



TOWN OF  
**Bassendean**

## **AGENDA**

# **Audit and Risk Management Committee**

**Wednesday 30 November 2022**

Notice is hereby given of the meeting

to be held in the Council Chamber

Administration Building

48 Old Perth Road, Bassendean WA 6054,

commencing at 5:30 pm

Luke Gibson

**CHIEF EXECUTIVE OFFICER (INTERIM)**

24 November 2022

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## 1 Declaration Of Opening; Acknowledgment of Country; Acknowledgment of Visitors; Disclaimer

### Acknowledgement of Traditional Owners

The Town of Bassendean acknowledges the past and present traditional owners of the land on which we gather to conduct this meeting, and pays its respects to their Elders, both past and present.

## 2 Announcements by the Presiding Member without Discussion

## 3 Attendances, Apologies and Leave of Absence

## 4 Declarations of Interest

## 5 Presentations or Deputations

## 6 Confirmation of Minute

## 7 Business Deferred from Previous Meeting

## 8 Reports

8.1 Review of Investment Policy	
Property Address	N/A
Landowner/Applicant	N/A
File Reference	GOVN/CCLMEET/1
Department	Corporate Services
Previous Reports	N/A
Authority/Discretion	<b>Legislative</b> Includes adopting local laws, town planning schemes & policies.
Attachments	<ol style="list-style-type: none"> <li>1. Investment Policy - 2018 [8.1.1 - 7 pages]</li> <li>2. Draft Amended Investment Policy - Nov 2022 - Tracked Changes [8.1.2 - 8 pages]</li> <li>3. Draft Amended Investment Policy - Nov 2022 [8.1.3 - 5 pages]</li> </ol>

### Purpose

The purpose of this report is for the Audit and Governance Committee to review Council's Investment Policy and make a recommendation to Council as to the interest rate differential and maximum basis point differential that should be accepted for investment with non-fossil fuel lenders.

## Background

In December 2015, Council resolved that the existing policy be amended:

*“to incorporate deliberative preference for investment with financial institutions that do not invest in or finance the fossil fuel industry where:*

- a) *The investment is compliant with Council’s investment policy with regards to risk diversification & credit rating;*
- b) *The investment rate of interest is favourable to Council relative to other similar investments that may be on offer to Council at the time of investment.”*

Council referred the matter to the next Audit and Risk Management Committee meeting to review the policy.

In March 2016, the Committee considered the policy and recommended that Council amends the policy to include:

*“Preference will be given to invest in financial institutions who do not invest in or finance the fossil fuel industry.”*

Later in March 2016, Council adopted the revised Investment Policy.

In May 2017, section 19C(2)(b) of the *Local Government (Financial Management) Regulations 1996* was amended to change the maximum fixed term deposit period for investments from 12 months to three years.

In June 2017, the Audit and Risk Management Committee recommended to Council that the Investment Policy be amended to accommodate the change in the Regulations, and Council adopted the amended policy at its June 2017 Ordinary Council Meeting.

Meanwhile, Council reviewed all leadership and governance policies, with a workshop held on 1 March 2017. The revised policies that followed were presented to Council for adoption at the June 2017 Ordinary Council Meeting. Council resolved to adopt the policies for the purposes of public consultation.

In September 2017, following receipt of public comments (two public comments were received, each commenting on multiple policies), Council considered the leadership and governance policies and resolved to (among other things) adopt the policy without any further modification.

In January 2018, Council considered the draft amended Policy which included the following addition:

*“The Town will not make investments in companies that derive any revenues in the following areas of activity:*

- a) *Controversial weapons: Companies involved in the manufacture and/or production of controversial weapons such as land mines, cluster bombs and nuclear weapons;*
- b) *Tobacco: Companies involved in the manufacture and/or production of tobacco products.*

*The Town will not make investments in companies that derive 10% or more of their revenues in the following areas of activity:*

- a) *Armaments: Companies involved in the manufacture and/or production of armaments;*
- b) *Gambling: Companies involved in the manufacture and/or production of gambling machines and services and/or ownership of outlets housing these machines;*
- c) *Old growth logging: Companies involved in the logging of old growth forests; or*
- d) *Uranium Mining/Nuclear: companies involved in uranium mining and production of nuclear energy.*

*The Town has determined that the Fund will not make investments in companies that derive 1/3 (one-third) or more of their revenues in high carbon sensitive activities.”*

Council resolved to adopt the Investment Policy (with the above amendments), plus the following additional amendment:

*“That the Town will not engage in leverage investments or securities.”*

The amendments to the Investment Policy adopted by Council in January 2018 were closely aligned with public comments received in response public consultation, which Council had considered, but declined to make any consequential amendment at the September 2017 Ordinary Council Meeting.

