

Audit Committee

Minutes

1 March 2018

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.
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Audit Committee

Minutes 1 March 2018

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 10.30am.

2. Disclaimer

Not applicable to this committee.

3. Announcements from the Presiding Member

The Presiding Member made a comment that the committee had met informally a month ago to discuss a mechanism whereby the committee could have an informal discussion with the CEO to discuss any matters of interest. He advised that this has been accommodated through item 12.2 of the agenda.

4. Attendances

Committee Members:

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

Support Staff/Visitors:

Name	Title
Mr Greg Golinski (until 10.55am)	Manager Governance
Mr Mal Osborne	Chief Executive Officer
Mrs Vicky Gregg (until 10.55am)	Team Leader Financial Accounting
Mrs Leanne French (until 10.55am)	Senior Governance and Risk Officer

4.1 Apologies

Mr David Ransom, Manager Finance

Cr Michelle Steck was absent.

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: Mr Foster Seconded: Mr Barratt

The minutes of the Audit Committee Meeting held on 3 November 2017 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 on the agenda.

10. Reports

10.1 Amendment to Terms of Reference

Applicant/Proponent:	Internal
Responsible Officer:	Greg Golinski, Manager Governance
Responsible Manager:	Greg Golinski, Manager Governance
Executive:	Mal Osborne, Chief Executive Officer
Authority/Discretion	<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
Attachments:	Nil

Summary

The purpose of this report is for the Committee to consider making some amendments to its terms of reference (ToR), particularly in light of recent legislative change that now removes power from local governments to appoint their auditors.

Executive Recommendation

That the Audit Committee recommends that Council:

1. Adopts the revised terms of reference for the Audit Committee as presented; and
2. Notes that these changes reflect the recent amendment to the Audit provisions within the Local Government Act 1995.

Strategic Relevance

Key Priority Area 5 Corporate
Objective 5.3 Ensure financial sustainability

Background

Recent changes to the Local Government Act 1995 (the Act) have removed power from local governments to appoint their own auditors, and instead the Office of the Auditor General (OAG) will now be responsible for all such audits. The Local Government (Audit) and (Financial Management) Regulations are also currently being amended to reflect the changes in the Act.

Council Policy Compliance

N/A

Legislative Compliance

The proposed changes to the ToR for the committee would ensure that they stay within the parameters of the amended legislation.

Officer Comments

The current ToR for the committee includes provision for recommending an auditor to Council, and are based on a previous model ToR produced by the Department of Local Government (DLG).

DLG are yet to produce a revised model ToR following the changes to the audit legislation, however the changes have only impacted the auditor appointment provisions, with no effect on the balance of the previous model ToR. It is unclear as to when a revised model ToR may be developed by DLG, however it is likely that this will not be until after any amendments to the regulations have been finalised. A subsequent report will be provided to the committee once any revisions to the regulations are enacted, with the possibility of further amendments to the ToR at that time.

Accordingly, the following changes to the ToR are suggested:

- 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;*
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- 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.*

Analysis of Financial and Budget Implications

There are no financial or budget implications relating to the recommendations in this report.

Community Consultation

Nil

Outcome of Meeting

The Manager Governance explained that the proposed changes to the ToR simply reflect the recent changes to the Act removing the power of local governments to appoint their own financial auditors. The Regulations are in the process of also being amended to ensure consistency with these changes, and once finalised any major changes will be presented to the Committee for information.

It was also foreshadowed that the Department of Local Government may produce a revised model ToR once the changes to the Regulations are finalised, at which point they will also be presented to the Committee for consideration.

The Executive Recommendation as printed was moved by Mr Barratt and seconded by Mr Foster and was carried unanimously as follows:

That the Audit Committee recommends that Council:

- 1. Adopts the revised terms of reference for the Audit Committee as presented; and**
 - 2. Notes that these changes reflect the recent amendment to the Audit provisions within the Local Government Act 1995.**
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10.2 2017 Compliance Audit Return

Applicant/Proponent:	Internal
Responsible Officer:	Leanne French, Senior Governance and Risk Officer
Responsible Manager:	Greg Golinski, Manager Governance
Executive:	Mal Osborne, Chief Executive Officer
Authority/Discretion	<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
Attachments:	Appendix 1: Draft 2017 Compliance Audit Return

Summary

The purpose of this report is for Council to consider the Statutory Compliance Audit Return (the Return) for the calendar year 1 January to 31 December 2017.

