



Audit Committee

Minutes

8 August 2016

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;
- 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 of the audit 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 external auditor. The agreement is to include:
 - 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 and provide a report to Council on the matters discussed and outcome of those discussions;
- 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 to:
 - 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) Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO;
- l) Review the level of resources allocated to internal audit and the scope of its authority;
- m) 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;
- n) Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
- o) 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;
- p) 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;
- q) 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;
- r) 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;
- s) Review the annual Compliance Audit Return and report to the council the results of that review, and
- t) Consider the CEO's biennial 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.

Audit Committee Notice of Meeting

Minutes 8 August 2016

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.

Committee Members:

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

Support Staff:

Name	Title
Mrs Leanne French (Minute Taker)	Senior Governance & Risk Officer
Mr Andrew Brien	Chief Executive Officer

1. Declaration of Opening

The Presiding Member declared the meeting open at 10.00am.

2. Disclaimer

Not applicable to this committee.

3. Announcements from the Presiding Member

Nil

4. Attendances

Cr Michelle Steck was absent.

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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6. Public Question Time

Not applicable to this committee.

7. Confirmation of Minutes

Committee Decision: Moved Cr McCleary Seconded Mr Barratt

The minutes of the Audit Committee Meeting held 15 February 2016, are confirmed as a true and accurate record.

CARRIED

8. Presentations

8.1 Petitions

Nil

8.2 Presentations

Nil

8.3 Deputations

Nil

9. Method of Dealing with Agenda Business

Items were dealt with in the order that appeared on the Agenda.

10. Reports

10.1 Annual Leave Accruals

Applicant/Proponent:	Internal
Author:	Greg Golinski, Manager Governance
Executive:	Andrew Brien, Chief Executive Officer
Attachments:	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 on the City's leave liabilities.

Background

At the meeting of the Audit Committee held on 30 October 2014, the CEO was requested to provide the Committee with a list of accrued leave in excess of 4 weeks at each subsequent meeting. This report fulfils this requirement.

Council Policy Compliance

N/A

Legislative Compliance

The Local Government Industry Award 2010 (the award) has been through legislative change which has affected the direction in regards to excess accrued leave. Clause 25.5(b) states;

25.5 Requirement to take annual leave – excessive accrual and annual shutdown

An employer may require an employee to take annual leave by giving at least four weeks' notice in the following circumstances:

- (a) As part of a close-down of its operations; or*
- (b) Where more than eight week's leave is accrued, provided that the employee retains a balance of at least eight weeks.*

Officer Comments

Whilst the definition of excessive leave has been changed from 4 to 8 weeks, it is still considered good practice for the Audit Committee and management to monitor these liabilities. Monitoring excess leave above 4 weeks provides a lead indicator as to future performance in this area.

The tables and graphs below and overleaf detail the City's leave liabilities to 30 June 2016. Two tables are provided: the first showing liabilities in excess of annual entitlements (4 or 5 weeks as may be the case); and the second liabilities in excess of 8 weeks.

Processes have since been put into place for affected staff to either utilise leave, or submit leave plans detailing how they intend on clearing leave balances in excess of 8 weeks.

The data illustrates a downward trend in terms of leave liability since June 2014, and a reduction in excess leave of \$37,664 since 30 June 2015, coupled with a reduction in total leave liability of \$46,798 between the same period.

Analysis of Financial and Budget Implications

Financial details relating to outstanding leave accruals are outlined within the body of this report.

Community Consultation

N/A

Councillor/Officer Consultation

The Manager Finance and Manager Organisational Development and HR have been consulted in relation to the development of this report.

Outcome of Audit Committee Meeting – 8 August 2016

General discussion occurred regarding this item. Cr McCleary queried why the Planning, Development and Regulatory Services liabilities were higher versus the number of employees. The CEO advised the historical context of the leave accrued and how leave is currently managed.

The Committee discussed the pleasing downward trend of annual leave liabilities, the notable work of the CEO and staff in managing the ongoing process and whether there remained a need for annual leave accruals to be a standing agenda item.