The amendment for the Town not to engage in leverage investments of securities was unnecessary given restrictions on the type of investments local governments can make under the *Local Government (Financial management) Regulations 1996*. Local governments cannot invest in securities other than term deposits or government bonds, which cannot be leveraged.

The Town is unable to implement the remaining policy amendments made in January 2018, with present resources and currently available and reported information, while complying with the important portfolio and counterparty limits specified in the policy.

Finally, the policy does not provide sufficient guidance for the administration to properly give effect to Council's preference for non-fossil fuel investment, while seeking to achieve a suitable investment yield, providing a revenue source for the Town. Consequently, the draft Amended Investment Policy proposes inclusion of an interest rate differential, subject to a basis point cap, to guide investment decisions.

While the core components of the Investment Policy remain valid, it is considered a major review of the policy is required to:

- Simplify the policy in alignment with the Town's other more recent policies;
- Remove provisions that are incapable of application in practice; and
- Remove unnecessary content.

Further, review of the policy presents an opportunity to give practical effect to Council's desire for a focus on investment with non-fossil fuel lending institutions by setting an interest rate differential and maximum basis point differential for investment with non-fossil fuel lenders.

## **Proposal**

That the Audit and Governance Committee review the existing Investment Policy and recommend that Council adopts the draft amended Investment Policy. In doing so, the Committee is requested to make a recommendation to Council as to the interest rate differential and maximum basis point differential Council should accept for investment with non-fossil fuel lenders.

## **Communication and Engagement**

A desktop review of comparable local governments in the Perth metropolitan area was undertaken and from the 15 local governments surveyed, 11 have a policy statement on non-fossil fuel investment. Most policy statements specify a preference for investment in non-fossil fuel lenders, subject to risk considerations and favourable terms (interest rates).

The 'favourable terms' qualification operates to restrict investment in non-fossil fuel lenders to a relatively low level in most local governments. Two local governments specify an interest rate differential the local government is prepared to accept for investment in non-fossil fuel lenders (5 basis points and 10 basis points). For example, if the best fossil fuel lender interest rate available was 3.0%, the required non-fossil fuel lender interest rate is 2.95% in the first instance and 2.9% in the second instance.

Of the 15 local governments surveyed, the Town had the highest level of actual investment in non-fossil fuel lenders, at 70% as of 31 October 2022, with other local governments ranging from zero to 50%. The lower uptake is primarily due to higher investments returns available from fossil fuel banks and secondarily due to lower risk profiles of banks from this category.

The portfolio limits and institution limits specified in the investment policies of other local governments vary widely. For local governments that specified limits for A – 1 rated and A – 2 rated institutions, the range was:

	Portfolio limit		Institution limit	
	Upper	Lower	Upper	Lower
A – 1 rated	100%	80%	50%	15%
A – 2 rated	80%	15%	40%	10%

The Town has the highest A – 1 rated institution limit at 50% and for A – 2 rated institutions at 30%.

## Strategic Implications

Priority Area 4: Driving Financial Suitability

4.1 Ensure there is sufficient, effective and sustainable use of assets

### Comment

#### Non-Fossil Fuel Lenders

The existing Policy presently states:

*“Preference will be given to invest in financial institutions who do not invest on or finance the fossil fuel industry. “*

However, this is subject to the Policy Objective, which presently states:

*“To invest funds to ensure the maximisation of returns with due consideration of the associated risks, whilst protecting the initial capital investment and future cash flows.”*

Presently, the administration must give effect to Council’s desire for a preference for investment in non-fossil fuel lenders, while maximising returns. Where available interest rates for investments with non-fossil fuel lenders are lower than those available for fossil fuel lenders for an equivalent investment option, the administration must resort to qualitative considerations of balance between these two competing objectives.

It is necessary for the administration to receive guidance from Council, to quantify Council's interest rate expectations for investment in non-fossil fuel lenders so the administration can implement the Investment Policy in a consistent and transparent way.

Consequently, the Committee is now requested to quantify the interest rate differential it recommends Council ought to accept, as well as a cap on that differential expressed in terms of a number of basis points, for comparable investment options with non-fossil fuel lenders.