Executive Recommendation

That the Audit Committee recommend that Council adopt the Statutory Compliance Audit Return for the City of Bunbury for the period 1 January to 31 December 2017.

Strategic Relevance

Key Priority Area 5 Corporate
Objective 5.2 Maintain a high standard of corporate governance and improve access to information.

Background

Each year the Department of Local Government, Sport and Cultural Industries requires local governments to conduct an annual assessment of their compliance with key components of the *Local Government Act 1995* (the Act) and associated Regulations. The 2017 Return is to be provided to the Department by 31 March 2018.

Council Policy Compliance

There is no current Council Policy relevant to this item.

Legislative Compliance

Completion of the statutory Compliance Audit Return is a requirement under the provisions of section 7.13(1)(i) of the *Local Government Act 1995* and regulations 13 and 14 of the *Local Government (Audit) Regulations 1996*.

Officer Comments

The Chief Executive Officer, Directors and relevant Managers are provided with copies of the relevant sections of the Return for assessment and completion. The final Return is then compiled on-line at the

end of the review period using information provided. Any comments, where appropriate, are included in the return to assist in either validating compliance, or explaining non-compliance.

Completion of the relevant sections of the Return effectively requires a number of ad-hoc internal audits, which assist the City to ensure that operations meet the statutory requirements of the Act and associated Regulations.

This year the Department included an additional optional 7 questions to answer about Integrated Planning and Reporting.

These audits have revealed the City to be compliant on all aspects of the Return.

Analysis of Financial and Budget Implications

Nil

Community Consultation

Community Consultation has not been sought on this matter.

Councillor/Officer Consultation

Relevant Officers and the Executive Leadership Team have been consulted in relation to the completion of the 2017 Return, which is now presented to the Audit Committee for consideration.

Applicant Consultation

Not applicable

Outcome of Meeting

The Executive Recommendation as printed was moved by Mr Barratt and seconded by Mr Foster and was carried unanimously as follows:

That the Audit Committee recommend that Council adopt the Statutory Compliance Audit Return for the City of Bunbury for the period 1 January to 31 December 2017.

10.3 Audit Regulation 17 Update

Applicant/Proponent:	Internal
Responsible Officer:	Leanne French, Senior Governance and Risk Officer
Responsible Manager:	Greg Golinski, Manager Governance
Executive:	Mal Osborne, Chief Executive Officer
Authority/Discretion	<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
Attachments:	Appendix 2A: Strategic Risk Report Appendix 2B: Operational Risk Report Appendix 2C: Strategic and Operational Risk Registers

Summary

The purpose of this report is to provide the Audit Committee with an update regarding the appropriateness and effectiveness of the City's systems and procedures in relation to risk management, internal control and legislative compliance

Executive Recommendation

That the Audit Committee receive the:

1. Current Risk Management Operational Report as presented; and
2. Current Risk Management Strategic Report as presented.

Strategic Relevance

Key Priority Area 5: Corporate
Objective 5.2: Maintain a high standard of corporate governance and improve access to information

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 review and subsequent biennial reviews.

At the Audit Committee Meeting held on 31 August 2017, the committee adopted a revised Risk Management Policy, and endorsed the Risk Management Framework, which comprises the Policy, Strategy and Plan.

Council Policy Compliance

The City's Risk Management process is guided by the Risk Management Framework and supported by two corporate guidelines in relation to 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

Appendix 2A identifies the City’s strategic risks considered by the Executive Management Team and considered response/action.

Appendix 2B identifies the City’s operational risks, current identified controls and effectiveness assessment.

Appendix 2C is a copy of the City’s Strategic and Operational risk registers. Please note these three attachments are issued confidentially and are not for public consumption.

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.

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

As previously stated, due to the risk assessment being undertaken as a desktop analysis only, the effectiveness of the majority of identified controls is unable to be determined at the current time. The City is continuing to develop its internal audit program, which will provide method and capability in determining control criticality and effectiveness.

Officers will be in attendance at the meeting to answer any queries in this regard.

Analysis of Financial and Budget Implications

The Executive Leadership Team is currently reviewing the resources allocated to the coordination of risk management and internal audit for the city.

Community Consultation

Not applicable.

Councillor/Officer Consultation

Comprehensive consultation has been undertaken with the Risk Management Working Group and Executive Leadership Team.

