

TOWN OF BASSENDEAN

MINUTES

AUDIT AND GOVERNANCE COMMITTEE

HELD IN THE COUNCIL CHAMBER, 48 OLD PERTH ROAD, BASSENDEAN
ON WEDNESDAY 11 MARCH 2020, AT 5.30PM

1.0 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Presiding Member opened the meeting, welcomed all those in attendance and conducted an Acknowledgement of Country.

2.0 ATTENDANCES, APOLOGIES AND APPLICATIONS FOR LEAVE OF ABSENCE

Present

Cr Hilary MacWilliam, Presiding Member
Cr Renee McLennan
Cr Kathryn Hamilton
Tom Klaassen
Elliott Brannen
Martin Le Tessier (from 5.40pm)

Staff/Consultants

Paul White, Director Corporate Services
Elizabeth Kania, Manager Governance and Strategy
Diane Depiazz, Manager Finance
Liang Wong, Office of the Auditor General
Ron Back, Financial Advisor
Amy Holmes, Minute Secretary

Apologies

Cr Barty
Peta Mabbs, CEO

3.0 DEPUTATIONS

Nil

4.0 CONFIRMATION OF MINUTES

4.1 Audit and Governance Meeting held on 27 November 2019

COMMITTEE/OFFICER RECOMMENDATION – ITEM 4.1

MOVED Cr McLennan, Seconded Tom Klaassen, that the minutes of the Audit and Governance Committee meeting held on 27 November 2019, be confirmed as a true record.

CARRIED UNANIMOUSLY 5/0

5.0 ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

Nil

6.0 DECLARATIONS OF INTEREST

Nil

7.0 BUSINESS DEFERRED FROM PREVIOUS MEETING

Nil

8.0 REPORTS

Martin Le Tessier joined the meeting at 5.40pm.

8.1 Audit and Risk Register

APPLICATION

The purpose of this report was to provide the Committee with an Audit and Risk Register – High Level Report showing audit recommendations and action taken or proposed by the Town. This report contains recommendations from a number of audits that have been undertaken both of the Town and risks associated in local government.

ATTACHMENTS

Attachment No. 1:

Audit and Risk Register – High-Level Report

BACKGROUND

The Town of Bassendean engaged its internal auditor Moore Stephens to review the appropriateness and effectiveness of the Town's systems and procedures in relation to risk management, internal controls and legislative compliance pursuant to Regulation 17 of the *Local Government (Audit) Regulations 1996* ("Audit Regulation 17 Review").

The Moore Stephens report, "Review of Risk Management, Internal Controls and Legislative Compliance", was tabled at the Audit and Governance Committee meeting on 7 August 2019.

Recommendation 4.3.1 stated:

"An Audit Log of outstanding audit recommendations should be developed to enable tracking of open items for timely completion. The Audit Log should be presented to each Audit & Governance Committee meeting for oversight by Committee members."

The Audit and Risk Register represents a combination of risks and audit recommendations, and was subsequently tabled at the Audit and Governance Committee meeting on 13 November 2019. Feedback from the Committee indicated the Audit and Risk Register was too detailed for the Committees' purposes. The Committee resolved to receive the Audit and Risk Register and requested Officers develop a more succinct summary and progress report for future meetings.

STRATEGIC IMPLICATIONS

Objectives <i>What we need to achieve</i>	Strategies <i>How we're going to do it</i>	Measures of Success <i>How we will be judged</i>
5.1 Enhance organisational accountability	5.1.1 Enhance the capability of our people	Community / Stakeholder Satisfaction Survey (Governance)
	5.1.2 Ensure financial sustainability	Compliance Audit
	5.1.3 Strengthen governance, risk management and compliance	Risk Management Profile
	5.1.4 Improve efficiency and effectiveness of planning and services	Financial Ratio Benchmarked.
	5.1.5 Ensure optimal management of assets	Asset Ratio Benchmarked

STATUTORY REQUIREMENTS

Local Government (Audit) Regulations 1996, Regulation 17, states:

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 not less than once in every 3 financial years.

The CEO is to report to the audit committee the results of that review.