Cr McCleary moved and Mr Foster seconded the following alternate motion which was carried unanimously:

That the Audit Committee:

- 1. Receive the update on the City's leave liabilities; and**
- 2. Note the pleasing downward trend of annual leave liabilities, the work of the CEO and staff in managing the process, and remove annual leave accruals as a standing agenda item.**

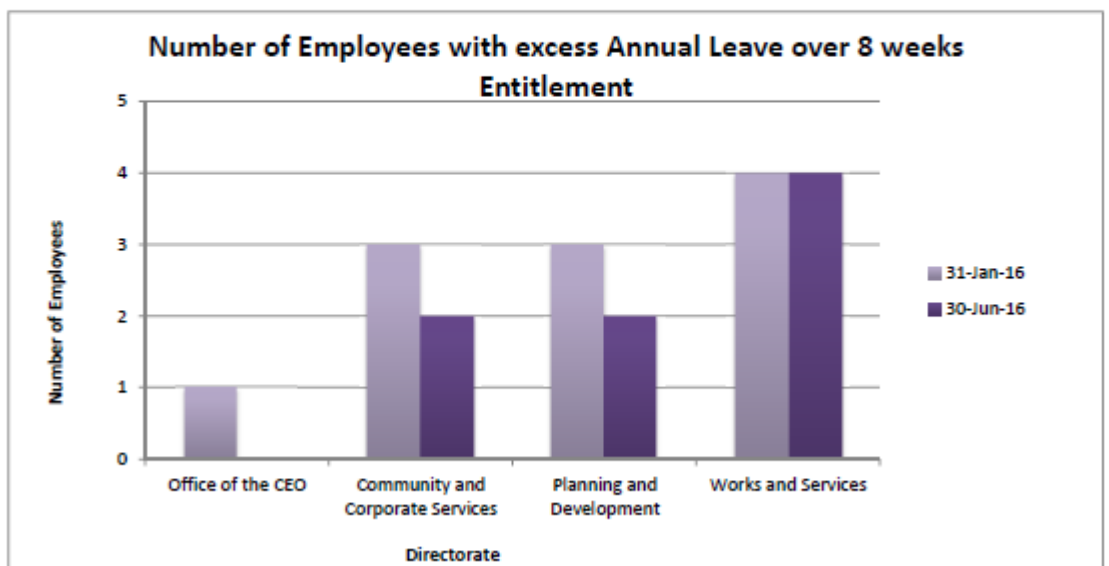
Annual Leave Liability in excess of Annual Entitlements

Directorate	Number of Employees		Liability		Number of Employees		Liability	
	30-Jun-16	30-Jun-16	30-Jun-15	30-Jun-15	30-Jun-14	30-Jun-14	30-Jun-13	30-Jun-13
Office of the CEO	8	27,733	10	22,065	10	27,457	8	18,438
Community and Corporate Services	16	30,320	20	28,194	15	57,409	14	53,447
Planning and Development	10	70,059	10	84,781	11	120,985	10	103,017
Works and Services	16	57,650	18	88,386	26	146,665	21	106,477
	50	185,761	58	223,425	62	352,516	53	281,379
Total Annual Leave Liability		1,690,125		1,736,923		1,844,667		1,714,066
% of Annual Leave excess of Annual Leave entitlements		11%		13%		19%		16%



Annual Leave Liability in excess of 8 weeks

Directorate	Number of Employees		Liability	
	30-Jun-16	30-Jun-16	31-Jan-16	31-Jan-16
Office of the CEO	0	-	1	1,403
Community and Corporate Services	2	4,000.42	3	6,665
Planning and Development	2	20,307.22	3	38,998
Works and Services	4	7,291.44	4	9,987
	8	31,599.08	11	57,053
Total Annual Leave Liability		1,690,125		1,586,988



10.2 Audit Regulation 17 – Progress Update

Applicant/Proponent:	Internal
Author:	Leanne French, Senior Governance and Risk Officer
Executive:	Andrew, Brien Chief Executive Officer
Attachments:	Appendix 1: Audit Regulation 17 Summary Appendix 2: Corporate Guideline Internal Control Appendix 3: Corporate Guideline Legislative Compliance

Summary

The purpose of this report is to provide the Audit Committee with a progress update regarding the appropriateness and effectiveness of the City's systems and procedures in relation to risk management, internal controls and legislative compliance (Regulation 17).