### Broader Restrictions on Investments

The draft amended policy proposes that the inclusions adopted by Council in January 2018 be removed, as the Town is unable to implement those policy measures.

Implementation of the January 2018 amendments requires not only an in-depth understanding of the business of the Authorised Deposit-taking Institution (ADI) and its policies, but also detailed calculations of sources of revenue that are not reported or otherwise publicly available. For non-fossil fuel lenders, the Town uses Marketforces to identify institutions the Town regards as non-fossil fuel lenders. The Marketforces website is regularly updated and is used by many local governments to determine fossil fuel status.

According to its website, Marketforces "*exposes the institutions that are financing environmentally destructive projects and help Australians hold these institutions accountable*". Marketforces categorises financial institutions according to their fossil fuel lending practices, identifying whether they are engaged in lending to fund fossil fuel industries.

There is no equivalent body undertaking the same or similar activity that would assist the Town to categorise financial institutions in terms of the January 2018 amendments to the policy. While most ADIs have corporate positions on environmental, social and governance (ESG) issues which tend to make general statements, with most ADIs stating a commitment to positive change on ESG issues, confirmation of individual investment or financing in areas of controversial weapons, armaments, gambling or old growth logging becomes more complicated with little or no information being included in annual reports or on lender websites. The research showed no reliable or up-to-date websites which provide this information.

As stated in the Background section above, the January 2018 amendment for the Town not to engage in leverage investments of securities is unnecessary given restrictions on the type of investments local governments can make under the *Local Government (Financial management) Regulations 1996*. Local governments cannot invest in securities other than term deposits or government bonds, which cannot be leveraged.



### Legislative Requirements

Legislative requirements are included in the document control box at the end of the policy and it is not necessary to repeat the list of Acts within the policy itself. Consequently, this section of the policy is proposed to be removed.

### Delegation of Authority

Delegations are included in the Council-adopted Delegations Register which is regularly reviewed. As such, inclusion of such matters in the policy is not necessary. Further, any amendment to the Delegations Register will also require amendment to the Policy. Consequently, this section of the policy is proposed to be removed.

### Ethics and Conflicts of Interest

This is covered by the Town's Code of Conduct. Consequently, this section of the policy is proposed to be removed.

### Credit Ratings

The portfolio credit framework and counterparty credit framework have been reviewed for appropriateness and benchmarked against other metropolitan local governments, as outlined in the Communication and Engagement section above. The administration considers the portfolio credit framework and counterparty credit framework to be appropriate for the Town, to achieve the objectives of the policy. Consequently, no change to the existing policy is recommended.

While increasing the A – 2 rated portfolio limit from 60% to 75%, for example, would make it easier for the Town to achieve a higher level of non-fossil fuel investment, it does pose additional risks which may be inconsistent with the principal objective of the policy to preserve capital.

### Authorised Investments

The requirements have been summarised in the draft amended policy, rather than re-stating the Regulations.

### Fossil Fuel Free Investments

It is proposed to insert a new section into the draft amended policy to give effect to Council's preference for the Town's investments to be made with non-fossil fuel lenders. This is discussed extensively throughout this report.

The administration will aim to achieve investment of 60% of the Town's funds available for investment at any given time with non-fossil fuel lenders, subject to Council's decision in terms of the interest rate differential; noting that the lower the differential, the harder it will be for the Town to meet the criteria enabling higher investments in fossil fuel free deposits.

When investing the funds, the Town must consider risk, liquidity (cash flow requirements), diversification, the lenders' stance on fossil fuel and the restrictions in the policy. This can be a difficult balance, and subject to fluctuation from time-to-time, particularly given different investments are for varying lengths of time, depending on the purpose for which the funds are held by the Town and cash flow requirements. Also, the Town normally holds some funds at call, in an interest-bearing account with its banker, Commonwealth Bank (CBA), which is a fossil fuel lender.

Several corporate takeovers are beginning to have major implications for the Town's investments with non-fossil fuel lenders and may mean the Town will find it more difficult to achieve the target 60% investment with non-fossil fuel lenders. The Town may need to expand its portfolio either via further direct investments in other non-fossil fuel lenders that meet the criteria or via an investment broker with wider access to ADI's.

More specifically, the ANZ (a fossil fuel lender) is presently engaged in a buyout of Suncorp. As the only A-1 rated non-fossil fuel lender, the Town presently relies heavily on Suncorp, with current investment of \$6.5 million as of 31 October 2022 (32% of total funds under investment).

