

TOWN OF BASSENDEAN

MINUTES

AUDIT AND GOVERNANCE COMMITTEE

HELD IN THE COUNCIL CHAMBER, 48 OLD PERTH ROAD, BASSENDEAN
ON WEDNESDAY 5 JUNE 2019, AT 9.30AM

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 Kathryn Hamilton, Presiding Member
Cr Jai Wilson
Cr Melissa Mykytiuk
Ian Walters
Cr Renee McLennan, Mayor (Observer)

Officers

Peta Mabbs, CEO
Ken Lapham, A/Director Corporate Services
Amy Holmes, Minute Secretary

Consultants

Mr Suren Herathmudalige, Macri Partners
Mr Tony Macri, Macri Partners
Ms Anne Cheng, Moore Stephens,
Ron Back, Financial Advisor

Apologies

Mr Tom Klaassen

3.0 DEPUTATIONS

- 3.1 Ms Anne Cheng from Moore Stephens, was in attendance to discuss the Internal Audit.
- 3.2 Mr Suren Herathmudalige and Mr Tony Macri from Macri Partners, were in attendance to discuss the Interim Audit Report.

4.0 CONFIRMATION OF MINUTES

4.1 Audit and Governance Committee meeting held on 18 March 2019

COMMITTEE/OFFICER RECOMMENDATION – ITEM 4.1

MOVED Cr Wilson, Seconded Ian Walters, that the minutes of the Audit and Governance Committee meeting held on 18 March 2019, be confirmed as a true record.

CARRIED UNANIMOUSLY 4/0

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

8.1 Update on Audit Activity from Anne Cheng, Moore Stephens (WA) Pty Ltd

This will now be a standing item on the Audit and Governance Committee Agenda, to enable updates from Council's External Auditor.

Audit Regulation 17 Review

A review of Audit Regulation 17 commenced on 13 May 2019. The purpose of the review is to provide an independent assessment to the CEO in respect of the Town's governance and processes regarding Risk Management, Internal Controls and Legislative Compliance.

A draft report for consideration and review is targeted for 7 June 2019.

Audit Plan for 2019-2020

The Audit Plan for the next financial year will be presented to the next Audit and Governance Committee following engagement with the CEO. The rationale for the Plan will take into consideration the results of the Audit Regulation 17 review to target areas based on exposure to financial and/or operational risk.

Risk Workshops

Risk Workshops were conducted for staff and for the Executive Team on 8 and 17 May 2019.

The objectives of the Risk Workshops were to provide training using ISO 31000:2018 as the Risk Management Standard to:

- increase awareness of the principles of risk management;
- outline staff accountability and responsibilities for managing risk in their respective work areas;
- engage in risk conversations to start the process of formalising procedures for risk identification, assessment and risk mitigation; and
- provide informal and formal risk reporting guidelines for staff adherence.

The Risk Workshop for the Executive Team focused on discussion of strategic risks, including outcomes of risk discussions from the staff workshops.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.1

AGC-1/06/19

MOVED Cr Mykytiuk, Seconded Cr Wilson, that the update on Audit Activity from Moore Stephens (WA) Pty Ltd, be received.

CARRIED UNANIMOUSLY 4/0

8.2 2018/19 Interim Audit – Macri Partners (Ref: FINM/AUD1 - Ken Lapham, Manager Corporate Services)

APPLICATION

The purpose of this report was to provide Council, through the Audit and Governance Committee, with details of the 2018/19 Interim External Audit Report and provide management comments and information on the remedial action taken.

ATTACHMENTS

Confidential Attachment No. 1:
2018/19 Interim Audit Report

BACKGROUND

In March 2019, Macri Partners, the Town's Auditors, has reviewed the following functions:

- Bank Reconciliations;
- Investment of Surplus Funds;
- Purchases, Payments and Creditors;
- Rate Receipts and Rate Debtors;
- Receipts and Sundry Debtors;
- Payroll;
- General Accounting (Journals, etc);
- IT Controls;
- Registers (Tenders Register, etc);
- Compliance;
- Review of Council Minutes.

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	
	5.1.3 Strengthen governance, risk management and compliance	Compliance Audit
	5.1.4 Improve efficiency and effectiveness of planning and services	Risk Management Profile
	5.1.5 Ensure optimal management of assets	Financial Ratio Benchmarked. Asset Ratio Benchmarked

FINANCIAL CONSIDERATIONS

Funding to meet costs associated with the 2019 External Audit exists in the 2018/19 Budget.