FINANCIAL CONSIDERATIONS

Action required to address some audit recommendations and risks may require the Town to engage external consultants. Any necessary engagements will be governed by the Town's Purchasing Policy and Procurement Guidelines.

COMMENT

Officers have developed an Audit and Risk Register – High-Level Report for consideration by the Committee. This report presents a summary of the Town's audit risks and audit recommendations made in recent internal and external audit reports relating to the Town and provides an update on actions taken to address those recommendations.

It is proposed for this report to be updated and provided for each meeting of the Committee.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.1

AGC-1/03/20

MOVED Cr Hamilton, Seconded Tom Klaassen, that the Audit and Governance Committee receives the Audit and Risk Register – High Level Report.

CARRIED UNANIMOUSLY 6/0

Staff will refine the high level report to show priorities and include Emerging Risks as a line item.

8.2 Audit Completion Report 2018-2019 – Identified Significant Adverse Trends (Ref: GOVN/CCLMEET/1) – Paul White, Director Corporate Services

APPLICATION

The purpose of this report was to inform Council, through the Audit and Governance Committee, of the action the Town of Bassendean has taken, or intends to take, with respect to matters identified as significant by the Town’s external auditor, Office of the Auditor General (OAG) and Macri Partners, in the Audit Completion Report for 2018-2019.

ATTACHMENTS

Attachment No. 2:

- Audit Completion Report for the year ended 30 June 2019, OAG and Macri Partners
- Report to the Minister, Town of Bassendean External Audit Findings for 2018-2019.

BACKGROUND

Macri Partners conducted the audit of the Town’s Annual Financial Statements for 2018-2019 in September 2019. The OAG reviewed the Annual Financial Statements in November 2019. The OAG and Macri Partners provided the Audit Completion Report to the Audit and Governance Committee on 27 November 2019, which was received by Council on 17 December 2019.

The OAG provided an Unqualified Opinion but identified significant adverse trends in the financial position of the Town:

“The Asset Sustainability Ratio and the Operating Surplus Ratio have been below the Department of Local Government, Sport and Cultural Industries standard for the past three years.”

STRATEGIC IMPLICATIONS

Objectives	Strategies	Measures of Success
<i>What we need to achieve</i>	<i>How we’re going to do it</i>	<i>How we will be judged</i>

5.1 Enhance organisational accountability	5.1.1 Enhance the capability of our people	Community / Stakeholder Satisfaction Survey (Governance)
	5.1.2 Ensure financial sustainability	Compliance Audit
	5.1.3 Strengthen governance, risk management and compliance	Risk Management Profile
	5.1.4 Improve efficiency and effectiveness of planning and services	Financial Ratio Benchmarked.
	5.1.5 Ensure optimal management of assets	Asset Ratio Benchmarked

STATUTORY REQUIREMENTS

The *Local Government Act 1995*, section 7.12A, relevantly states:

- (3) *A local government must –*
- (a) *prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
 - (b) *give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*
- (4) *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.*

FINANCIAL CONSIDERATIONS

Funding to meet costs associated with improving both ratios will be required in the 2020-2021 Budget and beyond.

COMMENT

The Town has an obligation to prepare a report to address the matters raised in the Audit Completion Report which must be provided to the Audit and Governance Committee. The report must also be provided to the Minister for Local Government following endorsement by Council.

Asset Sustainability Ratio

The Asset Sustainability Ratio is an approximation of the extent to which assets are being renewed or replaced as the assets reach the end of their useful lives. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation expense.

The Department of Local Government, Sport and Cultural Industries (DLGSC) standard is met if the Asset Sustainability Ratio is 0.90.

The OAG, in its Audit Completion Report for 2018-2019, reported that the Town's Asset Sustainability Ratio has been below the DLGSC standard for the past three years.

	Town of Bassendean			DLGSC Standard
	2019	2018	2017	
Asset Sustainability Ratio	0.26	0.48	0.42	0.90

The Asset Sustainability Ratio can be improved by:

- Increasing expenditure on capital renewal and replacement;
- Reviewing fair market value asset measurement; and
- Reviewing depreciation rates.

