



AGENDA

Audit Committee Meeting

Friday, 17 March 2017 at 5.30pm



CONTENTS

1.	OFFICIAL OPENING	1
2.	ACKNOWLEDGEMENT OF COUNTRY	1
3.	RECORD OF ATTENDANCE	1
3.1	Attendance	1
3.2	Apologies	1
3.3	Leave of Absence	1
4.	MEMORANDUM OF OUTSTANDING BUSINESS	1
5.	DISCLOSURES OF INTEREST	1
5.1	Financial	1
5.2	Proximity	1
5.3	Impartiality	1
6.	CONFIRMATION OF MINUTES	1
6.1	Meeting of Audit Committee (9 March 2017)	1
7.	ANNOUNCEMENTS BY THE PRESIDING MEMBER	1
8.	REPORTS	2
8.1	2016/17 Budget Review	2
8.2	Risk Management Review	5
9.	MATTERS BEHIND CLOSED DOORS	15
10.	CLOSURE OF MEETING	15



NOTICE OF MEETING

Elected Members

A Meeting of the Audit Committee will be held on **Friday, 17 March 2017** at **Dovenby House, 1 Council Place East Fremantle** commencing at 5.30pm and your attendance is requested.



GARY TUFFIN
Chief Executive Officer

AGENDA

1. OFFICIAL OPENING

2. ACKNOWLEDGEMENT OF COUNTRY

"On behalf of the Council I would like to acknowledge the Nyoongar people as the traditional custodians of the land on which this meeting is taking place."

3. RECORD OF ATTENDANCE

- 3.1 Attendance**
- 3.2 Apologies**
- 3.3 Leave of Absence**

4. MEMORANDUM OF OUTSTANDING BUSINESS

None.

5. DISCLOSURES OF INTEREST

- 5.1 Financial**
- 5.2 Proximity**
- 5.3 Impartiality**

6. CONFIRMATION OF MINUTES

- 6.1 Meeting of Audit Committee (9 March 2017)**

6.1 OFFICER RECOMMENDATION

That the minutes of the meeting of the Audit Committee held on Thursday, 9 March 2017 be confirmed as a true and correct record of proceedings.

7. ANNOUNCEMENTS BY THE PRESIDING MEMBER

8. REPORTS

8.1 2016/17 Budget Review

File ref	F/ABT1
Prepared by	Terry Paparone, Acting Executive Manager Corporate & Community Services (EMCCS)
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date	17 March 2017
Voting requirements	Absolute Majority
Documents tabled	Nil
Attachments	1. Budget Review 2016/17

Purpose

Council is requested to consider the review of the 2016/17 Annual Budget and amending it in accordance with the Operating and Capital schedules (Budget Review 2016/17) provided in the report.

Executive Summary

In accordance with *Local Government (Financial Management) Regulation 1996* Council is required to conduct a review of its annual budget each year between 1 January and 31 March.

A budget review has been undertaken using the actuals as at 28 February 2017 by the Acting EMCCS & CEO for Council's consideration and endorsement.

Background

The 2016/17 Budget was adopted by Council at a Special meeting held on the 26 July 2016.

Consultation

Acting Executive Manager Corporate & Community Services
Executive Manager Regulatory Services
Operations Manager
Chief Executive Officer

Statutory Environment

Section 6.8 of the Local Government Act states;

6.8. Expenditure from municipal fund not included in annual budget

- (1) *A local government is not to incur expenditure from its municipal fund for an additional purpose except where the expenditure —*
- (a) *is incurred in a financial year before the adoption of the annual budget by the local government;*
 - (b) *is authorised in advance by resolution*; or*
 - (c) *is authorised in advance by the mayor or president in an emergency.*

** Absolute majority required.*

The *Local Government (Financial Management) Regulations* state;

33A. Review of budget

- (1) *Between 1 January and 31 March in each year a local government is to carry out a review of its annual budget for that year.*
- (2) *Within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the council.*
- (3) *A council is to consider a review submitted to it and is to determine* whether or not to adopt the review, any parts of the review or any recommendations made in the review.*

**Absolute majority required.*

- (4) *Within 30 days after a council has made a determination, a copy of the review and determination is to be provided to the Department”.*

Policy Implications

There are no policy implications in considering this item.