If approved by the ACCC, this buyout is expected to be completed in the second half of 2023, removing the only A – 1 rated non-fossil fuel lender as an investment option for the Town.

The Bank of Queensland (BoQ) has recently acquired ME Bank, with ME Bank completing the migration to BoQ's banking system in July 2022. BoQ does not directly fund fossil fuel mining projects but has some exposure through asset and equipment finance used in the extraction of fossil fuels. BoQ has committed to cease funding equipment directly involved in the extraction of fossil fuels by 2024, at which point they will be regarded as a non-fossil fuel lender.

The Town's current investments with ME Bank total \$4.4 million as of 31 October 2022 (21%) and as these investments were made prior to the system migration they are classified by the Town as non-fossil investments. Any new funds invested with ME Bank will be classified as fossil fuel investments.

The Town has recently held meetings with both National Australia Bank and CBA regarding "green" term deposits and bonds and the difference in interest rates that may apply. The Town is awaiting further information to determine whether they represent suitable investment options.

### Investment Advisor

It is proposed to make wording changes and incorporate the ability to use an external platform to manage the Town's investments, should the Town need to access a broader range of ADI's.

### Reporting and Review

It is proposed to make wording changes.

### Glossary of Terms

Considered unnecessary and is proposed to be removed from the draft amended policy.

### Application

Considered unnecessary and is proposed to be removed from the draft amended policy.

## **Statutory Requirements**

A local government must comply with the requirements of the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996* when investing funds, as follows:

### ***Local Government Act***

#### *6.14 Power to invest*

- (1) Money held in the municipal fund or the trust fund of a local government that is not, for the time being, required by the local government for any other purpose may be invested as trust funds may be invested under the Trustees Act 1962 Part III.*
- (2A) A local government is to comply with the regulations when investing money referred to in subsection (1).*
- (2) Regulations in relation to investments by local governments may —*
  - (a) make provision in respect of the investment of money referred to in subsection (1); and*
  - [(b) deleted]*

- (c) *prescribe circumstances in which a local government is required to invest money held by it; and*
- (d) *provide for the application of investment earnings; and*
- (e) *generally provide for the management of those investments.*

### **Local Government (Financial Management) Regulations 1996**

#### *19C. Investment of money, restrictions on (Act s. 6.14(2)(a))*

##### *1. In this regulation —*

##### ***authorised institution*** means —

- a. an authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or*
- b. the Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986;*

##### ***foreign currency*** means a currency except the currency of Australia.

##### *2. When investing money under section 6.14(1), a local government may not do any of the following —*

- a. deposit with an institution except an authorised institution;*
- b. deposit for a fixed term of more than 3 years;*
- c. invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;*
- d. invest in bonds with a term to maturity of more than 3 years;*
- e. invest in a foreign currency*

### **Financial Considerations**

The draft amended Investment Policy contains the following clauses in relation to investments in non-fossil fuel lenders:

*“8.1 When making investment decisions, the Town will give preference to institutions that do not invest in or finance the fossil fuel industry, where:*

*8.1.1 The investment complies with all other elements of this Policy, and*

*8.1.2 The interest rate is at least <<TBD>>% of, and no more than <<TBD>> basis points below, the interest rate available for comparable investment options available at the time.”*

The Committee is requested to make a recommendation to Council as to the interest rate differential and maximum basis point differential that it should accept for investment with non-fossil fuel lenders. The recommendation of the administration is that the interest rate differential be set between zero and 10%, and the basis points cap be set between zero and 50 basis points. The following examples show the effect of some different options open to the Committee.

Example One: Interest rate differential of 1%, with a basis points cap of 5 basis points:

- Where the highest available interest rate offered by a fossil fuel lender for the desired investment is less than 5.0% per annum, the Town will invest in a non-fossil fuel lender equivalent where it can obtain an interest rate within 1%. For example, if a fossil fuel lender is offering a rate of 3.00% for a term deposit taken over 12-months, the Town would be prepared to accept a reduced rate from a non-fossil fuel lender of 2.97% or above. For an investment of \$1 million for a 12-month term this could equate to a loss of potential investment income of up to \$300.
- Where the highest available interest rate offered by a fossil fuel lender for the desired investment is 5.0% per annum or higher, the Town will invest in a non-fossil fuel lender equivalent where it can obtain an interest rate within 5 basis points. For example, if a fossil fuel lender is offering a rate of 5.00% for a term deposit taken over 12-months, the Town would be prepared to accept a reduced rate from a non-fossil fuel lender of 4.95% or above. For an investment of \$1 million for a 12-month term this could equate to a loss of potential investment income of up to \$500.

