

Audit Committee

Minutes

30 August 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) *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*
 - *ensure that appropriate action is taken 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 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 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, and*
 - p) *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
Minutes
30 August 2018

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

Cr Miguel welcomed and thanked Cr Hayward for attending the meeting as a proxy member.

4. Attendances

Committee Members:

Member Name	Representing
Cr Jaysen Miguel (Presiding Member)	City of Bunbury
Mr Stephen Foster	Community Member
Cr James Hayward (Deputy Member)	City of Bunbury

Support Staff/Visitors:

Name	Title
Mr Greg Golinski	Manager Governance
Mr Mal Osborne	Chief Executive Officer
Mr David Ransom	Manager Finance
Mrs Leanne French	Senior Governance and Risk Officer

4.1 Apologies

Cr Michelle Steck and Mr John Barratt were apologies.

4.2 Approved Leave of Absence

Mayor Brennan is on approved leave of absence from 10 August to 9 September inclusive.

5. Declaration of Interest

Nil

6. Public Question Time

Not applicable to this committee.

7. Confirmation of Minutes

Committee Decision:

Moved: Mr Foster

Seconded: Cr Miguel

The minutes of the Audit Committee Meeting held on 1 March 2018 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.

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 Audit Committee (the Committee) to consider making some amendments to its terms of reference (ToR) in light of recent amendments to the local government Financial Management and Audit regulations.

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 and associated Regulations.

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

Background

At its last meeting the Committee recommended some changes to its terms of reference to reflect amendments to the *Local Government Act 1995* (the Act) which removed power from local governments to appoint their own auditors. These changes were subsequently supported by Council.

The Local Government Audit and Financial Management Regulations have since also been amended to reflect the changes in the Act, and some further refinement to the Committee's terms of reference is suggested consistent with the changes to the regulations.

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 following amendments to the *Local Government (Financial Management) Regulations 1996* have been made:

Timeframe for review of financial management systems

Regulation 5 regarding the CEO's duties as to financial management has been amended to require the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures from no less than once in every four financial years to no less than three financial years.

Assets valued under \$5,000

Amendments to Regulation 17A will exclude assets in a local government annual financial report valued under \$5,000. In order to ensure effective asset management of low value assets that are susceptible to theft or loss, local governments will be required to maintain a property register of portable and attractive items. This change brings local governments in line with State Government agencies as specified in Treasurer's Instruction 410 Record of Assets.

Timeframe for local governments to revalue assets

Regulation 17A(4)(b) has been amended to set the timeframe for local governments to revalue their assets to between three and five years, which is consistent with Australian Accounting Standards Board standard 116: Property, Plant and Equipment.

The following amendments to the *Local Government (Audit) Regulations 1996* have been made:

Role of the Audit Committee

The role of the Audit Committee will be amended so that the Audit Committee will have greater involvement in assisting the CEO to carry out the review under Regulation 17 of the Audit Regulations of systems and procedures concerning risk management, internal control, and legislative compliance.

This will include helping the CEO to formulate recommendations to council to address issues identified in the reviews. The Audit Committee will also support the auditor as required and have functions to oversee:

- the implementation of audit recommendations made by the auditor, which have been accepted by council; and
- accepted recommendations arising from reviews of local government systems and procedures.

Role of the council assisting the auditor

Local governments will be required to provide the auditor with a copy of their adopted Long Term Financial Plan, Asset Management Plan, Corporate Business Plan and Strategic Community Plan.

Timeframe for reviewing audit systems and procedures

An amendment to Regulation 17(2) will require the CEO to undertake a review of audit systems and procedures no less than once in every three financial years (currently 2 years).

Accordingly, the following changes to the ToR are suggested (additions in red), deletions in strikethrough:

- 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*
 - ***ensure oversee the implementation of any action so determined** ~~that appropriate action is taken~~ 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 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, and*
 - p) *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.

- 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.*

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

General discussion took place in relation to this item, with Mr Foster suggesting an additional amendment to those proposed by Officers , by the addition of the words "*Having regard to the culture and capability of the organisation,*" at the beginning of point (p) of the terms of reference.

The CEO indicated that while changing the "words" within the terms of reference is straight forward, the challenge moving forward will be how the organisation reports in future to the committee against its "culture" and "capability".

