capturing the audit findings and monitoring the implementation of management's agreed actions. An updated database will be provided to the Audit Committee at each audit committee meeting for consideration.

**Analysis of Financial and Budget Implications**

N/A

**Community Consultation**

N/A

**Councillor/Officer Consultation**

N/A

**Applicant Consultation**

N/A

**Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

**Outcome of Meeting 25 July 2019**

The executive recommendation as printed was moved Mr Foster and seconded Mr Barratt and was carried unanimously as follows:

***The Committee note the information provided in this report.***

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**10.3 Significant Findings – 2017/18 Financial Audit**

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	David Ransom, Manager Finance Jordan Hunt, Internal Audit and Business Improvement Coordinator
<b>Responsible Manager:</b>	David Ransom, Manager Finance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
<b>Attachments:</b>	Appendix 4: Letter from DLGSCI Appendix 5: Letter from City of Bunbury to DLGSCI Appendix 6: Reporting of Adverse Trends 2017-2018

**Summary**

This report is to inform the Audit Committee of correspondence received from the Department of Local Government, Sport and Cultural Industries, the City's response and to provide additional information on the adverse trends identified in the 2018 Auditor's Report on the Asset Sustainability and Operating Surplus Ratios.

**Executive Recommendation**

That the Audit Committee notes the correspondence from the Department of Local Government, Sport and Cultural Industries dated 13 June 2019, the City's response back to the Department and a report on the adverse ratio trends identified in the 2018 Auditor's Report.

**Strategic Relevance**

Theme 4 Our City  
Goal Civic leadership, partnerships and sound governance in delivering with and for the community  
Objective 4.4 A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

**Regional Impact Statement**

Not applicable

**Background**

On 13 June 2019 the Department of Local Government, Sport and Cultural Industries (the Department) reminded the City (**refer Appendix 4**) of its responsibility under the Local Government Act, Section 7.12A(4) – Duties of local governments; with respect to matters identified as significant by the auditor.

The Auditor's Report for the year ended 30 June 2018 indicated significant adverse trends in the Asset Sustainability Ratio and Operating Surplus Ratio. Both of these ratios were below the Department's standard for the last 3 years. The Auditor's report was previously presented to the Audit Committee at its meeting on 11 October 2018.

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The CEO has since responded to the Department (**refer Appendix 5**) advising that all requirements under Section 7.12A(4) have now been completed.

### **Council Policy Compliance**

There is no current Council Policy relevant to this item.

### **Legislative Compliance**

Local Government Act, Section 7.12A(4) – Duties of local governments; with respect to matters identified as significant by the auditor.

### **Officer Comments**

The City has advised the Minister for Local Government, Sport and Cultural Industries (refer Appendix 10) that advice previously obtained from the Office of Auditor General (the City's Auditor) was that Section 7.12A(4) only applied to items of non-compliance and or audit qualifications. The Auditor's Report did not identify any matters of non-compliance or qualifications, but did note that there were significant adverse trends in the Asset Sustainability Ratio and Operating Surplus Ratio that were below the Department's ratio standard.

The CEO also advised the Minister that the City did report the audit findings to our Audit Committee which was then referred to the Council meeting on 13 November 2018; as required under Section 7.12A(4) of the Local Government Act.

To fulfil all the requirements of Section 7.12A(4) the City has now reported to the Minister and published the report to Council on the City's website.

A report has also been prepared for the Audit Committee's information on the adverse ratio trends identified in the 2018 Auditor's Report, their implications to the financial position of the City and how these ratios can be improved (**refer Appendix 6**).

### **Analysis of Financial and Budget Implications**

Nil

### **Community Consultation**

Community Consultation has not been sought on this matter.

### **Councillor/Officer Consultation**

This report is presented for the information of the Audit Committee.

### **Applicant Consultation**

Not applicable

### **Timeline: Council Decision Implementation**

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### **Outcome of Meeting 25 July 2019**

General discussion took place regarding the benchmark ratios used as a guide by the Department of Local Government, Sport and Cultural Industries. The Manager Finance advised that based on the assumptions underlying the City's 15 year Integrated Financial Plan both ratios in the long term forecast will either match or exceed the Department's benchmarks.

The executive recommendation as printed was moved Mr Barratt and seconded Mr Foster and was carried unanimously as follows:

***That the Audit Committee notes the correspondence from the Department of Local Government, Sport and Cultural Industries dated 13 June 2019, the City's response back to the Department and a report on the adverse ratio trends identified in the 2018 Auditor's Report.***

#### 10.4 Staff Leave Balances

<b>Applicant/Proponent:</b>	Internal		
<b>Responsible Officer:</b>	Odetta Robertson, Manager People and Safety		
<b>Responsible Manager:</b>	Odetta Robertson, Manager People and Safety		
<b>Executive:</b>	Mal Osborne, Chief Executive Officer		
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy	<input type="checkbox"/> Review	
	<input type="checkbox"/> Executive/Strategic	<input type="checkbox"/> Quasi-Judicial	
	<input type="checkbox"/> Legislative	<input checked="" type="checkbox"/> Information Purposes	
<b>Attachments:</b>	Nil		

#### Summary

The purpose of this report is to provide the Audit Committee with information relating to Annual Leave Accruals for City staff.

#### Executive Recommendation

That the Audit Committee receive the update.

#### Strategic Relevance

Theme 4: Our City  
 Goal: Civic leadership, partnerships and sound governance in delivering with and for the community  
 Objective 4.4: A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service.