Financial Implications

Various - refer to budget review schedule.

The proposed budget amendments still provide for a balanced budget.

Strategic Implications

There are no policy implications in considering this item.

Site Inspection

Not applicable

Comment

A budget review was undertaken during March based on the February financial statements in accordance with the requirements of *Local Government (Financial Management) Regulation 33A*.

Council was previously advised that the correct audited carried forward position (surplus) for 2015/16 was in fact \$504,265 and not \$202,900 (estimate used for the Budget), a difference of \$301,365.

The review has provided an opportunity to fund other capital items previously not budgeted for against the surplus funds identified.

Other new major capital items brought forward include;

- | | |
|---|--------------------------------------|
| • Purchase of replacement 3 tonne tip truck | \$51,000 (Council resolution 021216) |
| • Replacement Works Utility Twin Cab | \$29,000 (insurance claim) |
| • John Tonkin Carpark | \$80,000 (New DPAW grant) |
| • New Parks & Garden Mower Trailer | \$ 6,500 |
| • Sealing of Chapman Reserve Carpark | \$36,600 |
| • Sealing of New HACC vehicles compound | \$20,000 |
| • Roof repairs – EFFC | \$26,000 (Council resolution 081216) |
| • Additional Parks & Gardening staff member | \$30,000 (Balance of financial year) |
| • Additional allocation to Town Hall | \$422,499 |

The capital surplus after new allocations (\$374,499) was applied to operating deficit (\$374,499) to balance the budget. Therefore the review has resulted in producing a zero balanced budget.

It is recommended the Audit Committee recommend to Council;

- (1) That in accordance with section 6.8 of the Local Government Act all new expenditure items previously not budgeted for which are now contained within the Budget Review 2016/17 (column "Amended Budget") document be authorised by Council.
- (2) The 2016/2017 Annual Budget be amended as detailed in attachment (1) - "Budget Review 2016/17"
- (3) In accordance with section 33A of the *Local Government (Financial Management) Regulations* a copy of the review be forwarded to the Department of Local Government.

8.1 OFFICER RECOMMENDATION

The Audit Committee recommend to Council that:

- 1. in accordance with section 6.8 of the Local Government Act all new expenditure items previously not budgeted for which are now contained within the Budget Review 2016/17 (column "Amended Budget") document be authorised by Council.**
- 2. the 2016/2017 Annual Budget be amended as detailed in attachment (1) - "Budget Review 2016/17"**
- 3. in accordance with section 33A of the *Local Government (Financial Management) Regulations* a copy of the review be forwarded to the Department of Local Government.**

8.2 Risk Management Review

Applicant	Administration
Prepared by	Gary Tuffin, Chief Executive Officer
Supervised by	Gary Tuffin, Chief Executive Officer
Date of Meeting	17 March 2017
Voting requirements	Simple
Documents tabled	Nil
Attachments	1. Risk Management Governance Framework 2. Risk Profile Assessment sheets

Background

Regulation 17 was inserted into the *Local Government (Audit) Regulations 1996* on 8 February 2013, that requires the CEO 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.

A review of this kind is to be undertaken at least once every two years.

Consultation

Three risk management workshops were conducted with LGIS Risk Management (Michael Sparks) on 17/05/16, 29/06/16 & 13/07/16 with the Executive Management Team to undertake the assessment process.

In addition to this the Executive Team met on a number of other occasions to further develop the assessments.

Statutory Environment

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

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.*

Policy Implications

There are no policy implications in considering this item.

Financial Implications

There are no financial implications in considering this item.

Strategic Implications

There are no strategic implications in considering this item.

Site Inspection

Not applicable

Comment

Over the past 6 months (June to December) an assessment of the organisation has been undertaken using the LGIS Risk Profile Tool.

Appendix 3 of Operational Guideline Number 09 – Audit in Local Government (issued by the Department of Local Government and Communities) lists issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance, as follows.

Risk Management

1. Does the local government have an effective risk management system?

Comment

No, the Town does not currently have an effective risk management system in place.