Applicant Consultation

Not applicable.

Outcome of Meeting

General discussion took place in regard to this item and particularly around how the City is currently assessing its controls against its identified risks, and how the risk rating is identified.

The Executive Recommendation with the addition of a point 3 was moved by Mayor Brennan and seconded by Mr Barratt and was carried unanimously as follows:

That the Audit Committee:

- 1. Receive the current Risk Management Operational Report as presented;**
 - 2. Receive the current Risk Management Strategic Report as presented; and**
 - 3. Request the CEO provide a copy of the City's full (and updated) strategic and operational risk registers to the Committee annually.**
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10.4 Staff Leave Balances

Applicant/Proponent:	Internal
Responsible Officer:	Odetta Robertson, Manager OD and HR
Responsible Manager:	Odetta Robertson, Manager OD and HR
Executive:	Mal Osborne, Chief Executive Officer
Authority/Discretion	<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
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.

Strategic Relevance

Key Priority Area 5 Corporate
Objective 5.3 Ensure financial sustainability

Background

At the last meeting of the Audit Committee in November 2017, the CEO was requested to provide the Committee with 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.

Council Policy Compliance

N/A

Legislative Compliance

N/A

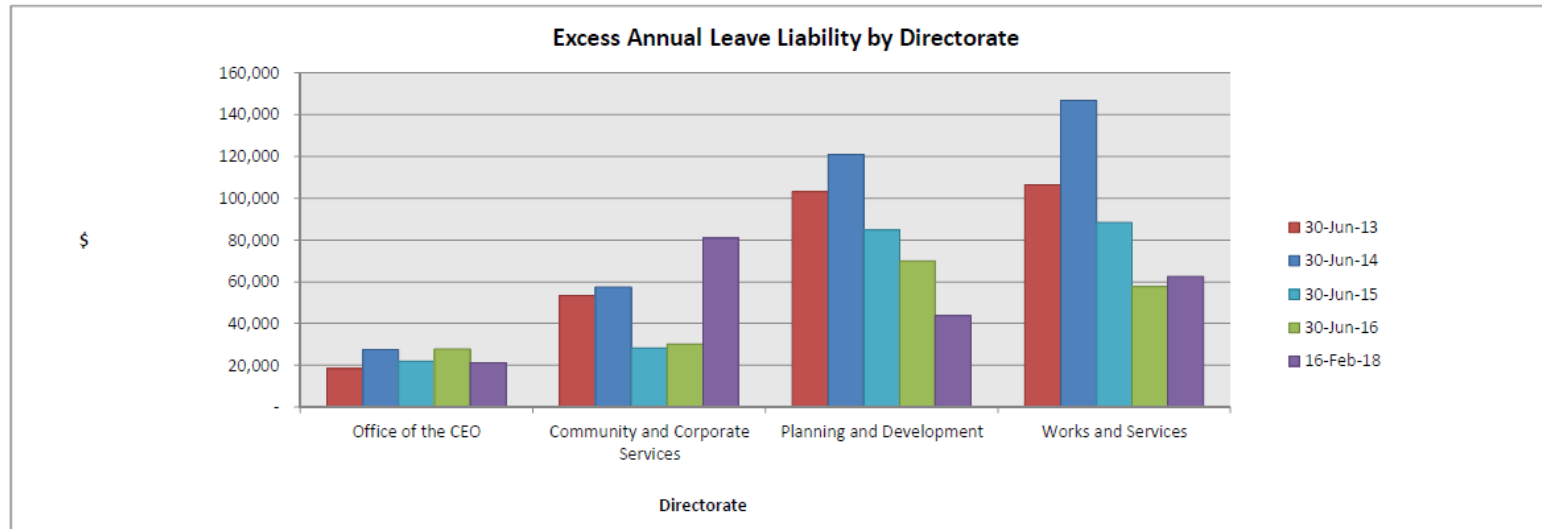
Officer Comments

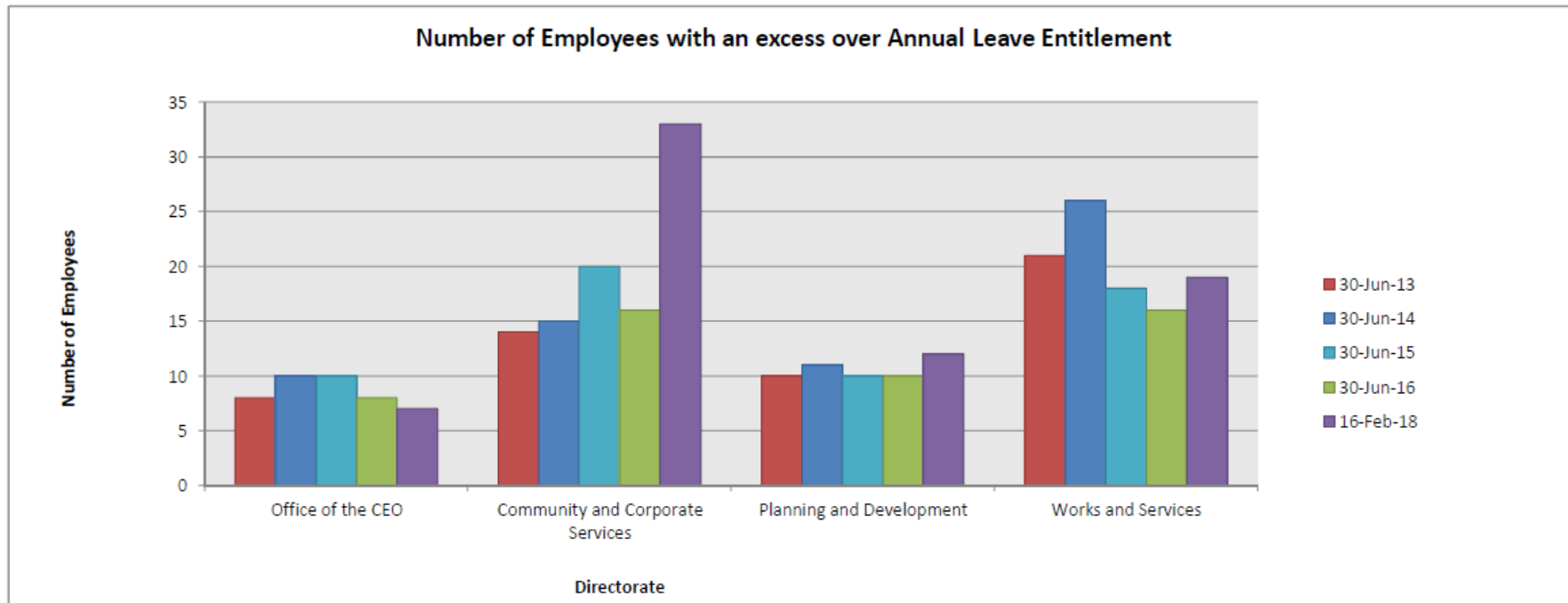
The tables and graphs overleaf detail the City's leave liabilities since 30 June 2013. Note that the figures represent liabilities in excess of annual entitlements (4 or 5 weeks depending on the Officer) and also liabilities in excess of 8 weeks, which is defined by Fair Work Australia as being "excessive".

Liabilities in excess of Annual Entitlements

Annual Leave Liability in excess of Annual Entitlements Available

Directorate	Number of Employees		Liability		Number of Employees		Liability		Number of Employees		Liability	
	16-Feb-18	16-Feb-18	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	7	21,233	8	27,733	10	22,065	10	27,457	8	18,438		
Community and Corporate Services	33	80,758	16	30,320	20	28,194	15	57,409	14	53,447		
Planning and Development	12	43,706	10	70,059	10	84,781	11	120,985	10	103,017		
Works and Services	19	62,653	16	57,650	18	88,386	26	146,665	21	106,477		
	71	208,350	50	185,761	58	223,425	62	352,516	53	281,379		
Total Annual Leave Liability		1,818,471		1,690,125		1,736,923		1,844,667		1,714,066		
% of Annual Leave excess of Annual Leave entitlements		11%		11%		13%		19%		16%		