#### Regional Impact Statement

N/A

#### Background

The CEO has previously been requested by the Committee to provide a recurring report concerning accrued staff leave. This was requested on the basis of the risk presented to the City in carrying excessive leave liabilities.

This report fulfils this requirement.

#### Legislative Compliance

N/A

#### Officer Comments

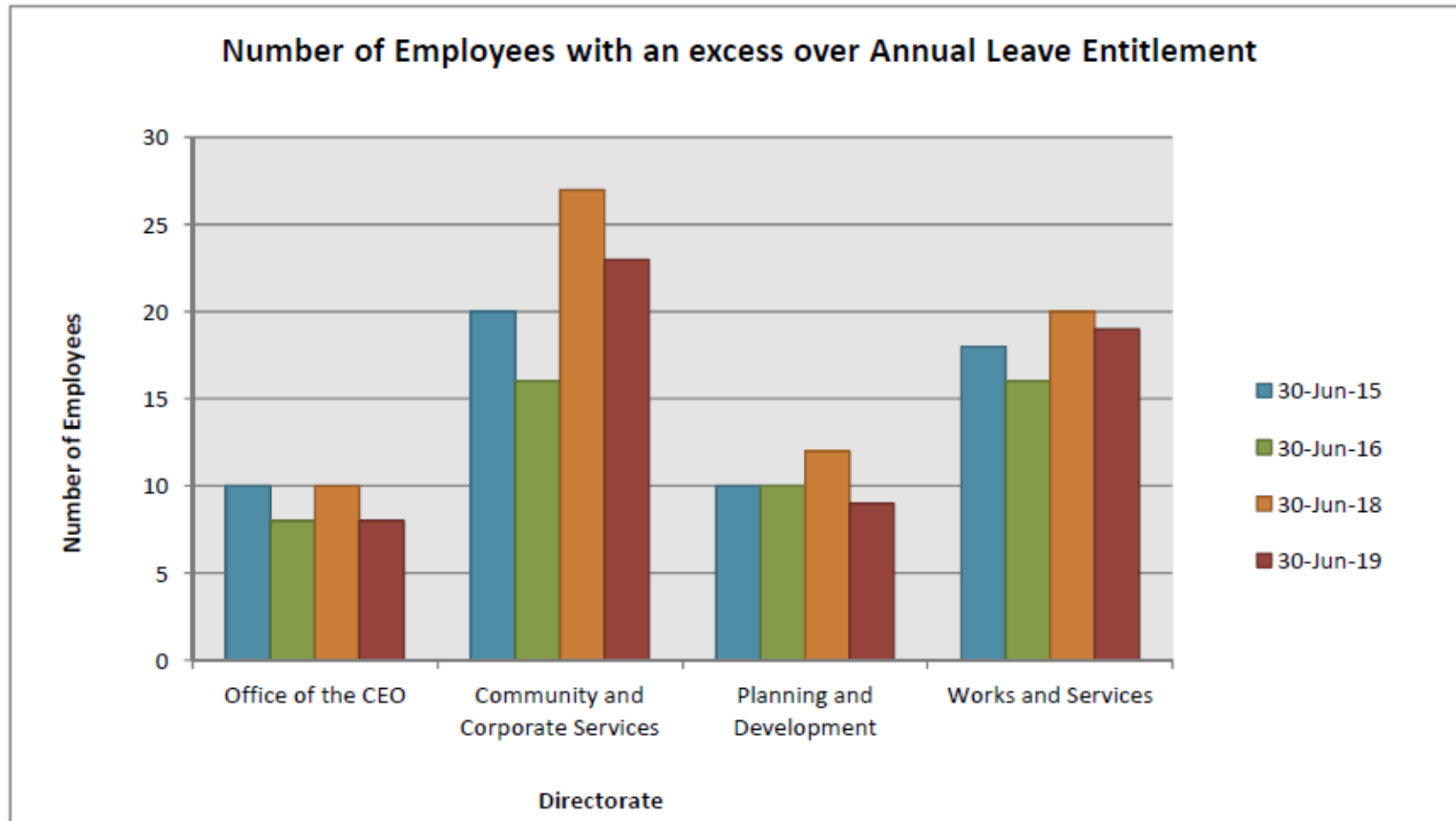
The tables and graphs overleaf detail the City's leave liabilities to 30 June 2019. Note that the figures represent liabilities in excess of annual entitlements (4 or 5 weeks depending on the Officer) and also liabilities in excess of 8 weeks, which is defined by Fair Work Australia as being "excessive".

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**Annual Leave Liability in excess of Annual Entitlements Available**  
*(In Excess of either 4 or 5 weeks)*

Directorate	Number of Employees		Liability		Number of Employees		Liability		Number of Employees		Liability	
	30-Jun-15	30-Jun-15	30-Jun-16	30-Jun-16	30-Jun-18	30-Jun-18	30-Jun-19	30-Jun-19	30-Jun-15	30-Jun-15	30-Jun-16	30-Jun-16
Office of the CEO	10	22,065	8	27,733	10	33,996	8	35,634				
Community and Corporate Services	20	28,194	16	30,320	27	52,915	23	34,318				
Planning and Development	10	84,781	10	70,059	12	19,251	9	25,736				
Works and Services	18	88,386	16	57,650	20	50,052	19	54,321				
	<b>58</b>	<b>223,425</b>	<b>50</b>	<b>185,761</b>	<b>69</b>	<b>156,214</b>	<b>59</b>	<b>150,008</b>				
<b>Total Annual Leave Liability</b>		<b>1,736,923</b>		<b>1,690,125</b>		<b>1,879,016</b>		<b>1,930,712</b>				
<b>% of Annual Leave excess of Annual Leave entitlements</b>		<b>13%</b>		<b>11%</b>		<b>8%</b>		<b>8%</b>				