Executive Recommendation

That the Audit Committee receive the information as presented.

Background

On 8 February 2013, amendments to the *Local Government (Audit) Regulations 1996* extended the functions of local government Audit Committees. These functions (Regulation 17) require the CEO to review the appropriateness and effectiveness of the City's systems and procedures in relation to risk management, internal control and legislative compliance every two calendar years, and report the results to the Audit Committee.

The initial report was required to be presented to the Audit Committee by 31 December 2014. The City's compliance with Regulation 17 was achieved via a report presented to the Audit Committee on 30 October 2014.

The Local Government Operational Guidelines provide a comprehensive list of issues to be included in any review of risk management, internal control and legislative compliance, and these were used as a guide to systematically conduct the initial internal review.

The information provided in the initial review delivered an assessment of the City's current practices, outlining the appropriateness and effectiveness of those practices, and presented recommendations for improvement.

Council Policy Compliance

The City's Risk Management process is guided by Council Risk Management Policy. The Executive Management Team recently endorsed two corporate guidelines in relation to internal control and legislative compliance. The Audit Regulation 17 review reinforces the processes outlined in the three documents, and details ongoing development and improvement in the areas of risk management, internal control and legislative compliance.

Legislative Compliance

This report relates to Regulation 17 of the *Local Government (Audit) Regulations 1996*, which reads as follows:

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 subregulation (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.*

Officer Comments

Although Regulation 17 only requires biennial reporting, Officers will provide the Audit Committee with regular updates relating to progress achieved against any issues identified. The initial report presented to the Audit Committee on 30 October 2014 identified a number of areas of weakness, against each of risk management, internal control, and legislative compliance. As well as implement remedies for any issues previously identified, the intent is to also build on the work undertaken to date, through a regular process of internal assessment.

Officers recently re-assessed the initial data collated and have provided a refreshed collation of data incorporating any new issues and recommendations identified, as well as updated progress on pre-existing recommendations. New updates are in red. **Appendix 1** provides an updated version of the Audit Regulation 17 Findings.

In summary, 28 areas have been assessed to date, with 67 identified existing controls. The majority of areas audited have effective systems and procedures in place. More specifically, 48 controls have been assessed as being substantially effective, with 16 controls identified as being partially effective and 3 controls largely ineffective. **Appendix 1** outlines recommendations for improvements to increase all identified partially effective and largely ineffective controls to the level of substantially effective.

Since the last update on 15 February 2016, significant progress has been made in regard to the Risk Management Framework and Corporate Guideline. Development was recently paused until the revised Risk Management Policy and matrix was endorsed by Council, which occurred on 12 July 2016. Templates are the final step in this document process and are currently being developed. It is anticipated the Framework and Guidelines will be presented to Managers and ELT in August 2016.

As part of the complete control program, on 27 July 2016 ELT were presented with corporate guidelines for internal control and legislative compliance. These guidelines provide a framework for the development of procedures to ensure that financial and non-financial activities of Council are conducted in a proper manner, and that we comply with relevant

laws and regulations. These guidelines are attached at **Appendices 2 and 3** for the Committees perusal.

The Audit Committee has previously requested that Officers highlight to Council those issues identified as being “largely ineffective”. These 3 areas (and 6 recommendations) are summarised in the table below, and will be included in a recurring progress report to the Committee. A full overview of all issues is contained within **Appendix 1**.