It was agreed that Mr Foster's suggestion would be incorporated into the amendments, and as such the executive recommendation (with amendment) was moved by Mr Foster and seconded by Cr Hayward 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 amended; and***
 - 2. Notes that these changes reflect the recent amendment to the Audit provisions within the Local Government Act 1995 and associated Regulations.***
-

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 Compliance Plan (draft)

City of Bunbury Internal Control Framework

- Corporate Guideline: Internal Control

Legislative Compliance

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.*
-

[Please note regulations 16 and 17 were amended in Gazette 26 June 2018 p. 2386-7]

Officer Comments

The recent 2018 Interim Audit Review identified that the Action/Improvement Plan that was initially presented to the Committee in August 2017 hadn't been re-presented at the following meetings. The Interim Audit Review provided this may lead to a lack of effective monitoring and an increased risk that recommendations are not implemented.

Accordingly, attached is an updated Action/Improvement Plan (Appendix 3) regarding the ongoing work undertaken by officers in meeting the City's goals in relation to risk management, internal control and legislative compliance.

In addition, below is a recent summary of work undertaken:

Risk Management

The Senior Governance and Risk Officer continues to meeting quarterly with the Executive Leadership Team to consider and respond to identified strategic risks. Appendix 1 is the most up to date Strategic Risk Report.

Appendix 2 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.

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.

The Senior Governance and Risk Officer has met with officers and assisted with three significant risk assessments being:

- Hay Park File Mile Brook – Project
- Big Swamp Playground Operational Risk Assessment
- Setagaya Trip 2018

The Senior Governance and Risk Officer and Team Leader - Community Safety and Emergency Management have also met and are working towards presenting ELT a revised Business Continuity Coordination Plan for the City. The Team Leader - Community Safety and Emergency Management also

met with managers to begin the process of identifying the critical business functions required during an emergency/incident. This process will take time over the next 6-12 months culminating in a core framework ensuring the City is prepared operationally for any possible event or incident that could impact on its critical operational requirements.

The development of a Contract/Procurement Framework has begun, with the Senior Governance and Risk Coordinator meeting with the Contract/Procurement Team last week to further progress the Framework for the City.

Internal Control

The City recently advised for the position of Internal Audit and Business Improvement Coordinator. The City is currently shortlisting applicants with interviews expected to take place in the near future.

The Coordinator will be responsible for developing and championing an internal audit and assurance program that will contribute to the risk management and compliance frameworks already operating within the city.

Legislative Compliance

The Senior Governance and Risk Officer recently developed a Compliance Framework for the City. The Framework is expected to be presented to ELT late August/early September and to the Audit Committee by their next meeting.

The Framework includes a comprehensive Compliance Register which is intrinsically linked to the City's operational risk register. The Register will take time to complete, as the legislative requirements of a local government are numerous and complex. However, slow and steady commitment will ensure a comprehensive register is compiled by the 12 month review date.

The Register is an effective internal control ensuring the City understands and makes risk informed decisions in meeting its legislative compliance obligations.

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

Outcome of Meeting

General discussion took place in relation to this item and the Manager Governance and CEO provided a brief overview of the current recruitment of a new position within the City that will be responsible for internal audit and business improvement.

Mr Foster requested that his comments around the reporting lineage of the new position be noted, specifically that it is important for the successful applicant to have direct access to both the CEO and Audit Committee as part of their role.

The executive recommendation was moved by Cr Hayward and seconded by Mr Foster and was carried unanimously as follows:

That the Audit Committee receives, as presented the:

- 1. Current Risk Management Operational Report as presented;***
- 2. Current Risk Management Strategic Report as presented; and***
- 3. Current Audit Regulation 17 Action/Improvement Plan.***

10.3 Financial Management Systems Review and Interim Audit

Applicant/Proponent:	Internal
Responsible Officer:	David Ransom, Manager Finance
Responsible Manager:	David Ransom, Manager Finance
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 4: Interim Audit Report Appendix 5: 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 2018 and the Financial Management Systems Review (FMSR) 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 2018 and Financial Management Systems Review 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

Background

In May 2018, AMD Chartered Accountants conducted the Interim Audit for the year ending 30 June 2018 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 4 and 5.

Council Policy Compliance

There are no Council policies relating to this report.

