



Audit Committee

Minutes

31 August 2017

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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Minutes

31 August 2017

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 10.01am.

2. Disclaimer

Not applicable to this committee.

3. Announcements from the Presiding Member

Nil

4. Attendance

Committee Members:

Member Name	Representing
Cr. Betty McCleary	City of Bunbury
Cr. 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	Manager Governance
Mr Mal Osborne	A/Chief Executive Officer
Mrs Leanne French	Senior Governance and Risk Officer
Mr David Ransom	Manager Finance

4.1 Apologies

Cr Steck

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 Barratt Seconded: Cr McCleary

The minutes of the Audit Committee Meeting held on 8 March 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 Financial Management Systems Review

Applicant/Proponent:	Internal
Responsible Officer:	David Ransom, Manager Finance
Responsible Manager:	David Ransom, Manager Finance
Executive:	Mal Osborne, A/Chief Executive Officer
Attachments:	Appendix 1: Financial Management Systems Review Report

Summary

The purpose of this report is for the Audit Committee to receive the Financial Management Systems and Procedures Review report, which is undertaken annually by the City's auditors.

Executive Recommendation

That the Audit Committee recommend that Council receive the Financial Management Systems and Procedures Review report as presented, and note that no financial management control weakness were identified.

Background

During May 2017, the City's auditors (Grant Thornton) undertook a financial management systems and procedures review in accordance with Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*.

The resulting report has now been completed and is presented to the Audit Committee for information. A copy of the report is **attached** at Appendix 1.

Council Policy Compliance

There are no Council policies relating to this report.

Legislative Compliance

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

Officer Comments

The areas that were reviewed as part of the financial management systems and procedures review included:

- * Purchases/Payments/Payables
 - * Receipts/Receivables/Cash Management
 - * Payroll
 - * Rates
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- * Other Revenue; and
- * Fixed Assets

The report as **attached** at Appendix 1 is self-explanatory, and indicates that no areas of concern or weakness were identified across any of the areas audited.

Analysis of Financial and Budget Implications

Nil

Community Consultation

Not Applicable.

Councillor/Officer Consultation

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

Outcome of Meeting 31 August 2017

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

That the Audit Committee recommend that Council receive the Financial Management Systems and Procedures Review report as presented, and note that no financial management control weakness were identified.

10.2 Risk Management Update – Audit Regulation 17

Applicant/Proponent:	Internal
Responsible Officer:	Leanne French, Senior Governance and Risk Officer
Responsible Manager:	Greg Golinski, Manager Governance
Executive:	Mal Osborne, A/Chief Executive Officer
Attachments:	Appendix 2: City of Bunbury Strategic and Operational Risk Registers (CONFIDENTIAL) Appendix 3: Risk Management Strategy Appendix 4: Risk Management Plan Appendix 5: Revised Risk Management Policy Appendix 6: Risk Management Improvement Plan

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:

1. Recommend that Council adopt the revised Risk Management Policy as presented; and
2. Recommend that Council endorse the Risk Management Policy, Risk Management Strategy, and Risk Management Plan as presented, noting that collectively these documents comprise the City's Risk Management Framework.
3. Note the City's Strategic and Operational Risk Registers as presented.
4. Note the City's Risk Management Improvement Plan 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 review.

At the Audit Committee meeting held on 8 March 2017, Officers advised:

"In February 2017, Rod Farrar the director of Paladin Risk Management Services conducted training with the Executive Leadership Team (ELT), Managers, Team Leaders and senior staff, in risk management fundamentals. Subsequent to the training, Officers have begun the process of developing comprehensive strategic and operational risk registers, with input from all areas of management within the City.

As well as identifying the City’s strategic and operational risks, the register will also capture controls for each risk identified, including what controls are currently in place, their criticality, and how effective these controls are at reducing the likelihood of these risks occurring. It is a fundamental principle that we cannot manage risk without understanding the effectiveness of our critical controls. Consequently, the critical controls identified in the risk register will form the basis of an internal audit program for the City.

As an example, it has already been identified that a critical control is the City’s legislative compliance register. For that reason our register will be developed to enable officers to measure, assess and report on its effectiveness to the Audit Committee.

Officers believe the process being undertaken will enable the City to meet its legislative requirements under Audit Regulation 17, provide identified risks that can actually be managed, facilitate more robust and accurate reporting, enable greater capacity for allocation of responsibility and accountability and result in decision-making based on sound risk information.

Although the register will be a “living” document, the first iteration will be provided to the Audit Committee at its next meeting.”