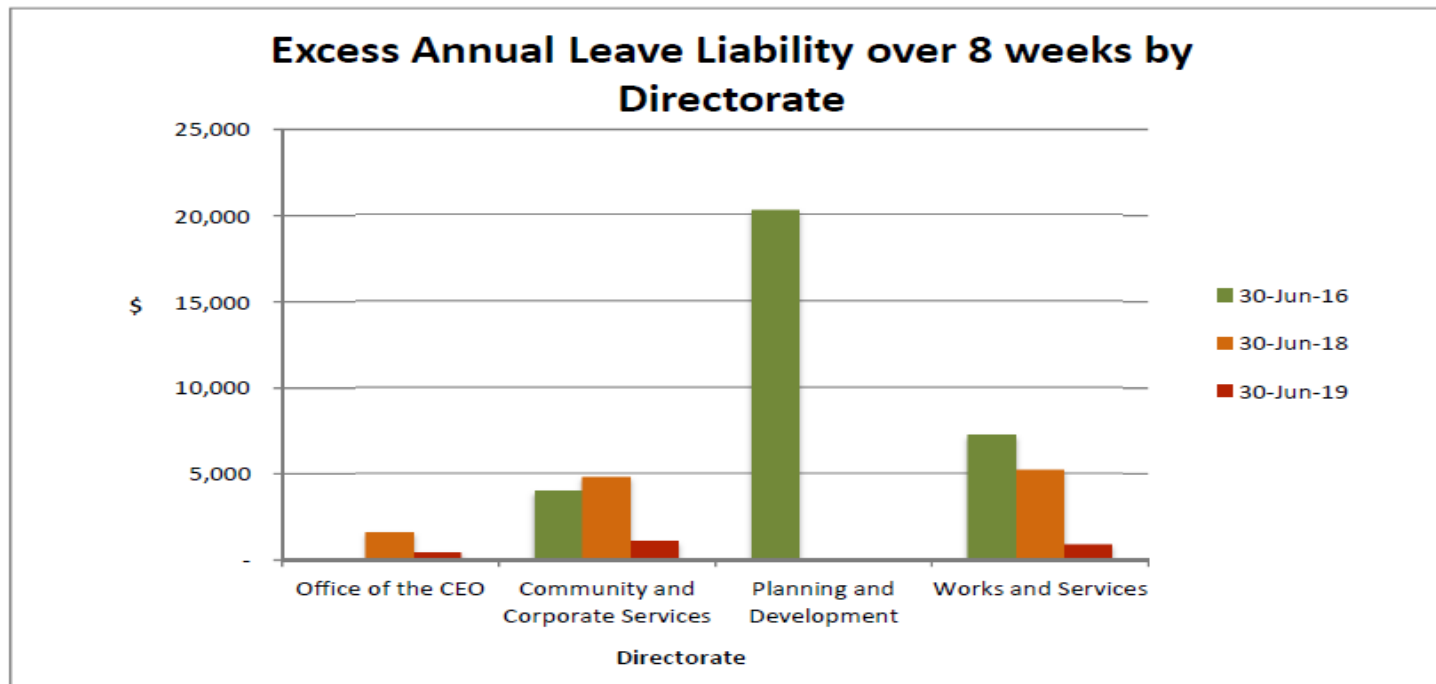


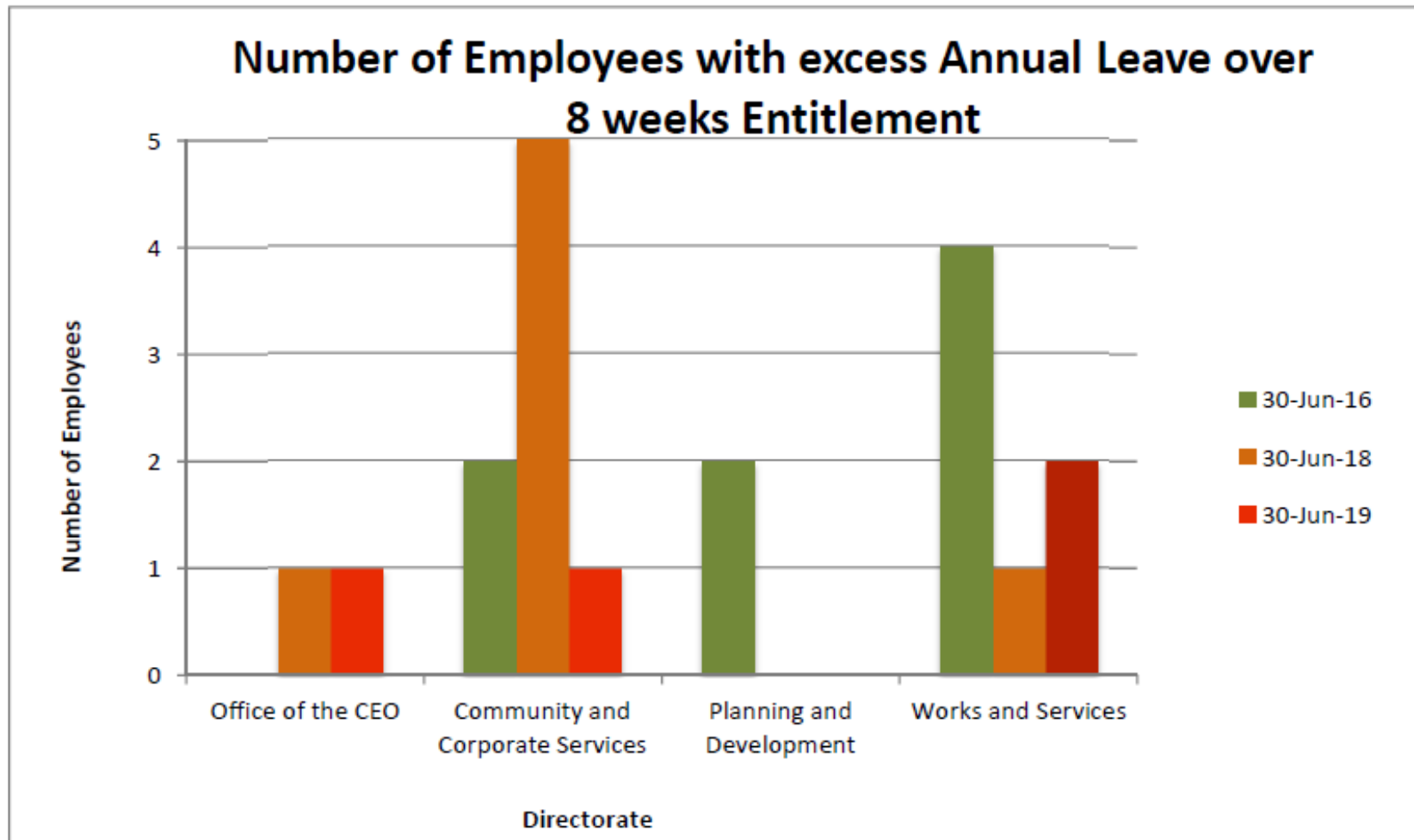




### Annual Leave Liability in excess of 8 weeks

Directorate	Number of Employees		Liability		Number of Employees		Liability	
	30-Jun-16	30-Jun-16	30-Jun-18	30-Jun-18	30-Jun-19	30-Jun-19	30-Jun-19	30-Jun-19
Office of the CEO	0	-	1	1,638	1	468		
Community and Corporate Services	2	4,000	5	4,850	1	1,119		
Planning and Development	2	20,307	0	-	0	-		
Works and Services	4	7,291	1	5,243	2	949		
	<b>8</b>	<b>31,599</b>	<b>7</b>	<b>11,731</b>	<b>4</b>	<b>2,537</b>		
<b>Total Annual Leave Liability</b>		<b>1,690,125</b>		<b>1,879,016</b>		<b>1,930,712</b>		





**Analysis of Financial and Budget Implications**

Leave accruals represent an element of financial risk for the City.

**Community Consultation**

N/A

**Councillor/Officer Consultation**

This report is presented to the Audit Committee for information.

**Applicant Consultation**

N/A

**Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

**Outcome of Meeting 25 July 2019**

General discussion took place in relation to this item. The Committee has requested the Chief Executive Officer to provide an update on the actions identified by management to bring the excess annual leave (over 8 weeks) entitlements into balance at the next meeting.

The executive recommendation as printed was moved Mayor Brennan and seconded Cr Steck and was carried unanimously as follows:

***That the Audit Committee receive the update.***

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### 10.5 Internal Audit Report – Procurement (*was listed as item 10.7 on the Audit Committee Agenda*)

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	Jordan Hunt, Internal Audit and Business Improvement Officer
<b>Responsible Manager:</b>	Greg Golinski, Manager Governance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
<b>Attachments:</b>	CONFIDENTIAL Appendix 10: Audit Report Procurement