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. Monthly reconciliations
2. Credit cards
3. Daily receipting procedures
4. Purchase orders dated after invoice
5. Regulation 17 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 of 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

Not Applicable.

Councillor/Officer Consultation

These reports are presented for the information of the Audit Committee.

Outcome of Meeting

General discussion took place in relation to this item, specifically around having more definitive completion timeframes for the matters raised in each of the management responses within the appendices.

The CEO committed to ensuring that more specific completion timeframes would be provided in response to future audits.

The executive recommendation was moved by Cr Hayward and seconded by 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 2018 and Financial Management Systems Review as presented.

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

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.

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.

Legislative Compliance

N/A

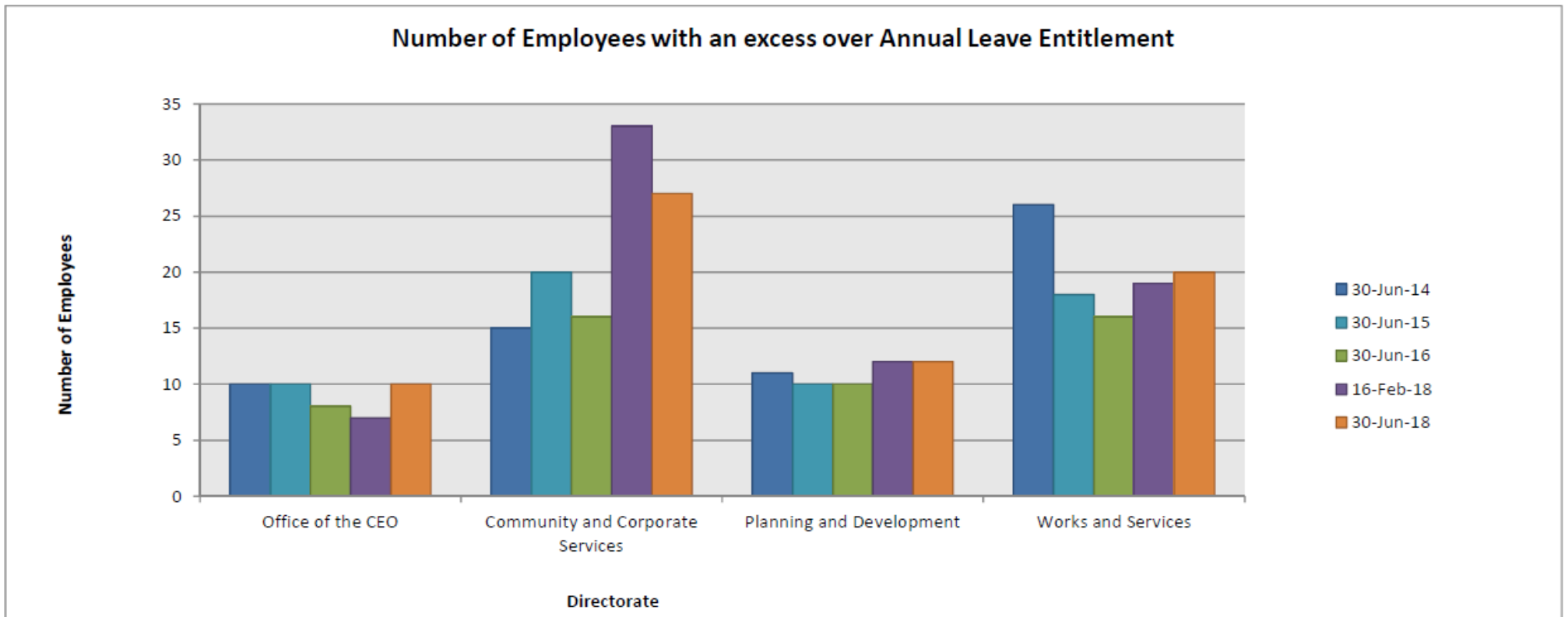
Officer Comments

The tables and graphs overleaf detail the City's leave liabilities from 30 June 2014, to 30 June 2018. 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".