Example Two: Interest rate differential of 5%, with a basis points cap of 25 basis points:

- Where the highest available interest rate offered by a fossil fuel lender for the desired investment is less than 5.0% per annum, the Town will invest in a non-fossil fuel lender equivalent where it can obtain an interest rate within 5%. For example, if a fossil fuel lender is offering a rate of 3.00% for a term deposit taken over 12-months, the Town would be prepared to accept a reduced rate from a non-fossil fuel lender of 2.85% or above. For an investment of \$1 million for a 12-month term this could equate to a loss of potential investment income of up to \$1,500.
- Where the highest available interest rate offered by a fossil fuel lender for the desired investment is 5.0% per annum or higher, the Town will invest in a non-fossil fuel lender equivalent where it can obtain an interest rate within 25 basis points. For example, if a fossil fuel lender is offering a rate of 5.00% for a term deposit taken over 12-months, the Town would be prepared to accept a reduced rate from a non-fossil fuel lender of 4.75% or above. For an investment of \$1 million for a 12-month term this could equate to a loss of potential investment income of up to \$2,500.

Example Three: Interest rate differential of 10%, with a basis points cap of 50 basis points:

- Where the highest available interest rate offered by a fossil fuel lender for the desired investment is less than 5.0% per annum, the Town will invest in a non-fossil fuel lender equivalent where it can obtain an interest rate within 10%. For example, if a fossil fuel lender is offering a rate of 3.00% for a term deposit taken over 12-months, the Town would be prepared to accept a reduced rate from a non-fossil fuel lender of 2.7% or above. For an investment of \$1 million for a 12-month term this could equate to a loss of potential investment income of up to \$3,000.
- Where the highest available interest rate offered by a fossil fuel lender for the desired investment is 5.0% per annum or higher, the Town will invest in a non-fossil fuel lender equivalent where it can obtain an interest rate within 50 basis points. For example, if a fossil fuel lender is offering a rate of 5.00% for a term deposit taken over 12-months, the Town would be prepared to accept a reduced rate from a non-fossil fuel lender of 4.5% or above. For an investment of \$1 million for a 12-month term this could equate to a loss of potential investment income of up to \$5,000.

The Town's total funds under investment in 2021/22 averaged \$15.5 million, with the actual amount under investment dependant on the time of year and other factors including the timing of rates instalments, grant income and cash flow requirements. Accordingly, the maximum theoretical loss in revenue from the proposed interest rate differential and basis points cap for non-fossil fuel lenders is approximately:

- Option One: \$ 7,750
- Option Two: \$38,750
- Option Three: \$77,500.

That is based on available interest rates of at least 5.0%, which are not presently available. Further, a significant portion of the Town's investments are for terms shorter than 12-months, which generally attract a lower rate of interest. Finally, the Town is unable to invest 100% of the funds available for investment with non-fossil fuel lenders at the present time, given the policies of the various ADI's, cash flow requirements and the portfolio and counterparty credit limits specified in the Investment Policy.

Assuming an average maximum interest rate available from fossil fuel lenders of 3.0%, with 60% of the Town's funds invested with non-fossil fuel lenders, the maximum loss in revenue from the proposed interest rate differential for non-fossil fuel lenders is approximately:

- Option One: \$ 2,790
- Option Two: \$13,950
- Option Three: \$27,900.

Should the interest rates available from non-fossil fuel lenders be close to those available for equivalent investments from fossil fuel lenders, the loss to revenue will be lower.

### **Risk Management Implications**

Financial Risk  
Medium

The draft amended Investment Policy has an overall objective of the preservation of capital. The portfolio and counterparty credit portfolio limits specified in the policy are considered appropriate for that objective.

The interest income forgone would be required to be met by a corresponding increase in other revenue or reduction in expenses.

### **Declaration of Conflicts of Interest**

All officers involved in the preparation of this report have considered and determined that they do not have a conflict of interest in the matter.