#### Summary

Internal audit has completed a review of the City of Bunbury's procurement operations. The procurement internal audit report summarises the findings identified during the review and how the City of Bunbury plans to address them.

#### Executive Recommendation

The Committee note the information provided in this report.

*Voting Requirement: Simple Majority*

#### Strategic Relevance

Theme 4	Our City
Goal	Civic leadership, partnerships and sound governance in delivering with and for the community
Objective 4.4	A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

#### Regional Impact Statement

N/A

#### Background

The internal audit review has been undertaken to assess the adequacy of the processes and controls in place for procurement at the City of Bunbury during the period 1 July 2018 to 31 March 2019. The audit covered a review of the control framework in place for procurement to ensure compliance with legislation and Council's own policies where applicable, and to ensure that departmental procedures are effective, efficient, and provide value for money.

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### **Council Policy Compliance**

#### City of Bunbury Risk Management Framework

- Council Policy Risk Management
- City of Bunbury Risk Management Strategy
- City of Bunbury Risk Management Plan

#### City of Bunbury Compliance Framework

- Corporate Guideline: Legislative Compliance

#### City of Bunbury Internal Control Framework

- Corporate Guideline: Internal Control

### **Legislative Compliance**

Regulation 17 of the *Local Government (Audit) Regulations 1996*

#### ***r.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 **not less than once in every 3 financial years.***
  - (3) *The CEO is to report to the audit committee the results of that review.*
-

### **Officer Comments**

Refer to the attached procurement internal audit report (**Appendix 10**) which summarises the scope and approach of the review, the findings identified during the review, and how the City of Bunbury plans to address them.