Annual Leave Liability in excess of Annual Entitlements Available

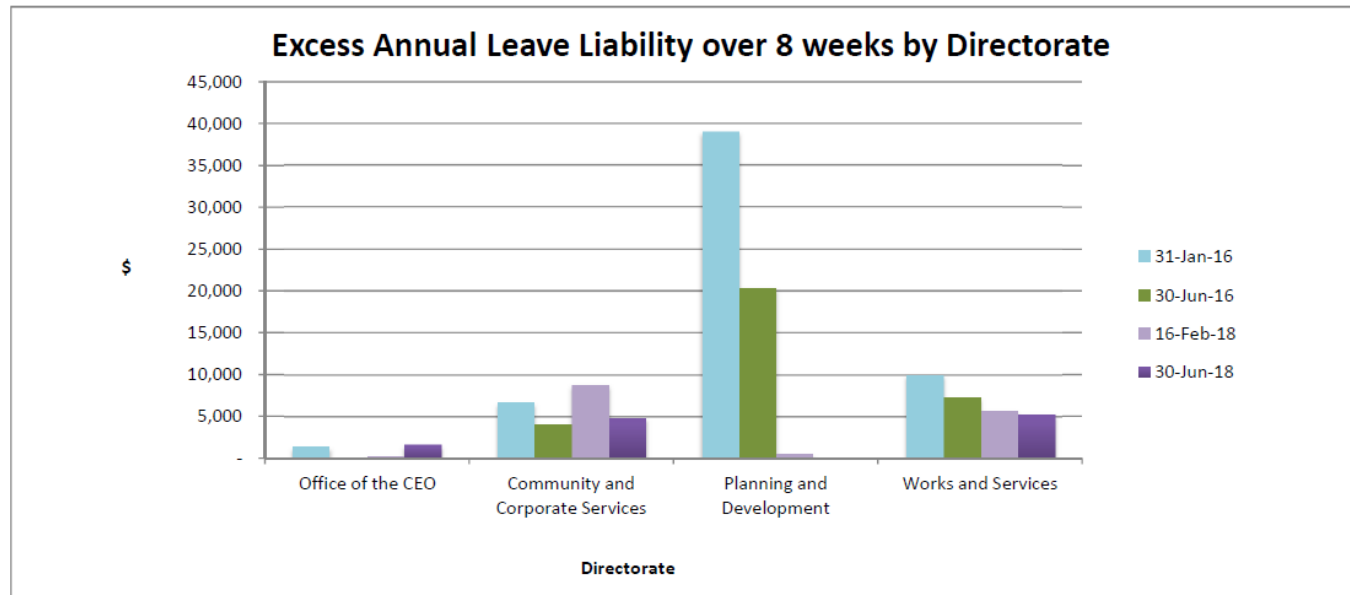
Directorate	Number of Employees		Liability		Number of Employees		Liability		Number of Employees		Liability	
	30-Jun-14	30-Jun-14	30-Jun-15	30-Jun-15	30-Jun-16	30-Jun-16	16-Feb-18	16-Feb-18	30-Jun-18	30-Jun-18		
Office of the CEO	10	27,457	10	22,065	8	27,733	7	21,233	10	33,996		
Community and Corporate Services	15	57,409	20	28,194	16	30,320	33	80,758	27	52,915		
Planning and Development	11	120,985	10	84,781	10	70,059	12	43,706	12	19,251		
Works and Services	26	146,665	18	88,386	16	57,650	19	62,653	20	50,052		
	62	352,516	58	223,425	50	185,761	71	208,350	69	156,214		
Total Annual Leave Liability		1,844,667		1,736,923		1,690,125		1,818,471		1,879,016		
% of Annual Leave excess of Annual Leave entitlements		19%		13%		11%		11%		8%		