The Town has included significant expenditure in its Budget for 2019-2020 for capital upgrades to Town assets. Consequently, budgeted expenditure for 2019-2020 for capital asset renewal and replacement, is relatively low.

The Town is currently reviewing its Asset Management Plans and the Asset Sustainability Ratio for each plan in preparation for the 2020-2021 budget. This will also be incorporated into the Town's long term financial plan. The Town will continue to identify funding opportunities for further capital renewal and replacement in future years.

The Town continuously reviews its fair market value asset measurement as part of the asset revaluation process. In accordance with the Australian Accounting Standards and Local Government (Financial Management) Regulations the fair value of fixed assets is determined at least every three years and no more than five years. Depreciation rates are reviewed and adjusted, if appropriate, at the end of each reporting period.

Operating Surplus Ratio

The Operating Surplus Ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes. It is calculated by measuring operating surplus (operating revenue minus operating expenses) relative to own source operating revenue.

Own source operating revenue means revenue from rates, service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets.

The DLGSC standard is met if the Operating Surplus Ratio is 0.01.

The OAG, in its Audit Completion Report for 2018-2019 reported that the Town of Bassendean's Operating Surplus Ratio has been below the DLGSC standard for the past three years.

	Town of Bassendean			DLGSC Standard
	2019	2018	2017	
Operating Surplus Ratio	-0.10	-0.03	-0.05	0.01

The Operating Surplus Ratio can be improved by increasing own source revenue and reducing expenditure.

The Town will explore further sources of own source revenue as part of its long-term financial planning.

It is quite possible, however, that the ratios will remain at levels below the standard in the short-to-medium-term, due to cost pressures and limited revenue resources.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.2

AGC-2/03/20

MOVED Elliott Brannen, Seconded Cr Hamilton, that the Audit and Governance Committee recommends to Council that:

1. Council receives the officer's report and provides the report, attached to the Audit and Governance Committee Agenda of 11 March 2020, to the Minister for Local Government, The Hon. David Templeman MLA; and

2. A copy of the Report to the Minister, attached to the Audit and Governance Committee Agenda of 11 March 2020, be made available on the Town's website.

CARRIED UNANIMOUSLY 6/0

Mr Ron Back reported that the current ratios are not fit for purpose and are affecting many local governments. The issue is being investigated by WALGA and is under review by the Department.

8.3 Compliance Audit Return 2019 (Ref: GOVR/LREGLIA/9 - Peta Mabbs, CEO)

APPLICATION

The report presents the Local Government 2019 Compliance Audit Return for the Town of Bassendean for the period 1 January 2019 to 31 December 2019 to the Audit and Governance Committee for review and to report the results of that review to Council.

ATTACHMENTS

Attachment No. 3:

2019 Compliance Audit Return

BACKGROUND

All Local Governments are required to submit an annual Compliance Audit Return (CAR) to the Department of Local Government, Sport and Cultural Industries by 31 March each year for the previous calendar year. The CAR is used to measure the level of compliance with the Local Government Act and associated Regulations.

COMMUNICATION & ENGAGEMENT

The Executive and relevant staff were requested to complete those questions of the CAR that related to their service areas. All responses were then collated and incorporated into the CAR by the designated officer.

STRATEGIC IMPLICATIONS

Objectives <i>What we need to achieve</i>	Strategies <i>How we're going to do it</i>	Measures of Success <i>How we will be judged</i>
5.1 Enhance organisational accountability	5.1.1 Enhance the capability of our people	Community / Stakeholder Satisfaction Survey (Governance)

	<p>5.1.2 Ensure financial sustainability 5.1.3 Strengthen governance, risk management and compliance 5.1.4 Improve efficiency and effectiveness of planning and services 5.1.5 Ensure optimal management of assets</p>	<p>Compliance Audit Risk Management Profile Financial Ratio Benchmarked. Asset Ratio Benchmarked</p>
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COMMENT

Each Local Government Authority is required to complete a CAR for the period 1 January 2019 to 31 December 2019. The CAR must be submitted to the Director General, Department of Local Government, Sport and Cultural Industries, by 31 March 2020. The return is one of the tools that allows Council to monitor how the organisation is functioning. It places emphasis on the need to bring to Council's attention issues of noncompliance, or issues where full compliance was not achieved. In addition to explaining or qualifying cases of noncompliance, the return also requires Council to endorse any remedial action taken or proposed to be taken in regard to instances of non-compliance.