### **Analysis of Financial and Budget Implications**

N/A

### **Community Consultation**

N/A

### **Councillor/Officer Consultation**

The Internal Audit Report – Procurement was presented to the Executive Leadership Team (ELT) on 9 July 2019. ELT agreed to the allocation of resourcing into procurement (with methodology to be determined).

### **Applicant Consultation**

N/A

### **Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

### **Outcome of Meeting 25 July 2019**

The Internal Audit and Business Improvement Officer provided a brief overview of the procurement operations audit. The Chief Executive Officer informed how the City will be addressing the findings including the use of vendor panel, standardisation of products/stores, centralised purchasing model and the City's intent to purchase locally where possible. General discussion took place in relation to this item noting the risk associated with the availability of parts for purchases with prolonged lead times.

The executive recommendation as printed was moved Cr Steck and seconded Mr Barratt and was carried unanimously as follows:

***That the Committee note the information provided in this report.***

Mayor Brennan left the meeting at 10.21am

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**10.6 Risk Management Update (was listed as item 10.5 on the Audit Committee Agenda)**

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	Leanne French, Senior Governance and Risk Officer
<b>Responsible Manager:</b>	Greg Golinski, Manager Governance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
<b>Attachments:</b>	CONFIDENTIAL Appendix 7: Strategic Risk Report CONFIDENTIAL Appendix 8: Operational Risk Report

**Summary**

The purpose of this report is to provide the Audit Committee with an update regarding Risk Management at the City of Bunbury.

**Executive Recommendation**

That the Audit Committee receives the:

1. Current risk Management Operational report as presented;
2. Current risk Management Strategic Report as presented.

**Strategic Relevance**

Theme 4: Our City  
Goal: Civic leadership, partnerships and sound governance in delivering with and for the community  
Objective 4.3: Trusted leadership and robust decision-making  
Objective 4.4: A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

**Regional Impact Statement**

Not applicable.

**Background**

As part of the City’s commitment to meeting its compliance obligations pursuant to Local Government (Audit) Regulation 17, the City has developed a comprehensive risk management framework.

The City of Bunbury strives to successfully respond to the challenges and opportunities of tomorrow. It is not possible to eliminate all risk, however, by actively identifying and managing risks, we will be prepared to respond quickly to take advantage of opportunities or to re-focus our efforts when things go wrong.

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The Audit Committee's role and responsibility <sup>1</sup> for risk management within the City of Bunbury is to:

- Endorse the policy, strategy and plan which composes the City's Risk Management Framework.
- Consider the CEO's three yearly review of the appropriateness and effectiveness of the City's systems and procedures in regard to risk management, internal control and legislative compliance and report to the Council the results of those reviews.
- Review reports regarding strategic and operational risks.
- Attend risk awareness training sessions.

### **Council Policy Compliance**

City of Bunbury Risk Management Framework

- Council Policy Risk Management
- City of Bunbury Risk Management Strategy
- City of Bunbury Risk Management Plan

### **Legislative Compliance**

Regulation 17(1) *Local Government (Audit) Regulation 1996*

(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.*

### **Officer Comments**

The Senior Governance and Risk Officer continue to meeting quarterly with the Executive Leadership Team to consider and respond to identified strategic risks. **Appendix 7** is the most up to date Strategic Risk Report.

**Appendix 8** is the most up to date Operational Risk Report.

The City has identified 27 operational risks and provided a desktop analysis on their assessed risk rating and if additional controls are required based on the City's acceptance criteria.

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<sup>1</sup> City of Bunbury Risk Management Plan

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Risk Rating	Operational Risks	Additional controls required
Low	8	0
Medium	18	7
High	1	1
Extreme	0	0
	27	8

The Senior Governance and Risk Officer is meeting with managers to further assess each departments risk requirements and continues to work with managers to analyse critical controls and their effectiveness for identified risks.

#### **Analysis of Financial and Budget Implications**

There are no financial and budget implications associated with this report and/or recommendations.

#### **Community Consultation**

Not applicable

#### **Councillor/Officer Consultation**

Not applicable

#### **Applicant Consultation**

Not applicable

#### **Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

#### **Outcome of Meeting 25 July 2019**

General discussion took place in relation to the identified strategic risks of Council.

The executive recommendation as printed was moved Cr Steck and seconded Mr Barratt and was carried unanimously as follows:

***That the Audit Committee receives the:***

- 1. Current risk Management Operational report as presented;***
  - 2. Current risk Management Strategic Report as presented.***
-

**10.7 Audit Regulation 17 Action and Improvement Plan (was listed as item 10.6 on the Audit Committee Agenda)**

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	Leanne French, Senior Governance and Risk Officer
<b>Responsible Manager:</b>	Greg Golinski, Manager Governance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
<b>Attachments:</b>	Appendix 9: Action and Improvement Plan

**Summary**

The purpose of this report is to provide the Audit Committee with an update regarding of the actions and improvements relevant to meeting compliance with regulation 17 of the *Local Government (Audit) Regulation 1996*.

**Executive Recommendation**

That the Audit Committee note the Action/Improvement Plan relevant to regulation 17 of the *Local Government (Audit Regulation) 1996*.

**Strategic Relevance**

Theme 4: Our City  
Goal: Civic leadership, partnerships and sound governance in delivering with and for the community  
Objective 4.3: Trusted leadership and robust decision-making  
Objective 4.4: A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service.

**Regional Impact Statement**

N/A

**Background**

Since 31 December 2014 Officers have regularly updated the Audit Committee on the City's progress achieved against any issues identified since the initial Audit Reg 17 review and subsequent biennial reviews.