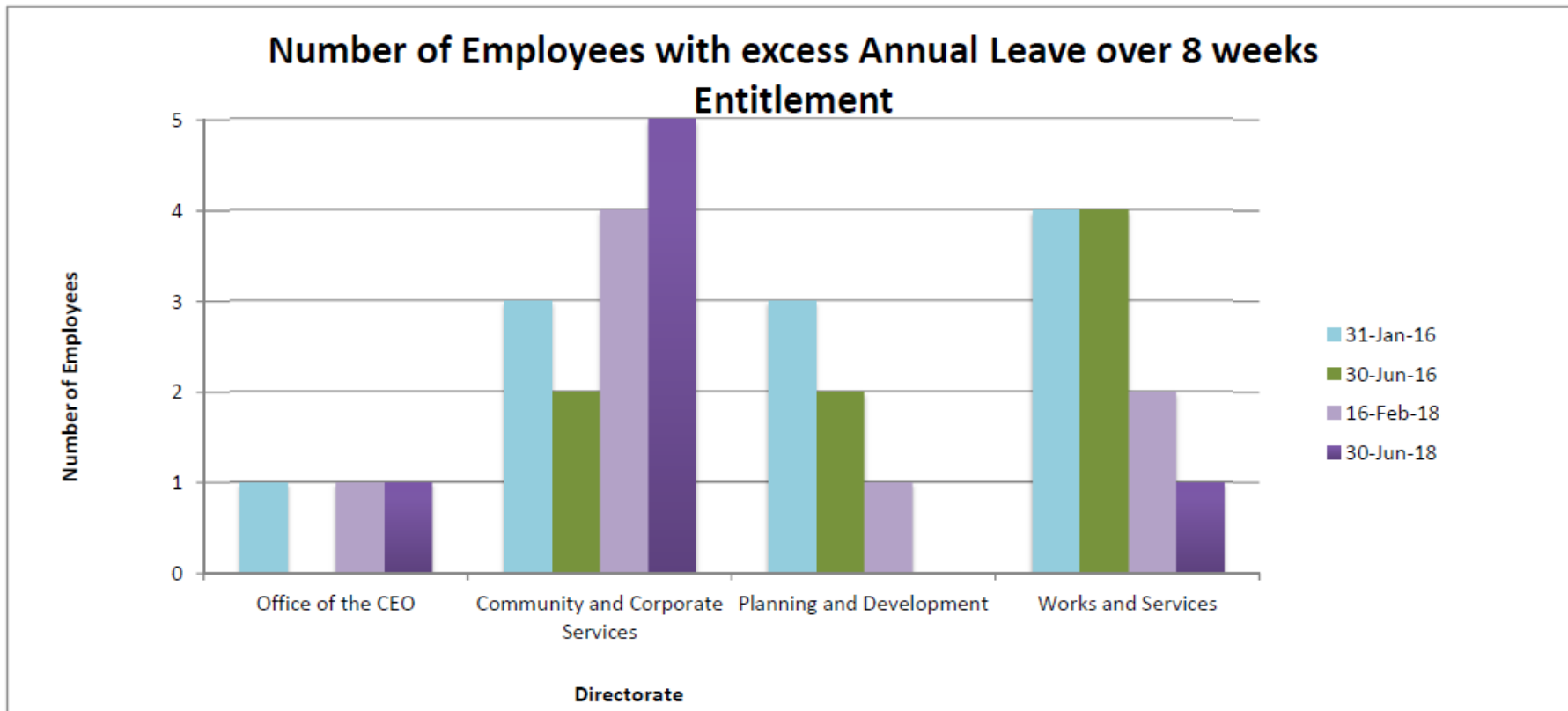




Annual Leave Liability in excess of 8 weeks

Directorate	Number of Employees		Liability		Number of Employees		Liability	
	31-Jan-16	31-Jan-16	30-Jun-16	30-Jun-16	16-Feb-18	16-Feb-18	30-Jun-18	30-Jun-18
Office of the CEO	1	1,403	0	-	1	275.81	1	1,638.17
Community and Corporate Services	3	6,665	2	4,000.42	4	8,773.39	5	4,849.78
Planning and Development	3	38,998	2	20,307.22	1	528.07	0	-
Works and Services	4	9,987	4	7,291.44	2	5,696.60	1	5,243.35
	11	57,053	8	31,599.08	8	15,273.87	7	11,731.30
Total Annual Leave Liability		1,586,988		1,690,125		1,818,471		1,879,016





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 was moved by Mr Foster and seconded by Cr Hayward and was carried unanimously as follows:

That the Audit Committee receive the update.

11. Questions from Members

11.1 Response to Previous Questions from Members taken on Notice

Nil

11.2 Committee Discussion and Questions from Members

Nil

12. Urgent Business

Nil

13. Date of Next Meeting

TBA – will be meeting with the City's Auditors.

14. Close of Meeting

The Presiding Member closed the meeting at 11.10am.