### **Officer Recommendation – Item 8.1**

That the Audit and Governance Committee recommends that Council adopts the draft amended Investment Policy, as attached to this report, subject to clause 8.1.2 being amended to read as follows:

*“The interest rate is at least <<TBD>>% of, and no more than <<TBD>> basis points below, the interest rate available for comparable investment options available at the time. (this section is required to be reworded at the Committee Meeting).”*

**Voting requirements: Absolute Majority**



<b>8.2 Audit Risk Register</b>	
<b>Property Address</b>	N/A
<b>Landowner/Applicant</b>	N/A
<b>File Reference</b>	GOVN/CCLMEET/1
<b>Author</b>	Paul White
<b>Department</b>	Director Corporate Services
<b>Previous Reports</b>	N/A
<b>Authority/Discretion</b>	<b>Executive</b> The substantial direction setting and oversight role of the Council.
<b>Attachments</b>	1. CONFIDENTIAL REDACTED - Audit Risk Register - Nov 2022 [8.2.1 - 6 pages]

### **Purpose**

The purpose of this report is to provide the Audit and Governance Committee with the Town's Audit Risk Register, with updated actions since the meeting of the Committee on 7 September 2022.

### **Background**

In 2019, a review was undertaken on 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*. The creation of an Audit Risk Register was a recommendation arising from that review.

### **Proposal**

For the Audit and Governance Committee to receive the Audit Risk Register and consider the action taken or proposed to address the identified risks.

### **Communication and Engagement**

Nil.

### **Strategic Implications**

Priority Area 6: Providing Visionary Leadership and Making Great Decisions

6.1 Make brave decisions in line with a risk appetite

6.3 Ensure operational activities reflect the strategic focus of Council



- 6.4 Reinforce a culture of collaboration, trust and demarcation between Council, administration and the community
- 6.6 Respond effectively and efficiently to crises

### Comment

The Audit Risk Register presents a summary of the audit risks and recommendations made in recent internal and external audit reports relating to the Town and provides an update on actions taken or proposed to address the identified risks.

No further Audit Reports have been received since the last meeting of the Committee. The audited annual financial statements for 2020/21 have been delayed. This is the subject of a separate report to this meeting.

### Statutory Requirements

The *Local Government (Audit) Regulations 1996, Regulation 16* states:

*“An audit committee has the following functions —*

- (a) to guide and assist the local government in carrying out —*
  - (i) its functions under Part 6 of the Act; and*
  - (ii) its functions relating to other audits and other matters related to financial management;*
- (b) to guide and assist the local government in carrying out the local government’s functions in relation to audits conducted under Part 7 of the Act;*
- (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); and*
  - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor’s other duties under the Act in respect of the local government;*
- (f) to oversee the implementation of any action that the local government —*
  - (i) is required to take by section 7.12A(3); and*
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
  - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*

*(g) to perform any other function conferred on the audit committee by these regulations or another written law.”*

### **Financial Considerations**

Implementation of some audit recommendations may require additional funds and will be the subject of separate budget submissions as and when required. Council's Purchasing Policy and the Town's Procurement Framework will govern any required engagements.

### **Risk Management Implications**

Financial Risk  
Medium

Risk implications are detailed in the Audit Risk Register.

### **Declaration of Conflicts of Interest**

All officers involved in the preparation of this report have considered and determined that they do not have a conflict of interest in the matter.

### **Officer Recommendation – Item 8.2**

That the Audit and Governance Committee receives the Audit Risk Register and notes the action taken or proposed to be taken, to address the identified risks.

### **Voting requirements: Simple Majority**

<b>8.3 OAG - Audit Committee Chair Forum - October 2022</b>	
<b>Property Address</b>	Address here
<b>Landowner/Applicant</b>	Owner/s here
<b>File Reference</b>	FINM/AUD1
<b>Author</b>	Director Corporate Services
<b>Department</b>	Corporate Services
<b>Previous Reports</b>	NA
<b>Authority/Discretion</b>	<b>Information</b> For the Council/Committee to note.
<b>Attachments</b>	<ol style="list-style-type: none"> <li>1. OAG Audit Committee Chair October 2022 Summary [<b>8.3.1</b> - 2 pages]</li> <li>2. OAG Audit Committee Chair October 2022 Caroline Spencer [<b>8.3.2</b> - 27 pages]</li> <li>3. OAG Report 20 Fraud Risk Management Better Practice Guide [<b>8.3.3</b> - 64 pages]</li> </ol>

### **Purpose**

The purpose of this report is to inform the Committee of the most recent Audit Committee Chair Forum held by the Office of the Auditor General, on 13 October 2022, and to draw the Committee's attention to the Auditor General's Fraud Risk Management – Better Practice Guide.