The last biennial review provided by the Chief Executive Officer to the Audit Committee was on 11 November 2016. Since that time the City has continued to make improvements and provides an update report to each Audit Committee Meeting.

The next review is due in November 2019.

**Legislative Compliance**

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This report relates to Regulations 16 and 17 of the *Local Government (Audit) Regulations 1996*, which read in part as follows:

**r. 16. Functions of audit committee**

*An audit committee has the following functions - ...*

- (c) *to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to –*
  - (i) *report to the council the results of that review; and*
  - (ii) *give a copy of the CEO's report to the council;*
  
- (d) *to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under –*
  - (i) *regulation 17(1)...*
  
- (f) *to oversee the implementation of any action that the local government –*
  
- (iii) *has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); ...*

**r.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 **not less than once in every 3 financial years.***
  
- (3) *The CEO is to report to the audit committee the results of that review.*

**Council Policy Compliance**

City of Bunbury Risk Management Framework

- Council Policy Risk Management
- City of Bunbury Risk Management Strategy
- City of Bunbury Risk Management Plan

City of Bunbury Compliance Framework

- Corporate Guideline: Legislative Compliance

City of Bunbury Internal Control Framework

- Corporate Guideline: Internal Control
-

### **Officer Comments**

Attached (**Appendix 9**) is an updated action and improvement plan regarding the ongoing work undertaken by officers in meeting the City's goals in relation to risk management, internal control and legislative compliance.

### **Analysis of Financial and Budget Implications**

There are no financial and budget implications associated with this report and/or recommendations.

### **Community Consultation**

N/A

### **Councillor/Officer Consultation**

This matter is presented to the Audit Committee for consideration.

### **Applicant Consultation**

N/A

### **Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

### **Outcome of Meeting 25 July 2019**

The executive recommendation as printed was moved Mr Barratt and seconded Mr Foster and was carried unanimously as follows:

***That the Audit Committee note the Action/Improvement Plan relevant to regulation 17 of the Local Government (Audit Regulation) 1996.***

Mayor Brennan returned to the meeting at 10.47am.

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## 10.8 Western Australian Auditor General's Reports

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	Jordan Hunt, Internal Audit and Business Improvement Officer
<b>Responsible Manager:</b>	Greg Golinski, Manager Governance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input type="checkbox"/> Legislative <input checked="" type="checkbox"/> Information Purposes
<b>Attachments:</b>	Appendix 11: OAG Report Management of Supplier Master Files Appendix 12: OAG Report Records Management in Local Government

### Summary

The following OAG performance audit reports have been released in the period since the previous Audit Committee meeting:

- 16 March 2019 - Management of Supplier Master Files (**Appendix 11**)
- 17 March 2019 - Records Management in Local Government (**Appendix 12**)

This report summarises the findings identified within the performance audits and how the City of Bunbury plans to review its own operations and implement any applicable recommendations.

### Executive Recommendation

The Committee note the information provided in this report.

*Voting Requirement: Simple Majority*

### Strategic Relevance

Theme 4	Our City
Goal	Civic leadership, partnerships and sound governance in delivering with and for the community
Objective 4.4	A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

### Regional Impact Statement

N/A

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## Background

On 28 October 2017, the Local Government Amendment (Auditing) Act 2017 was proclaimed, giving the Auditor General (OAG) the mandate to audit Western Australia's 139 local governments and 9 regional councils. The Act allows the Auditor General to conduct performance audits of local governments.

The following OAG performance audit reports have been released in the period since the previous Audit Committee meeting:

### 16 March 2019 - Management of Supplier Master Files

The focus of this audit was to assess whether entities had suitable policies, procedures and controls for the management of supplier master files, to promote effective payment processes.

### 17 March 2019 - Records Management in Local Government

The objective of this audit was to determine if local government entities (LGs) effectively manage their records to promote accountable and transparent decision making.

## Council Policy Compliance

City of Bunbury Risk Management Framework

- Council Policy Risk Management
- City of Bunbury Risk Management Strategy
- City of Bunbury Risk Management Plan

City of Bunbury Compliance Framework

- Corporate Guideline: Legislative Compliance

City of Bunbury Internal Control Framework

- Corporate Guideline: Internal Control

## Legislative Compliance

Regulation 17 of the *Local Government (Audit) Regulations 1996*

### ***r.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 **not less than once in every 3 financial years.***
  - (3) *The CEO is to report to the audit committee the results of that review.*
-

### **Officer Comments**

The OAG Reports provide an opportunity to examine how well the City of Bunbury's policies, procedures and practices perform against the OAG findings in respect to records management and management of supplier master data.

The City of Bunbury's Strategic Internal Audit Plan outlines the areas of focus of the internal audit function for the four year period FY20 to FY23. Records management and management of supplier master data are planned to be reviewed by the City of Bunbury's internal auditor during the period in which the strategic plan covers. Specifically, management of supplier master data has been reviewed as part of the procurement internal audit (refer report at item 10.6 of this agenda) while the records management internal audit is planned to be performed during FY21.

The management of supplier master data report concluded that most of the 10 entities audited did not have comprehensive policies or procedures, which resulted in a lack of formal monitoring and review of their supplier master files. More than half the entities had weaknesses in controls over creation or amendment of their supplier records. In addition, at 3 entities, some suppliers were owned by or related to employees and the entities did not adequately manage these conflicts of interest processes.