The document contains over 100 questions in order to assess a local government's compliance with the legislative framework.

The compliance areas include:

TOPIC	NUMBER OF QUESTIONS
Commercial Enterprises by Local Governments	5
Delegation of Power / Duty	13
Disclosure of Interest	19
Disposal of Property	2
Elections	2
Finance	14
Integrated Planning & Reporting	7
Local Government Employees	5
Official Conduct	6
Optional Questions	4
Tenders for Providing Goods and Services	27

Areas of non-compliance

There are two responses of where a non-compliance has occurred.

1. Disclosure of interest

Question 7: Was a primary return lodged by all newly designated employees within three months of their start day?

The Executive Manager Infrastructure was provided with the incorrect form to complete following appointment to the position.

The new employee was provided with an annual return form to complete, which was completed within the required period for the primary return. The employee was subsequently provided with the correct form and completed the primary return, but not within three months of the start day.

Internal procedures have been reviewed to ensure correct forms are issued and recorded in the future.

2. Finance

Question 8: Where the auditor identified matters as significant in the auditor's report (prepared under s7.9(1) of the Act), did the local government prepare a report stating what action had been taken or it intended to take with respect to each of the matters and give a copy to the Minister within 3 months after receipt of the audit report?

The Town's auditors completed the audit of the Annual Financial Statements for 2017/2018 and provided its Audit Completion Report, which was received by Council on 27 November 2018. The auditor provided an unqualified opinion but identified significant adverse trends in the financial position:

"The Asset Sustainability Ratio and the Operating Surplus Ratio have been below the Department of Local Government, Sport and Cultural Industries standard for the last three years."

The Town did not provide a report with respect to these matters to the Minister for Local Government, until 28 August 2019.

The non-compliance was brought to the attention of this Committee on 7 August 2019 and Council on 27 August 2019. Finance area operating procedures have been reviewed to ensure future compliance.

STATUTORY REQUIREMENTS

Regulation 14(3A) *Local Government (Audit) Regulations 1996*

14. Compliance audits by local governments

(1) *A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.*

(2) *After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.*

(3A) *The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.*

(3) *After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be —*

(a) *presented to the council at a meeting of the council; and*

(b) *adopted by the council; and*

(c) *recorded in the minutes of the meeting at which it is adopted.*

15. Certified copy of compliance audit return and other documents to be given to Departmental CEO

(1) *After the compliance audit return has been presented to the council in accordance with regulation 14(3) a certified copy of the return together with —*

(a) *a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and*

(b) *any additional information explaining or qualifying the compliance audit,*

is to be submitted to the Departmental CEO by 31 March next following the period to which the return relates.

(2) *In this regulation —*

certified *in relation to a compliance audit return means signed by —*

- (a) *the mayor or president; and*
- (b) *the CEO.*

FINANCIAL CONSIDERATIONS

Nil

COMMITTEE/OFFICER RECOMMENDATION — ITEM 8.3

AGC-3/03/20

MOVED Tom Klaassen, Seconded Martin Le Tessier, that the Audit and Governance Committee recommends that Council adopts the Local Government 2019 Compliance Audit Return for the Town of Bassendean for the period 1 January 2019 to 31 December 2019, as attached to the Audit and Governance Committee Agenda of 11 March 2020.

CARRIED UNANIMOUSLY 6/0

Mr Ron Back advised staff to review their response to Item 7 - Finance - Page 5 and Item 4 - Integrated Planning and Reporting - Page 7.

9.0 **MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil

10.0 **ANNOUNCEMENTS OF NOTICES OF MOTION FOR THE NEXT MEETING**

Nil

11.0 **CONFIDENTIAL BUSINESS**

Nil

12.0 **CLOSURE**

The next meeting will be held on Wednesday 3 June 2020 commencing at 5.30pm.

There being no further business, the Presiding Member closed the meeting at 6.30pm.