#	##	Existing Controls	Control Effectiveness	Officer	Improvements	Timeframes for implementation/Review	Comments
1.0 The City's risk management systems are effective, and consider material operating risks appropriately							
	1.1	Risk Management Policy adopted 24 June 2014.	Largely ineffective	Senior Governance & Risk Officer	Complete risk management framework Implement risk management framework and risk assessment within business units	30/03/2016 -December 2016 December 2016	<p>12/07/16 - Amended Risk Management Policy with new matrix approved and adopted by Council Res 232/16.</p> <p>20/06/16 - draft Framework and Corporate Guidelines completed. Finalisation of templates in process.</p> <p>27/04/16 - Draft Framework presented to ELT. Following the finalisation of draft templates - send all document to Managers for feedback and proceed with pilot program.</p> <p>14/04/16 - Draft framework presented to Managers. Request for feedback prior to presentation to ELT on 27 April 2016.</p> <p>30/09/15 – A briefing paper was endorsed by ELT. 23/10/15 – A working group for Risk Management was formed 11/11/15 - The Working group met and discussed overview and draft implantation plan. Risk tools are currently being developed.</p>
4.0 Regular risk reports are provided to outline:							
<ul style="list-style-type: none"> * Key risks; * Status and effectiveness of the risk management systems; 							

*Identified risks are monitored; * New risks are identified, mitigated and reported							
	4.1	Currently no regular risk reports are provided.	Largely ineffective	Manager Governance/Senior Governance & Risk Officer	Risk Management Framework action plan will recommend: A Risk Committee established to oversee risk management process; monitor risk register; provide mechanism for new risks to be reported. Regular risk reports from Risk committee provided to the Audit Committee	30/12/2016	20/07/16 - draft Framework and Corporate Guidelines completed. Finalisation of templates in process. 50% complete 23/10/15 – Working group formed We anticipate the implementation process will be a minimum of 12 months. An outcome of the plan is to present risk reports to the Audit Committee on a regular basis.
10.0 The management of fraud and misconduct is effective, with risks identified, analysed, evaluated, treated and reported							
	10.4	City Fraud Control Plan	Largely ineffective	Manager Finance and Senior Governance and Risk Officer	Develop a City Fraud Control Plan in accordance with the Risk Management Framework	30/06/2016	20/07/16 Waiting on the Framework, guidelines and templates to be endorsed. Revised timeframe in line with the proposed implementation plan for risk management programme.

Analysis of Financial and Budget Implications

There are no financial implications arising from the recommendations contained within this report.

Community Consultation

N/A

Councillor/Officer Consultation

Various officers within the City's directorates have contributed and been consulted with in relation to this review.

Outcome of Audit Committee Meeting – 8 August 2016

Mr Foster highlighted points s) and t) of the Audit Committee Terms of Reference and queried why the Audit Committee had not reviewed the Risk Management Policy prior to adoption by Council.

The CEO advised that the Audit Committee endorsed and recommended the Risk Management Policy to Council when it was initially created in 2014. Council's Policy Review and Development Committee manage the ongoing review of policies and reviewed the Risk Management Policy as part of its ongoing review schedule, prior to presentation to Council on 12 July 2016.

Committee Members requested the scheduling of an informal meeting to assess the Risk Management Policy and Framework, including the Internal Control and Legislative Compliance Corporate Guidelines.

It was also requested that an agenda item be developed to enable the Committee to formally review the Risk Management Policy and Framework at its next meeting.

An alternate recommendation was moved by Mr Foster and was seconded by Mr Barratt and was carried unanimously as follows:

That the Audit Committee:

- 1. Receive the Audit Reg. 17 progress report as presented; and**
- 2. Request the Chief Executive Officer provide a report to the next Audit Committee meeting to facilitate a review of the Risk Management Policy and Framework.**

10.3 Appointment of Auditor

Applicant/Proponent:	Internal
Author:	Greg Golinski, Manager Governance David Ransom, Manager Finance
Executive:	Andrew Brien, Chief Executive Officer
Attachments:	Appendix 4: Ministerial Circular Appendix 5: Confidential Quote

Summary

The purpose of this report is to provide the Audit Committee with information regarding the appointment of auditors for the City.

Executive Recommendation

That the Audit Committee recommend that Council appoint Mr Michael Hillgrove from Grant Thornton Audit Pty Ltd as Auditor of the City of Bunbury for the 2016/17 financial year.