The internal audit review of the City of Bunbury's procurement processes found that similar weaknesses to those found in the local governments audited by the OAG existed within the organisation. Based on the findings detailed within the procurement internal audit report, management has agreed to take action in order to address the weaknesses identified.

The records management report concluded that the 137 local governments and 9 regional councils that were checked have recordkeeping plans approved by the State Records Commission, as required. However, the 4 LGs reviewed were not effectively implementing them, or managing their records to promote accountable and transparent decision making. Furthermore, recordkeeping tools that support implementation, such as policies and procedures, training, and monitoring were not adequately developed.

The recommendations proposed by the OAG in respect to records management will be considered when performing the records management internal audit review for the City of Bunbury.

### **Analysis of Financial and Budget Implications**

N/A

### **Community Consultation**

N/A

### **Councillor/Officer Consultation**

N/A

### **Applicant Consultation**

N/A

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**Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

**Outcome of Meeting 25 July 2019**

General discussion took place regarding this item. The executive recommendation as printed was moved Cr Steck and seconded MrBarratt and was carried unanimously as follows:

***The Committee note the information provided in this report.***

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## 10.9 Culture and Capability

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	Jordan Hunt, Internal Audit and Business Improvement Officer
<b>Responsible Manager:</b>	Greg Golinski, Manager Governance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input type="checkbox"/> Legislative <input checked="" type="checkbox"/> Information Purposes
<b>Attachments:</b>	Nil

### Summary

During the Audit Committee Meeting held 1 March 2019, a question was asked regarding section (p) of the Committee’s terms of reference, and in particular in relation to the “culture and capability” aspect, and how this would be reported against in future.

This report has been prepared to address those comments by detailing the way in which the City’s internal audit function will report on the culture and capability of the City of Bunbury.

### Executive Recommendation

The Committee note the information provided in this report.

*Voting Requirement: Simple Majority*

### Strategic Relevance

Theme 4	Our City
Goal	Civic leadership, partnerships and sound governance in delivering with and for the community
Objective 4.4	A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

### Regional Impact Statement

N/A

### Background

Considering the culture within an organisation is a crucial responsibility of the Audit Committee. Culture is often referred to ‘as the way we do things around here’. It is the patterns of behaving, thinking, feeling, and believing that glue an organisation together.

At the Audit Committee meeting held 30 August 2018, it was suggested that the words “*having regard to the culture and capability of the organisation*,” be included at the beginning of section (p) of the Internal Audit Committee terms of reference. Section (p) states that the duties and responsibilities of the committee will be:

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*“Having regard to the culture and capability of the organisation, consider the CEO’s reviews of the appropriateness and effectiveness of the local government’s systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews”*

At the time, it was noted that the change in wording could be easily accomplished; however the challenge for the City of Bunbury would be to effectively demonstrate how the organisation reports against its culture and capabilities.

During the Audit Committee Meeting held 1 March 2019, a comment was made regarding section (p) of the Committee’s terms of reference, and in particular in relation to the “culture and capability” aspect, and how this would be reported against in the future.

This report has been prepared to address these comments by detailing the way in which the City’s internal audit function will assess and advise on the culture and capability of the City of Bunbury.

### **Council Policy Compliance**

City of Bunbury Risk Management Framework

- Council Policy Risk Management
- City of Bunbury Risk Management Strategy
- City of Bunbury Risk Management Plan

City of Bunbury Compliance Framework

- Corporate Guideline: Legislative Compliance

City of Bunbury Internal Control Framework

- Corporate Guideline: Internal Control

### **Legislative Compliance**

Regulation 17 of the *Local Government (Audit) Regulations 1996*

#### ***r.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 **not less than once in every 3 financial years.***
- (3) *The CEO is to report to the audit committee the results of that review.*

### **Officer Comments**

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For each internal audit engagement, the City's Internal Auditor determines the risks to be included in the scope of the review. The field work is aimed at determining the presence and effectiveness of controls in place to mitigate these potential risks.

In addition to the scope and objectives set out for each review, the Internal Auditor also considers cultural and behavioural risk throughout the lifecycle of the engagement. Behavioural risk arises when employee behaviour is not aligned with the desired outcomes of the organisation. The Internal Auditor identifies and reports findings that have a cultural or behavioural root cause as part of each internal audit review. Findings driven by behavioural or cultural root causes are called out within the report for Executive, Management and Audit Committee consideration and recommended actions are determined in consultation with the appropriate department.

The procurement internal audit review (see item 10.7 of this Agenda) identified a number of findings with a cultural or behavioural root cause. One such finding being *"goods and services are procured from suppliers without a valid purchase order (i.e. the purchase order is raised subsequent to the receipt of goods and services)"*. Purchasing officers across the organisation are broadly aware of the requirements set out in the Purchasing Council Policy which states that a purchase order must be raised prior to procuring a good or service. However, audit procedures identified a significant amount of procurements where the purchase order was raised retrospectively. Given that purchasing officers are aware of the City's requirements yet fail to meet them in a deliberate manner and on a consistent basis, the root cause is behavioural or cultural rather than error brought about by process deficiencies.

A cultural considerations checklist is completed to supplement each internal audit engagement. The checklist reflects on the planning, fieldwork and reporting phases of the internal audit and focusses on the following cultural dimensions:

- Relationships – Collaboration and speaking up;
- Strategy – Strategic direction, communication and priorities;
- Leadership – Tone from the top and tone from the middle;
- Environment – Systems and processes, policies, procedures and infrastructure; and
- People – Capability and learning and development.