Council Policy Compliance

The City’s Risk Management process is guided by the Council Policy: Risk Management 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

Since February the Risk Management Working Group has been meeting regularly and the first iteration of the Strategic Risk Register and Operational Risk Register are complete, and have been provided under confidential cover at Appendix 2.

As outlined in the background to this report, the City has developed a Risk Management Strategy which establishes the broad process of the risk management framework within the City, and provides an overview of the key concepts for how the City will approach risk management. The Risk Management Strategy is attached at Appendix 3.

To clearly define the procedures, roles and responsibilities, monitoring and reporting requirements for the management of risks within the City of Bunbury, Officers have also developed a Risk Management Plan, which is attached at Appendix 4.

In consultation with the Executive Leadership Team and the Senior Occupational Safety and Health Coordinator, Officers have also reviewed the Risk Management Policy and associated risk matrix. The Critical Success Factors (consequences) have been revised and the target level of risk for each category expressed. The revised Risk Management Policy and matrix is attached at Appendix 5.

These three documents collectively complete the City's Risk management Framework. The Policy defines what risk management is, the Strategy provides why it's important that we manage our risk, and the Plan explains how we manage our risk.

For the Audit Committee's information, an action/improvement plan is included at Appendix 6, which outlines objectives and deliverables as the City moves forward in an effort to reach our goal of Level 3 in the risk management maturity scale, as outlined on pages 21-22 of the Risk Management Strategy.

Analysis of Financial and Budget Implications

The Executive Leadership Team is currently reviewing the resources allocated to the coordination of risk management 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 31 August 2017

Officers provided an general overview of the work done to date in this regard, and how the framework will form the basis of reporting to the Audit Committee in relation to Audit Regulation 17. It was noted that the City is not merely taking a "tick box" approach in regard to risk management, but rather endeavouring to introduce processes and frameworks that will add value to the City's operations.

The Executive Recommendation (with some minor modification to point 2) was moved by Cr McCleary and seconded by Mr Barratt and was CARRIED unanimously as follows:

That the Audit Committee:

- 1. Recommend that Council adopt the revised Risk Management Policy as presented; and***
 - 2. Recommend that Council receive the Risk Management Strategy and Risk Management Plan as presented, noting that together with the Risk Management Policy, these documents comprise the City's Risk Management Framework.***
 - 3. Note the City's Strategic and Operational Risk Registers as presented.***
 - 4. Note the City's Risk Management Improvement Plan as presented.***
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10.3 Appointment of Auditor

Applicant/Proponent:	Internal
Responsible Officer:	Greg Golinski, Manager Governance
Responsible Manager:	Greg Golinski, Manager Governance
Executive:	Mal Osborne, A/Chief Executive Officer
Attachments:	Appendix

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:

1. Note that the A/Chief Executive Officer will be seeking quotes for the provision of financial audit services for the 2017/18 financial year audit;
2. Endorse the objectives, scope and methodology for the 2017/18 audit as detailed within this report ;
3. Request the A/Chief Executive Officer present all quotes to the Audit Committee for consideration, with sufficient lead time for Council to appoint an Auditor prior to 30 November 2017 as required in accordance with section 7.7 of the *Local Government Act 1995*.

Strategic Relevance

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

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 contract of the City's current auditor (Grant Thornton) expires following the audit of the 2016/17 financial statements.

Audit Committee members will recall that the original 5 year contract with Grant Thornton was extended by 1 year (for the 2016/17 financial year audit) following the introduction of the *Local Government Amendment (Auditing) Bill 2016*, which will result in the Office of the Auditor General (OAG) taking responsibility for local government audits from 1 July 2017.

The Bill did not pass before to the dissolution of Parliament prior to the 2017 WA election, however the incumbent Government has indicated its willingness to pursue the passage of the Bill during 2017.

Accordingly, the Department of Local Government (DLG) has advised local governments that it should only renew or extend audit contracts until the 2017/18 financial year audit.

Council Policy Compliance

Council's current Purchasing Policy applies, which authorises the Chief Executive Officer to approve "purchases" up to \$150,000 subject to a request for quote process.

Legislative Compliance

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

Officer Comments

Given the advice from DLG and the pending proclamation of the Bill, there are effectively two options in relation to dealing with the matter of the City's 2017/18 audit:

1. Test the market and seek quotes for the provision of audit services for the 2017/18 year; or
2. Extend the contract with Grant Thornton for an additional year.

Grant Thornton have been the City's auditors for the past 6 financial years.

It is considered that there is "nothing to lose" and "everything to gain" by selecting option 1 and going to market for the provision of audit services for 2017/18. The City's current auditor will be given the opportunity to provide a submission, as will other providers of audit services currently on the WALA preferred supplier list.