COMMENT

The Interim Audit of systems and processes provides a level of assurance to auditors, the CEO, the Committee and Council in relation to the level of controls that are in place and staff adherence to those controls.

A summary of the issues identified by the Auditor is included as an attachment to the agenda. Management comments in response to the issues raised by Macri Partners, have been submitted to Macri Partners and the Office of Auditor General.

The 2018/19 audit process involved the Office of Auditor General, who will oversee Local Government financial audits. The Auditor General commenced local government financial audits in 2017/18. Macri Partners will complete the 2018/19 Annual Financial audit for the Town of Bassendean, with the Office of Auditor General having the final audit sign off.

Appropriate action to have the various recommendations in the Interim Audit Report implemented, will be or has been undertaken.

The Audit and Governance Committee can recommend that Council receive the Interim Audit Report and note management's comments.

The Acting Director Corporate Services recommends that the Interim Audit Report prepared by Macri Partners be received and that the management's comments be noted.

The Committee discussed the Payment of Bonds and Trust Funds. The CEO will liaise with WALGA to seek its opinion on this matter and lobby for change with the Auditor General.

The following amendments will be made to the Interim Audit Report:

5. *Access unrestricted to payroll module*

Management Comment

*Agreed. Corrective action has now been implemented. **The Payroll Officers' access will be limited to payroll processing functions segregated from read only functions for oversight purposes.***

9. *Recognition of trust fund monies and payment of interest*

Management Comment

Disagree. Action will be taken to challenge the Office of the Auditor General's finding. Further advice is to be sought from the West Australian Local Government Association (WALGA) and the Department of Local Government, Sport and Cultural Industries before the next Audit & Governance Committee meeting.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.2

AGC-2/06/19

MOVED Cr Mykytiuk, Seconded Cr Hamilton, that the Audit and Governance Committee recommends that Council receives the Interim Audit Report for the 2018/19 financial period, **as amended**, from Macri Partners.

CARRIED UNANIMOUSLY 4/0

8.3 Policy 6.14 - Review of Purchasing (Ref: GOVR/POLCY/1-Acting Director Corporate Services, Ken Lapham)

APPLICATION

In response to the 2018/19 Interim Audit review, the Audit and Governance Committee was requested to recommend Council adopt a revised Purchasing Policy.

The Town of Bassendean Purchasing Policy does not include information about what forms of quotations are acceptable, the minimum number of verbal and written quotes and record retention.

In order to comply with the requirements of the Local Government (Functions & General) Regulations 1996 a revised Purchasing policy to ensure compliance is presented.

Separate to the above, consideration was also given to a Council resolution (28 August 2018) that *“the Audit and Governance Committee consider the scope of works and deliverables for new projects and consultancies that would be appropriate for presentation to Council/Committees for consideration and approval prior to release, and provide recommendations to Council.”*

A progress report on the progress in reviewing the Town’s procurement processes & controls, was also provided.

ATTACHMENT

Attachment No. 2

- Current Purchasing Policy 6.14; and
- Draft Purchasing Policy 6.14 (*with Track Changes*).

BACKGROUND

The review of 6.14 - Purchasing Policy was presented to the Audit and Governance Committee at the meeting held on 8 August 2018. The application was to consider:

1. A notice of motion from Cr Brown: Incentive for Local Business; and
2. Review the purchasing policy in order to comply with the requirements of the Local Government (Functions & General regulations).

At its meeting held on 28 August 2018, Council resolved to:

- “1. *Defer a decision on Policy 6.14 – Purchasing Policy and refers it back to the Audit & Governance Committee to consider in the light of:*
 - a) *recommendations and feedback from WALGA regarding sustainable procurement;*
 - b) *the findings of the Auditor General’s Report on Procurement that is due to be released in the near future;*
2. *Request the Audit & Governance Committee consider the scope of works and deliverables for new projects and consultancies that would be appropriate for presentation to Council/Committees for consideration and approval prior to release, and provide recommendations to Council.”*

In response to Council's resolution on 28 August 2018 (in particular item 1 above), a further review of the Purchasing Policy - 6.14 was presented to the Audit and Governance Committee meeting held on the 7 November 2018.