### **Background**

The OAG hosted its fifth Audit Committee Chair Forum, on 13 October 2022. Auditor General Caroline Spencer provided an overview of the 2022 audit season, including audit access and provided a presentation on considerations for audit committees in the era of sustainability reporting. Assistant Auditor General Forensic Audit, Carl Huxtable, presented on the OAG's Fraud Risk Management - Better Practice Guide and the tools available to assist entities to uplift their fraud resilience.

### **Proposal**

That the Committee note the Auditor General's presentation and the Fraud Risk Management – Better Practice Guide.

### **Communication and Engagement**

Nil

## **Strategic Implications**

Priority Area 6: Providing Visionary Leadership and Making Great Decisions

6.1 Make brave decisions in line with a risk appetite

6.4 Reinforce a culture of collaboration, trust and demarcation between Council, administration and the community

## **Comment**

The Committee considered a new Fraud and Corruption Policy and Fraud and Corruption Control Plan for the Town at its 22 March 2022 meeting and recommended Council adopt both documents, which it did at the March 2022 Ordinary Council Meeting. The Town's Fraud and Corruption Control Plan draws from the Australian Standard AS8001-2021 – 'Fraud and Corruption Control' and is supported by an Action Plan, which the Town will continue to implement throughout 2022/23.

The OAG Fraud Risk Management – Better Practice Guide also draws from Australian Standard AS8001-2021 and the Town's Fraud and Corruption Control Plan is broadly consistent with the Better Practice Guide.

A focus of the Better Practice Guide is aimed at guiding those responsible for developing and implementing an entity's fraud risk management program, and it includes some useful resources designed to support the fraud risk management process. The Town will review its Fraud and Corruption Control Action Plan in light of the Better Practice Guide, to incorporate elements appropriate for the Town.

## **Statutory Requirements**

Regulation 17 of the Local Government (Audit) Regulations 1996 requires local government CEOs to review their entity's systems and procedures, including for risk management, to ensure they are effective and appropriate for the entity's needs.

## **Financial Considerations**

Implementation of the Fraud and Corruption Control Plan may require additional funds and will be the subject of separate budget submissions as and when required. The Town's Purchasing Policy and Procurement Guidelines will govern any required engagements.

## **Risk Management Implications**

Financial Risk  
High

The Auditor General reported that:

*The Association of Certified Fraud Examiners Report to the Nations 2022, estimated that fraud losses in businesses, government and not-for-profits are approximately 5% of their annual turnover. If this estimate is an accurate reflection of actual fraud losses within the WA public sector, the impact on the people of WA, and the services to them, is considerable.*

*Fraud within the WA public sector is typical of instances in other jurisdictions and sectors where investigations regularly find deficiencies within entities' controls. These deficiencies may have been identified earlier if the entities had a robust and rigorous fraud risk management program in place.*

### **Declaration of Conflicts of Interest**

All officers involved in the preparation of this report have considered and determined that they do not have a conflict of interest in the matter.

### **Officer Recommendation – Item 8.3**

That the Audit and Governance Committee notes the Auditor General's presentation and the Fraud Risk Management – Better Practice Guide.

**Voting requirements: Simple Majority**

<b>8.4 Delay to the Audited Annual Financial Statements for 2021/22</b>	
<b>Property Address</b>	N/A
<b>Landowner/Applicant</b>	N/A
<b>File Reference</b>	GOVN/CCLMEET/1
<b>Author</b>	Director Corporate Services
<b>Department</b>	Corporate Services, Corporate Services
<b>Previous Reports</b>	N/A
<b>Authority/Discretion</b>	<b>Information</b> For the Council/Committee to note.
<b>Attachments</b>	Nil

### **Purpose**

The purpose of this report is to inform the Committee of a delay in the Town receiving the audited annual financial statements for 2021/22 and the reason for the delay.

### **Background**

Section 5.53 of the *Local Government Act 1995* requires the Town to prepare an annual report for each financial year, with the local government required to accept the annual report for the previous financial year by 31 December, or within two months of receipt of the auditor's report. The local government must then hold a general meeting of electors within 56 days of accepting the annual report.

The Town had planned to present the annual report, including the audited annual financial statements for 2021/22 to Council for acceptance at the Ordinary Council Meeting, on 13 December 2022, and to propose the annual meeting of electors be held in early-February 2023. However, this is no longer possible due to a significant delay regarding the revaluation of the Town's assets required for the annual financial statements.