The completed checklist is included as an appendix within each internal audit report.

It is not intended for the internal audit process to refer to the City of Bunbury as having a 'good' or 'bad' culture. Instead, the focus of internal audit is on assessing the alignment between the organisation's cultural aspiration and strategic objectives; how the organisation has set itself up to achieve this; and how employees behave.

In summary, any cultural aspects and considerations will be included in each internal audit that is undertaken, and reported on accordingly to the Audit Committee, as exemplified in the Procurement Audit report at item 10.7 of this agenda.

#### **Analysis of Financial and Budget Implications**

N/A

#### **Community Consultation**

N/A

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**Councillor/Officer Consultation**

N/A

**Applicant Consultation**

N/A

**Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

**Outcome of Meeting 25 July 2019**

The executive recommendation as printed was moved Mr Foster and seconded Mr Barratt and was carried unanimously as follows:

***The Committee note the information provided in this report.***

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### 10.10 New Corporate Guideline: Non-Current Assets

<b>Applicant/Proponent:</b>	Internal
<b>Responsible Officer:</b>	David Ransom, Manager Finance
<b>Responsible Manager:</b>	David Ransom, Manager Finance
<b>Executive:</b>	Mal Osborne, Chief Executive Officer
<b>Authority/Discretion</b>	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input type="checkbox"/> Legislative <input checked="" type="checkbox"/> Information Purposes
<b>Attachments:</b>	Appendix 13: Corporate Guideline: Non-Current Assets Appendix 14: Corporate Guideline Non-Current Assets Appendix A – Asset Details

#### Summary

This report is provided to the Audit Committee for information.

The Executive Leadership Team (ELT) on 9 July 2019 approved the new Corporate Guideline: Non-Current Assets. This guideline is to provide guidance on the accurate recording of the City’s non-current assets in accordance with the Australian Accounting Standards, *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996*.

#### Executive Recommendation

The Audit Committee notes the Corporate Guideline: Non-Current Assets which was approved by ELT on 9 July 2019.

#### Strategic Relevance

Theme 4	Our City
Goal	Civic leadership, partnerships and sound governance in delivering with and for the community
Objective 4.4	A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service

#### Regional Impact Statement

Not applicable

#### Background

Section 17A of the *Local Government (Financial Management) Regulations* now excludes assets valued under \$5,000 from the City’s Asset Register.

Regulation 17B also requires the CEO to take steps to protect excluded portable and attractive assets from theft or loss due to their portable nature and attractiveness for personal use or resale. A property register for portable and attractive items is considered an appropriate means to properly record portable and attractive assets.

The Corporate Guideline: Non-Current Assets addresses the above requirements (refer **Appendix 13**).

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### **Council Policy Compliance**

There are no Council policies relating to this report.

### **Legislative Compliance**

- *Local Government (Financial Management) Regulations 1996*
- AASB 116 Property, Plant and Equipment

### **Officer Comments**

The Corporate Guideline and supporting Schedule will be used for financial reporting and asset management planning purposes.

The Corporate Guideline includes information on:

- Asset hierarchy
- Capitalisation of assets
- Grouped or networked assets
- Creation of a Portable and Attractive Asset Register: and
- Asset revaluations.

All asset class details have been recorded in a schedule (refer **Appendix 14**), and includes:

- Asset Class, Subcategory and component (if applicable)
- Whether the asset is considered individually or grouped/network (for capitalisation)
- Whether it is capitalised
- If depreciation is applicable
- What the capitalisation threshold is; and
- What system the main details are recorded in.

### **Analysis of Financial and Budget Implications**

The corporate guideline will not impact the budget but will have the following financial reporting implications:

- Changes to classification of expenditure between capital and operating.
- Assets currently recorded in the City's Asset Register purchased for under \$5,000 will be removed unless recorded as a 'Grouped Asset'.
- Assets under \$5,000 because of their nature and portability, and therefore carry a higher risk of being misused or stolen, will be recorded in a 'Portable and Attractive Asset Register'.

The Corporate Guideline will be used when preparing the 2018/19 Annual Financial Report to comply with the *Local Government Act 1995* and Accounting Standards.

### **Community Consultation**

Not Applicable.

### **Councillor/Officer Consultation**

The Corporate Guideline: Non-Current Assets was jointly developed by Finance and Asset Management officers.

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This report is presented for the information of the Audit Committee.

**Applicant Consultation**

N/A

**Timeline: Council Decision Implementation**

This report is presented to the Audit Committee meeting held 25 July 2019.

**Outcome of Meeting 25 July 2019**

General discussion took place regarding this item. The executive recommendation as printed was moved Mr Barratt and seconded Mr Foster and was carried unanimously as follows:

***The Audit Committee notes the Corporate Guideline: Non-Current Assets which was approved by ELT on 9 July 2019.***

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**11. Questions from Members**

**11.1 Response to Previous Questions from Members taken on Notice**

Nil

**11.2 Committee Discussion and Questions from Members**

The Committee noted the work undertaken by the Internal Auditor and Business Improvement Coordinator and the City's commitment to addressing all audit findings.

**12. Urgent Business**

Nil

**13. Date of Next Meeting**

TBA pending timing of annual audit

**14. Close of Meeting**

The Presiding Member closed the meeting at 10.55am.

These minutes were confirmed as a true and accurate record by the Audit Committee at its meeting held on XXXX

Signed: \_\_\_\_\_

Cr Jaysen Miguel - Chair

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