The application was to consider adjustment to the policy in view of the WALGA sustainability report and receipts of the Auditor General's Office report on Local Government Procurement. The policy also sought to address the Council resolution pertaining to incentives for local businesses for the procurement of goods & services.

As a result of this report, Council at its meeting held on 22 November 2018, deferred the review of Policy 6.14 pending a Councillors' workshop.

COMMENT

1) Amendment of 6.14 Purchasing Policy: Local Government (Functions and General) Regulations

An amendment was made to the Local Government (Functions and General) Regulations that requires Council to include purchasing thresholds and explanations to the thresholds that should be included into the Purchasing Policy. In addition to this, it is a requirement to include how the recording and retention of written information, or documents, in respect of all quotations are received.

In order to comply with the 2018/19 Interim Audit outcomes, a revised purchasing policy that reflects the inclusion of purchasing thresholds and includes matters relating to the recording and retention of written information, is attached to the agenda.

It should be noted that further enhancements to the policy will be presented to the Audit and Governance Committee at a later stage, to address issues in regards to sustainability, incentives for local businesses (Local Economic benefit).

2) Scope of works for Projects and consultancies:

The Local Government (Functions & General) Regulations 1996 provides specific guidance that Local Governments are required to follow in the preparation of a purchasing policy in relation to contracts for other persons to supply goods and services where the consideration under the contract is expected to be \$150,000 or less or worth \$150,000 or less.

In accordance with the Local Government (Functions & General) Regulations section 11A (3), the proposed purchasing policy (attached) provides specific guidance on forms of quotations for various levels of expenditure, in summary the quotation levels are:

CONTRACT VALUE	QUOTATION REQUIREMENT
<\$1,999	Irregular or Non Recurrent -One (1) Verbal or Written prior to purchasing
\$2,000 to \$4,999	Irregular or Non Recurrent - One (1) Written / Electronic Quote
\$5,000-\$19,999	Irregular or Non Recurrent - Two(2) Written / Electronic Quotes
\$20,000 to \$59,999	Three (3) Written/Electronic Quotations with formal evaluation & Directors approval required Includes WALGA preferred suppliers
\$60,000 to \$149,999	A Formal Request for Quotation (RFQ) is required where a Specification and Qualitative Criteria are to be issued.
\$150,000>	Tenders to be Called via Public Advertising or if WALGA preferred suppliers panel exists go via WALGA Panel

It is acknowledged that there is no legislative requirement to refer any contract below \$150,000 to Council for endorsement or consideration. In order to meet Council's request to be informed of the scope of works and deliverables for new projects or consultancies over the value of \$20,000 and to allow the Council to provide comment, it is suggested through the CEO weekly bulletin, advice be provided on the list of such projects and consultancies over \$20,000 for Councillors' comment. (If a Councillor expresses an interest in a scope of works, that additional information will be furnished).

3. A status update report on the progress in reviewing the Town's procurement processes & controls

A workshop was undertaken in April 2019 which enabled opportunities to identify improvements in the Town's current procurement systems. A number of staff, including the CEO, Directors, Managers and authorising officers attended the procurement workshop in conjunction with an officer from the Corruption and Crime Commission who shared a number of case studies of what can go wrong in procurement based, upon actual examples across local government. This emphasised the need for robust processes and systems but also clear policies and procedures, and most importantly a culture of integrity.

The workshop also covered issues of procurement levels and clearer guidelines, limitations of the current IT system, creating a procurement workflow system, and the proposal of moving from the current decentralised system to a center-led approach to better manage risks.

Going forward in the next stage of transforming the framework, the move to a more centre-led procurement model under Corporate Services will be undertaken.

STATUTORY REQUIREMENTS

Local Government Act 1995

The Local Government (Functions and General) Regulations requires that the Purchasing Policy (Clause 11(3)) states:

A purchasing policy must make provision in respect of —

- (a) the form of quotations acceptable; and*
- (ba) the minimum number of oral quotations and written quotations that must be obtained; and*
- (b) the recording and retention of written information, or documents, in respect of —*
 - (i) all quotations received; and*
 - (ii) all purchases made.*

FINANCIAL CONSIDERATIONS

Nil

The Acting Director Corporate Services will make the following amendments to the policy as requested by the Committee:

Under the heading Strategy, delete the words 'Buying Local' and 'However it is recognised...'. This point will now read:

“Where possible, suppliers operating within the Town of Bassendean are to be given the opportunity to quote for goods and services required by the Town.”