Consequently, the following is now proposed:

- Hold a supplementary Audit and Governance Committee meeting on 8 February 2023 for the audit closing meeting and receipt of the annual financial statements and auditors report;
- Present the annual report, with the audited annual financial statements for Council to accept at the Ordinary Council Meeting on 28 February 2023; and
- Hold the general meeting of electors in late-March 2023.

## Proposal

That the Committee note the delay in the Town receiving the Audited Annual Financial Statements for 2021/22 and the reason for the delay, and the consequential effect on the timing of the general meeting of electors.

That the Committee recommend to Council that a supplementary meeting of the Audit and Governance Committee be held on 8 February 2023.

## Communication and Engagement

The Town has engaged extensively with the appointed contractor engaged to undertake valuation of the Town's land, building and infrastructure assets, and with the appointed auditors RSM Australia, with a view to having the asset revaluation completed in time to allow the audit to be finalised and the annual report presented to Council in 2022.

## Strategic Implications

Priority Area 4: Driving Financial Suitability

4.1 Ensure there is sufficient, effective and sustainable use of assets

## Comment

All local governments are required to revalue their assets every five years, and the Town's revaluation was due for the financial year ending 30 June 2022. The Town conducted an RFQ process and awarded the contract for revaluation services in May 2022, with completion of the exercise due by 31 August 2022. That would have allowed sufficient time for the Town to undertake its due diligence, complete its financial statements and submit them for audit. However, the asset valuation process has been problematic; with the contractor consistently failing to:

- Meet deadlines;
- Provide sufficient and adequate information;
- Provide accurate data; and
- Respond to numerous queries arising from the Town's due diligence in a timely manner.

The Town has completed its annual financial statements for 2021/22 and the asset valuation for the Town's land and buildings is now complete. While the asset valuation for the Town's Infrastructure assets is nearing completion, it cannot now be finalised in time for RSM Australia and then the Auditor General to complete their processes in time to present the auditor's report to Council this year. Whilst drafting this report, the Finance and Assets team are querying the unit rate used by the valuer for the pavement component of the road, showing a substantial change from the previous valuation. This has required further discussion with the Town's auditors, RSM, and its appointed road maintenance contractor.

The Town will investigate options to mitigate the risk of this re-occurring in the future, including staggering the revaluation of different asset classes and bringing the infrastructure revaluation of assets in-house.

### **Statutory Requirements**

Section 5.53 *Local Government Act 1995*

Part 7 *Local Government Act 1995*

Part 4 *Local Government (Financial Management) Regulations 1996*

### **Financial Considerations**

No direct financial consequences, although Town staff (particularly the Manager Finance and Asset Management Contractor) have been tireless in their efforts to progress the matter, and this has dominated their time and taken them away from other important work such as the development of the Long-Term Financial Plan model.

### **Risk Management Implications**

Financial Risk - High

The Town is the custodian of significant assets, and the accurate valuation of those assets is a critical component of the annual financial statements. A mis-statement in the infrastructure asset category, which makes up 56% of the Town's total assets, would have a significant impact on the financial position of the Town. To mitigate this risk, the Town engaged the external contractor to perform the Town's Land and Buildings and Infrastructure Categories. Internally, the Town used the services its appointed Asset Management contractor who has extensive knowledge of the Town's assets, with oversight provided by the Manager Finance.

### **Declaration of Conflicts of Interest**

All officers involved in the preparation of this report have considered and determined that they do not have a conflict of interest in the matter.

### **Officer Recommendation – Item 8.4**

That the Audit and Governance Committee:

1. Notes the delay in the Town receiving the Audited Annual Financial Statements for 2021/22 and the reason for the delay, and the consequential effect on the timing of the General Meeting of Electors; and
2. Recommends that an additional meeting of the Audit and Governance Committee be held on 8 February 2023.

**Voting requirements: Simple Majority**



## **9 Motions of Which Previous Notice Has Been Given**

## **10 Announcements of Notices of Motion for the Next Meeting**

## **11 Closure**

It is proposed that an additional meeting of the Audit and Governance Committee be held on Wednesday 8 February 2023 commencing at 5.30pm.

The next scheduled Audit and Governance Committee is proposed to be held on Wednesday, 8 March 2023 commencing at 5.30pm.