** Absolute Majority Required*

Background

The *Local Government Act 1995* (the Act) requires the accounts and annual financial report of a local government for each financial year be audited by an auditor appointed by the local government.

The City's current auditor (Grant Thornton) has a 5-year contract which expires following the audit of the 2015/16 financial statements.

Council Policy Compliance

Council's current Purchasing Policy applies, which authorises the Chief Executive Officer to approve "purchases" up to \$150,000 without seeking more than the specified number of quotations in circumstances that are deemed appropriate.

Legislative Compliance

The *Local Government Act 1995*, *Local Government (Audit) Regulations 1996*, and *Local Government (Financial Management) Regulations 1996* apply.

Officer Comments

Ordinarily, the City would appoint an auditor for a term of between 3 and 5 years to ensure some continuity of service. On this occasion however, the Department of Local Government has advised of its intention to amend the *Local Government Act 1995* to allow for the Auditor General and the Office of the Auditor General (OAG) to take responsibility for local government financial audits from 1 July 2017 (Appendix 4 refers).

As part of the same correspondence, the Minister for Local Government has “strongly encouraged” local governments whose audit contracts end following the 2015/16 financial audit to not renew their audit contracts beyond the 2016/17 financial year.

In summary, the City currently has no auditor appointed for the 2016/17 financial year, and given the sentiments expressed by the Minister for Local Government, should only appoint an auditor for a 1 year term, being for the 2016/17 financial year.

The Manager Governance, Manager Finance, and Chief Executive Officer have held discussions in regard to what is the most appropriate course of action for the City to take given the information above, and have concluded that extending the tenure of Grant Thornton for an additional year would be the most advantageous.

To go to the market for a 1 year contract was discussed as an option, however it is considered that appointing a “new” auditor for 1 year only would almost certainly come at an increased financial cost, due to the additional work that would be required by the auditor to familiarise themselves with the City’s financial management procedures. This would also result in an increased workload for staff within the Finance Department.

Accordingly, Grant Thornton was requested to provide a quote for a 1 year extension to their current contract. The quote provided is as per confidential Appendix 5. Note that this also includes the annual Financial Management Systems Review as well as the financial audit.

Notwithstanding the Ministerial advice received (Appendix 4), the option of going to tender for an extended period (5 years) was also discussed. This was on the basis that Officers consider having OAG take responsibility for local government financial audits will increase the cost of this service being undertaken. By the Department’s own admission, OAG may still contract out some of the financial audits, which in essence merely adds a “middle man” into the process; the likely result of which will be an increase in cost to local government. Although the Minister “strongly encourages” local governments to not appoint an auditor beyond 20 June 2017, any contract entered into in this regard would need to be honoured.

Analysis of Financial and Budget Implications

Audit fees form part of Council’s Annual Budget.

Community Consultation

N/A

Councillor/Officer Consultation

This report is presented to the Audit Committee for consideration.

Outcome of Audit Committee Meeting – 8 August 2016

General discussion took place regarding this item.

Furthermore, the CEO advised that the Bunbury Regional Entertainment Centre (BREC) constitution required them to use the appointed Council auditor to conduct their annual financial audit. The CEO confirmed he would be writing to the BREC Board to advise them of the outcome of Council's decision.

The Committee also supported the CEO writing to the OAG to enquire as to how the annual financial audits of independent operating bodies of Local Governments, such as the BREC, will be undertaken and managed from 1 July 2017.

The Executive Recommendation was moved by Cr McCleary and seconded by Mr Barratt and was carried unanimously as follows:

That the Audit Committee recommended that Council appoint Mr Michael Hillgrove from Grant Thornton Audit Pty Ltd as Auditor of the City of Bunbury for the 2016/17 financial year.

11. Motions of Which Previous Notice has been given

Nil

12. Questions from Members

12.1 Response to Previous Questions from Members taken on Notice

Nil

12.2 Questions from Members

Nil

13. Urgent Business

Nil

14. Date of Next Meeting

TBC depending on the timing of the City's annual audit.

15. Close of Meeting

The Presiding Member closed the meeting at 10.45am.