*Change review date to **December 2019**.*

COMMITTEE/OFFICER RECOMMENDATION - ITEM 8.3

AGC-3/06/19

MOVED Cr Wilson, Seconded Cr Mykytiuk, that the Audit and Governance Committee recommends to Council that it adopts Policy 6.14 – Purchasing, as included in the Audit and Governance Committee Agenda of 5 June 2019, **as amended**.

CARRIED BY AN ABSOLUTE MAJORITY 4/0

8.4 Role of Internal Audit and Audit Focus for 2018/19 (Ref GOVR/LREGLIA/3 – Ken Lapham Acting Director Corporate Services)

APPLICATION

The purpose of this report was to provide Council, through the Audit and Governance Committee with details on the progress of the Internal Auditors organisational risk assessment, assessment of internal controls, and assessment of legislative compliance to meet the requirements of regulation 17 of the Local Government (Audit) regulations 1996, and regulation 5 (2) of the Local Government (Financial Management) Regulations 1996.

BACKGROUND

At the Audit and Governance Committee meeting held on Wednesday 6 February 2019, the CEO presented an item on the role of the Internal Audit and better aligning the Town's Internal Audit program to its risk profile.

The Committee supported a proposal to undertake an organisational risk assessment, in addition to examining the Town's controls to manage and mitigate these risks.

The purpose of this is to assess the health of the organisation and also to comply with requirements of the Local Government Act and Regulations.

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	
	5.1.3 Strengthen governance, risk management and compliance	Compliance Audit
	5.1.4 Improve efficiency and effectiveness of planning and services	Risk Management Profile
	5.1.5 Ensure optimal management of assets	Financial Ratio Benchmarked. Asset Ratio Benchmarked

FINANCIAL CONSIDERATIONS

Funding to meet the costs associated with the 2019 Internal Audit is provided for in the 2018/19 Budget.

COMMENT

The Audit & Governance recommendation point 5 stated:

“A report to the Audit & Governance Committee on the Outcomes of the Internal Auditors organisational risk, and other activities (as listed under application), is to be provided by 30 June 2019”.

As part of the Town’s compliance obligations and to build a culture of risk management, workshops were recently held with staff at the Depot and Town Centre.

The workshops and development work in building the risk matrix, is being developed by the Town’s internal auditors, Moore Stephens (WA) Pty Ltd. Workshop objectives were:

- Identification/articulation of key strategic risks;
- Capture of operational risks by Business Units; and
- Embed risk mindset into decision-making throughout the Town.

Key outcomes from the workshop were:

- Risk Management theory simplified;

- Risk Assessment – the big picture; and
- Sample Risk Register.

Further work is to be undertaken over the next month to build a risk assessment matrix and assess the state of Town's controls. It is envisaged that the final report will be presented to the Audit and Government Committee meeting in August 2019.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.4

AGC-4/06/19

MOVED Ian Walters, Seconded Cr Mykytiuk, that Council notes the progress on the internal risk assessment, assessment of internal controls and assessment of legislative compliance, with the final report to be presented to the **Audit and Governance Committee in August 2019.**

CARRIED UNANIMOUSLY 4/0

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**

COUNCIL RESOLUTION – ITEM 11.0(a)

AGC-5/06/19

MOVED Cr Mykytiuk, Seconded Cr Wilson, that the meeting go behind closed doors in accordance with Section 5.23 of the Local Government Act 1995, the time being 11.13am.

CARRIED UNANIMOUSLY 4/0

Mr Ron Back left the meeting at 11.13am and did not return.

11.1 **Auditor's Report**

Confidential Attachment No. 2:

This matter was considered with members of the public excluded from the Chamber under Clause 5.23 (2) (b) of the Local Government Act 1995, as the officer report discusses information of a personal nature.

A final report for the Audit & Governance Committee and review is targeted for the August 2019 Committee meeting.

12.0 CLOSURE

The next meeting will be held on Wednesday 7 August 2019, commencing at 5.30pm.

There being no further business, the Presiding Member closed the meeting at 11.30am.