When seeking quotes, Officers propose to use the Standard Audit Specification provided by DLG, which is consistent with the terms of conditions of the current contract with Grant Thornton, as follows:

Objectives of the Audit

1. *To provide an independent audit opinion of the accounts and annual financial reports of the City of Bunbury for each financial year covered by the term of the audit appointment.*
2. *To provide an annual review of the appropriateness and effectiveness of financial management systems of the City of Bunbury for each financial year covered by the term of the audit appointment.*

Term of Audit Appointment

For the financial year commencing 1 July 2017.

Scope of the Audit

The auditor is to carry out such work as is necessary to form an opinion as to whether –

- a) the accounts are properly kept; and*
 - b) the annual financial report –*
-

- i. is prepared in accordance with the financial records; and*
- ii. represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards, the Local Government Act 1995 (as amended) (the Act), the Local Government (Financial Management) Regulations 1996 (as amended) and other mandatory professional reporting requirements.*

Give an opinion in his or her audit report on –

- a) the financial position of the local government; and*
- b) the results of the operation of the local government.*

Include in his or her audit report –

- a) any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;*
- b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law;*
- c) details of whether information and explanations were obtained by the auditor;*
- d) a report on the conduct of the audit; and*
- e) the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.*

Audit Methodology and Approach

Other requirements of the Auditor –

- a) The auditor is required to comply with the requirements of section 7.9 of the Local Government Act 1995 and the Local Government (Audit) Regulations 1996;*
- b) An audit is to be carried out in accordance with accounting standards adopted from time to time by the Australian Government Auditing and Assurance Standards Board (AuASB);*
- c) The auditor is to provide the local government with a general outline of his/her methodology;*
- d) The auditor is to provide the local government with a plan for the audit including –*
 - timing of interim audit visits;*
 - final audit visit (within 30 days of being advised that the accounts and annual financial report are available for audit);*
 - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means;*
 - the method to be used to communicate with, and provide advice and information to, the local government; and*
- e) The auditor is required to produce an audit report as required by section 7.9 of the Local Government Act 1995 and, if considered appropriate by the auditor, a management report.*

Critical Matters to be Audited

The auditor is to include in his or her application the extent to which the critical matters outlined below will be audited so as to form an opinion on the manner in which they have been maintained.

1. *Revenue*
 - *Rates revenue*
 - *Government grants*
 - *User pays revenue*
 - *Profit on sale of non-current assets*
 - *Other income*
2. *Expenditure*
 - *Salary and wage costs*
 - *Depreciation*
 - *Materials and contract expenditure*
 - *Loss on sale of non-current assets*
 - *Insurances*
 - *Bad debts*
 - *Other expenditure*
3. *Current Assets*
 - *Bank and short term investments*
 - *Receivables and prepayments*
 - *Inventory*
4. *Non-Current Assets*
 - *Property, plant, furniture and equipment*
 - *Infrastructure and depreciation*
 - *Other receivables*
5. *Liabilities (Current and non-current)*
 - *Creditors and accruals*
 - *Loan borrowings including new loans raised*
 - *Provision for annual and long service leave entitlements*
6. *Reserve Funds*
7. *Contingent Liabilities*
8. *Capital Commitments*
9. *Accounting Policies and Notes to the Financial Statements*
10. *Cash Flow Statement*
11. *The financial ratios required by the Local Government (Financial Management) Regulations 1996*

Analysis of Financial and Budget Implications

Audit fees form part of the City's Annual Budget.

Community Consultation

Not applicable.

Councillor/Officer Consultation

This report is presented to Council by the Audit Committee for consideration.

Outcome of Meeting 31 August 2017

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

That the Audit Committee recommend that Council:

- 1. Note that the A/Chief Executive Officer will be seeking quotes for the provision of financial audit services for the 2017/18 financial year audit;***
 - 2. Endorse the objectives, scope and methodology for the 2017/18 audit as detailed within this report ;***
 - 3. Request the A/Chief Executive Officer present all quotes to the Audit Committee for consideration, with sufficient lead time for Council to appoint an Auditor prior to 30 November 2017 as required in accordance with section 7.7 of the Local Government Act 1995.***
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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

TBA following elections and the timing of the 2016/17 Audit report.

15. Close of Meeting

With this being the final meeting of this Audit Committee prior to the 2017 City of Bunbury elections, the Presiding Member thanked Members and Officers for their input over the past 2 years, and closed the meeting at 10.40am.