However, a draft "*Risk Management Governance Framework*", which consists of the Risk Management Policy and Risk Management Producers has been provided by LGIS for the committee's consideration.

As mentioned above, a series of Risk Profiles have been assessed – refer to Attachment 2.

2. Are material operating risks to the local government being appropriately considered?

Comment

The Town's administration has recently undertaken an assessment of the organisation using the LGIS Risk Profile Tool.

There were 16 major risk themes identified for assessment, being;

1. Providing inaccurate advice / information
2. Asset sustainability practices
3. Business & community disruption
4. Statutory, regulatory or compliance requirements
5. Errors, omissions, delays
6. External theft & fraud (inc. Cyber Crime)
7. Management of facilities / venues / events
8. IT &/or Communications Systems and Infrastructure
9. Document Management Processes
10. Employment practices
11. Engagement practices

- 12. Environmental management.
- 13. Misconduct
- 14. Project / change Management
- 15. Safety and security practices
- 16. Supplier / Contract Management

The findings of this assessment can be found in attachment 2 - Risk Profile Assessment sheets.

3. *Does the local government have a current and effective business continuity plan (including disaster recovery) which is tested from time to time?*

Comment

The Town does not currently have a Business Continuity Plan, work has commenced on producing one in conjunction with LGIS.

An Information Technology Disaster Recovery Plan was completed July 2016, which covers the town's IT systems.

4. *How effective are the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:*

- a. *Potential non-compliance with legislation, regulations and standards and the local government's policies;***
- b. *Important accounting judgements or estimates that prove to be wrong;***
- c. *Litigation and claims;***
- d. *Misconduct, fraud and theft; and***
- e. *Significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety and how they are managed by the local government.***

Comment

Refer to Attachment 2.

5. *Are regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, provided to ensure that identified risks are monitored and new risks are identified, mitigated and reported.*

Comment

All new works sites are risk assessed (Take 5 and /or Job Safety Analysis) and documented by staff and contractors.

Risk Assessment reports will be produced for every major project or public event.

6. *Are the local government's processes to manage insurable risks adequate? How adequate is insurance cover, and if applicable, the level of self-insurance?*

Comment

Council's insurance cover and policy coverage is reviewed annually with Council's Insurance Broker (LGIS) to ensure appropriate insurances and cover amounts are in place.

It is proposed that in line with the new requirement under the *Local Government (Financial Management) Regulations 1996*, Regulation 17A which requires the revaluation of all assets every three years, an insurance revaluation would be undertaken at the same time to ensure the insurance values remain appropriate.

Property insurance values were last assessed by Griffin Valuers (licensed valuers) in 2014 and the insurance values register was amended accordingly. They are due to be revalued this financial year in accordance with Local Government (Financial Management) Regulation 1996 – Reg 17A (4). A Fair Value & insurance valuation will be provided.

7. *Has the effectiveness of the local government's internal control system been reviewed with management and the internal and external auditors?*

Comment

In accordance with the *Local Government (Financial Management) Regulations 1996* the last internal financial management review was conducted by Macri Partners (Council's Auditors) on the August 2012, which was presented to Council for endorsement 11th December 2012, no major issues were raised.

A very limited examination was undertaken covering the following financial systems and procedures of Council areas;

- Investments
- Sundry Debtors
- Asset Register
- Tender Register

Note: The CEO is required to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.

The next review is now overdue and will be undertaken in May 2017, and the following financial systems and procedures of Council will be examined by Council's Auditors:

- Bank Reconciliations and Petty Cash
- Costs Allocations
- Trust Fund
- Administration Allocations
- Receipts and Receivables
- Minutes and Meetings
- Rates

- Financial Reports
- Fees and Charges
- Budget
- Purchases, Payments and Payables (Including Purchase Orders)
- Plan for the Future
- Registers (Including Annual & Primary Return)
- Wages and Salaries
- Delegations
- Fixed Assets (Including acquisition and disposal of property)
- Insurance
- Audit Committee
- Credit Card Procedures
- General Compliance issues
- Storage of Documents/Record Keeping

8. *Does management have controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk?*

Comment –unusual types of transaction....