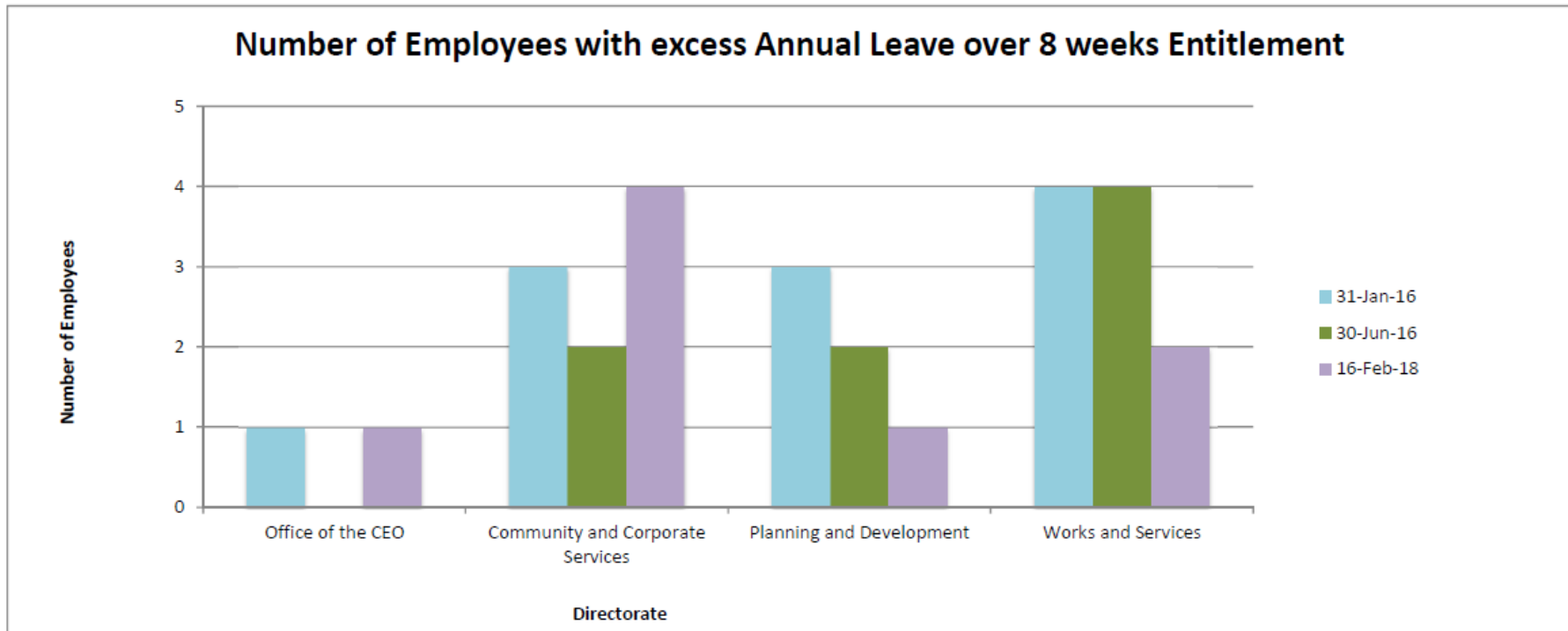


Liabilities in excess of 8 weeks

Annual Leave Liability in excess of 8 weeks

Directorate	Number of Employees		Liability		Number of Employees	Liability	
	16-Feb-18	16-Feb-18	30-Jun-16	30-Jun-16		31-Jan-16	31-Jan-16
Office of the CEO	1	275.81	0	-	1	1,403	
Community and Corporate Services	4	8,773.39	2	4,000.42	3	6,665	
Planning and Development	1	528.07	2	20,307.22	3	38,998	
Works and Services	2	5,696.60	4	7,291.44	4	9,987	
	8	15,273.87	8	31,599.08	11	57,053	
Total Annual Leave Liability		1,818,471		1,690,125		1,586,988	





Analysis of Financial and Budget Implications

There are no financial or budget implications arising from the recommendations contained within this report other than those relating to the leave liabilities mentioned.

Community Consultation

N/A

Outcome of Meeting

The Executive Recommendation as printed was moved by Mayor Brennan and seconded by Mr Foster and was carried unanimously as follows:

That the Audit Committee receive the update.

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 Committee Discussion and Questions from Members

All Officers with the exception of the CEO left the meeting at 10.55am.

The Committee then held general discussion with the CEO. The following action point was noted:

The Audit Committee requested that the CEO provide an annual update to the Committee regarding the City's systems and processes; capability; and culture in the context of the City's internal controls.

13. Urgent Business

Nil

14. Date of Next Meeting

TBA

15. Close of Meeting

The Presiding Member closed the meeting at 11.30am.