In relation to unusual transactions that are once off, the CEO's credit card is used.

Comment – ...more than an acceptable degree of risk....

Council has an "Investment of Surplus Funds" Policy 4.2.3 which details the types of allowable investments;

This investment policy prohibits any investment carried out for speculative purposes including:

- *Deposits with an institution that is not an authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) Section 5;*
- *The use of leveraging (borrowing to invest) of an investment;*
- *A state treasury that is not the Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986;*
- *Term deposits for a fixed term of more than 12 months;*
- *Invest in bonds that are not guaranteed by the Commonwealth government, or a State or Territory government;*
- *Investment in bonds with a term to maturity of more than 3 years;*
- *Investment in a foreign currency;*
- *Derivative based instruments;*
- *Principal only investments or securities that provide potentially nil or negative cash flow;*
- *Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.*

Without approvals from Council, investments are limited to:

- *State/Commonwealth Government Bonds;*
- *Interest Bearing Deposits;*

- *Bank accepted/endorsed bank bills.*

9. *How effective and robust is the local government's procurement framework, with a focus on the probity and transparency of policies and procedures/processes? Are these procedure/processes being applied?*

Comment

All of Council's purchasing is undertaken in accordance with its adopted Purchasing Policy 4.2.4 in accordance with the *Local Government (Functions and General) Regulations 1996*.

A review of the policy is undertaken yearly to ensure its relevance.

The objectives of this Policy are to ensure that all purchasing activities:

- *demonstrate that best value for money is attained for the Town;*
- *are compliant with relevant legislations, including the Act and Regulations;*
- *are recorded in compliance with the State Records Act 2000 and associated records management practices and procedures of the Town;*
- *mitigate probity risk, by establishing consistent and demonstrated processes that promotes openness, transparency, fairness and equity to all potential suppliers;*
- *ensure that the sustainable benefits, such as environmental, social and local economic factors are considered in the overall value for money assessment; and*
- *are conducted in a consistent and efficient manner across the Town and that ethical decision making is demonstrated.*

10. *Should the need arise, does the Audit Committee meet periodically with key management, internal and external auditors and compliance staff to understand and discuss any changes in the local government's control environment?*

Comment

There are 6 members of Council on the Audit committee who meet as and when required.

The Council meets with its Auditor every year in accordance with the Local Government Act to discuss the results of the annual audit.

11. *Have fraud and misconduct risks been identified, analysed and evaluated? Has an appropriate treatment plan been implemented, communicated and monitored? Is there regular reporting and ongoing management of fraud and misconduct risks?*

Comment

Yes, refer to the Town of East Fremantle risk theme "External theft & Fraud" in attachment 2.

To date there have not been any reported cases of fraud since the CEO's appointment, 14th March 2016.

Internal Control

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Comment

The following controls have been reviewed:

1. *Separation of roles and functions processing and authorisation;*

Comment

All financial roles have appropriate levels of separation, which have been confirmed by Council's Auditors.

ie Creditors payments cannot be approved by the staff member processing the accounts.

2. *Control of approval of documents, letters and financial records;*

Comment

Council has a number of internal policies that deal with these issues.

All correspondence if not signed by the CEO is signed or approved by the respective Executive Manager.

Document control pages have been applied to all major internal documents, so that any changes are recorded and tracked appropriately.

All transactions and changes to any internal record on Council's software package is traceable, via the internal audit function.

All financial records/reconciliations are generally approved by the EMCCS

Monthly statutory financial reports are provided to Council.

3. *Limit of direct physical access to assets and records;*

Comment

All building & vehicle keys are stored in various key cabinets, restricting general access by staff.

Fuel is accessed via fuel cards and each staff member with access has a personal pin number allocated so that all use can be tracked.

Record access is controlled via the operating software that allows restricted access to each staff member subject to their level of clearance. Any changes to any documents or documented record is recorded via the internal audit software (Audit trail function).

All Council's high priority records (Council minutes, legal agreements etc) are stored in the strongroom, which is also locked.

Personnel Records are kept in locked cabinets, and only HR Coordinator has access.

4. Control of computer applications and information system standards;

Comment

An external provider is engaged to manage the data files and system.

The six servers are backed-up 16 times day, and are stored off-site.

Restrictions have been placed on the level of access each staff member can have, generally only to allow them to perform their specific functions. For example some staff only have the ability to view records only and have no ability to enter any data/information into the system.

5. Limit access to make changes in data files and systems;

Comment

As mentioned above, Council's software allows for certain levels of access to be applied to each staff member.

6. Regular maintenance and review of financial control accounts and trial balances;

Comment

All subsidiary ledgers (Rates, creditor, debtors, payroll, trust a/c) are balanced monthly by the relevant officer and approved by the EMCCS.

7. Comparison and analysis of financial results with budgeted amounts;

Comment

Each month an assessment of the budget variances is undertaken by the Manager of Administration & Finance and reported to Council in accordance with Regulation 34 of the *Local Government (Financial Management) Regulations 1996*.

8. The arithmetical accuracy and content of records;

Comment

All accounts are double checked by an independent person prior to being authorised for payment.

9. Report, review and approval of financial payments and reconciliations; and

Comment

When an account is received the creditor number is allocated, purchase order attached, GL Account allocated (as per P/Order) the goods must be signed off as received by the receiving officer, the computation are checked and signed off by the creditors officer, and lastly the account is checked and authorised by the Executive Manager Corporate & Community Services or other Executive Manager/CEO.

A payment reconciliation statement is prepared by the Creditors/Payroll Officer and checked by the Manager Administration & Finance (AMF) & EMCCS independently from the officer who prepared the payment report.

The actual payment of the creditor requires two electronic tokens & three separate passwords (three staff). The Creditors/Payroll Officer loads the bank file, which is authorised by the MAF & EMCCS.

10. *Comparison of the result of physical cash and inventory counts with accounting records.*

Comment

A bank reconciliation is prepared by the relevant officer monthly and checked by the EMCCS.

Generally, very little stock is kept on-hand, as it is only ordered when required.

Legislative Compliance

1. *Monitor compliance with legislation and regulations.*

Comment

This is undertaken each year when the Compliance Audit return is completed.

Additionally, Council's operations are subject to an external Audit process each year.

Also to assist with this process an internal "Corporate Calendar" has been developed to ensure critical dates are not missed throughout the year. ie Annual Returns, review of delegation register...etc

2. *Review the annual Compliance Audit Return and reporting to Council of the results of that review.*

Comment

Each year when the CAR is completed it is presented to the Audit Committee and Council for their endorsement within the required timeframe.

3. *Review whether the local government has procedures to receive, retain and treat complaints, including confidential and anonymous employee complaints.*

Comment

Council has some older policies and procedures that deal with such matters, which appear have not been reviewed for some time. There is a need to develop further policy and procedures in this area.

Administration recently introduced the "Town of East Fremantle – Managing Issues and Grievances" (March 2017).

We also have an obligation under the *Public Interest Disclosure Act 2003*

4. ***Obtain assurance that adverse trends are identified and review management's plans to deal with these.***

Comment

Any adverse trends are identified through the use of monthly management financial reports, these reports are tailored specific for each Executive Manager.

5. ***Review whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee.***

Comment

Council has adopted the standard template recommended by the Department of Local Government for setting the audit scope.

Council currently only uses external auditors.

This is an area that has been identified for improvement in relation to documenting internal audit processes.

The review has confirmed that the Town has generally adequate and effective systems and procedures in place for many areas covered by the review. The review also highlighted those areas where improvements to strengthen the Town's position are required, and will be attended to in due course.

Other areas identified for improvement have been included in the actions sections of the Risk Assessment sheets (Attachment 2).

8.2 OFFICER RECOMMENDATION

The Audit Committee recommend to Council that:

- 1. the attached Risk Management Governance Framework and Risk assessment sheet be received and endorsed by Council as detailed in Attachment 1 to this report.**
- 2. Council receives the Chief Executive Officer's review of the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal controls and legislative compliance as detailed in Attachment 2 to this report.**



-
- 9. MATTERS BEHIND CLOSED DOORS**
 - 10. CLOSURE OF MEETING**