**TOWN OF BASSENDEAN**

**MINUTES**

**AUDIT AND GOVERNANCE COMMITTEE**

**HELD IN THE COUNCIL CHAMBER, 48 OLD PERTH ROAD, BASSENDEAN**

**ON WEDNESDAY 6 FEBRUARY 2019, 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 Kathryn Hamilton, Presiding Member

Cr Jai Wilson

Cr Melissa Mykytiuk

Ian Walters

Tom Klaassen

Staff/Consultants

Peta Mabbs, CEO

Ken Lapham, Acting Director Corporate Services

Amy Holmes, Minute Secretary

Apologies

Ron Back, Financial Advisor

**3.0 DEPUTATIONS**

Mr Don Yates addressed the Committee regarding Item 8.1.

**4.0 CONFIRMATION OF MINUTES**

**4.1 Audit and Governance Meeting held on 7 November 2018**

COMMITTEE/OFFICER RECOMMENDATION – ITEM 4.1

MOVED Ian Walters, Seconded Tom Klaassen, that the minutes of the Audit and Governance Committee meeting held on 7 November 2018, 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**

Update on Purchasing Policy

The CEO and Acting Director Corporate Services briefed the committee on work being done to update the Purchasing Policy.

*We will be working with WALGA and Managers to change the way we procure. Procurement is currently spread across the organisation, across individual departments. Current practices need to reviewed to move to a more centralised process. This will give more control and reduce the Town’s risk profile. The issue of sustainability will also be a key component of the Policy.*

**8.0 REPORTS**

**8.1 Role of Internal Audit and Audit Focus for 2018/2019 – (Ref: GOVR/LREGLIA/3 – Peta Mabbs, Chief Executive Officer)**

APPLICATION

The Audit & Governance Committee is requested to consider the CEO’s review of the appropriateness and effectiveness of the Town’s Audit and governance committee – instrument of appointment.

ATTACHMENT

Attachment No.1:

* Audit in Local Government Guidelines
* Amended Audit and Governance Committee’s Instrument of Appointment

BACKGROUND

On 28 October 2017, the *Local Government Amendment (Auditing) Act 2017* (LG Act) was proclaimed, giving the Auditor General the mandate to audit Western Australia’s 139 local governments and 9 regional councils.  Parliament provided this mandate to enhance accountability and transparency across the sector.

The *Local Government Act 1995* (the Act) allowed the Auditor General to start performance and focus area audits from the date of proclamation, while responsibility for financial audits will progressively transition to the Auditor General, as local governments’ existing audit contracts expire.

The Auditor General’s presence in the local government sector increases the level of oversight for all local governments. For the Town of Bassendean this is an opportunity to reflect on our current audit model to consider opportunities to further enhance assurance.

In this regard, proposed changes have been identified regarding:

* the role and reporting relationship of the Internal Audit function; and
* the focus of the Town’s Internal Audit program for the remainder of 2018/2019.

Current Situation

The Role of Internal Audit:- Currently, the Town’s Audit and Governance Committee (AG Committee), in practice does not include the Town’s Internal Auditor (currently performed by ‘Moore Stephens’) as regular participants at the quarterly AG Committee meetings. To date, the function has reported to the Director Corporate Services.

Audit in Local Government, Page 13 (Attachment 1) states: “*For local government, the Internal Auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.*

*A clear and properly defined reporting relationship ensures that the Internal Auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation*.”

In seeking to further enhance assurance, it is proposed that the Town’s Internal Auditors have:

* a functional reporting line to the AG Committee; and
* an administrative reporting relationship to the Chief Executive Officer.

In light of the above proposal and to facilitate a functional reporting line to the AG Committee, it is further proposed that:

* a standing invitation to all AG Committee meetings be extended to the Town’s Internal Auditor.

Both these measures are designed to facilitate the AG Committee fully discharging its objectives in addition to providing further assurance to the Town and Council.  An amended “Audit and Governance Committee Terms of Reference” is provided (Attachment 2) highlighting proposed amendments to enable the above to be incorporated.

Aligning the Town’s Internal Audit Program

The Internal Audit Program for an organisation is designed to be a ‘risk based’ plan which sets out the intended nature of internal audits for the coming year.

As the Town’s most recent risk assessment was undertaken in 2016, it is timely to undertake a comprehensive organisational risk assessment. Embedding risk management capability within the Town will not only ensure the Town’s internal audit program is aligned to its current risk profile, but a more robust system of governance will be promoted. A risk assessment will enable for the identification, assessment, and prioritisation of risks across the organisation to enable a more coordinated and effective application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events and maximise the realisation of opportunities. Part of the risk assessment exercise will also be to identify and examine internal controls and legislative compliance.

It is proposed that utilising the Town’s internal audit capability to facilitate a comprehensive organisational risk assessment in the first half of 2019 will ensure the future internal audit program is targeted and reflective of the Town’s risk profile.  This will also enable quarterly reporting of risks to the AG Committee.

To facilitate this, it is proposed that the Chief Executive Officer work with the internal auditors to ensure a comprehensive organisational risk assessment in the first half of 2019. This proposal is intended to replace any other internal audits during the remainder of the financial year.

The product of this work will be a report to the AG Committee providing a risk assessment in addition to identifying gaps in terms of controls and legislative compliance; and areas for improvement. The latter will inform the development of the Strategic Audit Plan from 1 July 2019 onwards.

COMMUNICATION AND ENGAGEMENT

Discussions with the Town’s internal auditors regarding the proposal have been undertaken.

STRATEGIC IMPLICATIONS

|  |  |  |
| --- | --- | --- |
| **Objectives**  *What we need to achieve* | **Strategies**  *How we’re going to do it* | **Measures of Success**  *How we will be judged* |
| 5.1 Enhance organisational accountability | 5.1.1 Enhance the capability of our people | Community / Stakeholder Satisfaction Survey (Governance)  Compliance Audit  Risk Management Profile  Financial Ratio Benchmarked.  Asset Ratio Benchmarked |
| 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 |

Council policy 6.15 – Risk Management Policy refers, and will require review.

STATUTORY REQUIREMENTS

This proposal addresses the requirements of Regulation 17 of the *Local Government (Audit) Regulations 1996*; and Regulation 5 (2) (c) of the *Local Government (Financial Management) Regulations 1996.*

More specifically:

*Local Government (Audit) Regulations 1996*

The Chief Executive Officer is to comply with Regulation 17 of the Local Government (Audit) Regulations in reviewing certain 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 sub regulation (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.

Historically, a local government was to carry out a ‘systems and procedures’ audit at least once every two years, with the next review to be completed by 31 December 2018. After carrying out a systems and procedures audit the local government is to prepare an audit report in a form approved by the Minister.

The Local Government (Audit) Regulations 1996 were amended in 26 June 2018. Part of the amendment is in relation to the frequency of the system and procedures review. The system and procedures review is to be carried out every 3 financial years. The next system and procedures review is to be carried out in 2019.

*Local Government (Financial Management) Regulations 1996*

The CEO is to –

(C) 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 3 years) and report to the local government the results of those reviews.

The local government’s Audit Committee is to review the audit report and is to provide the results of that review to Council.

FINANCIAL CONSIDERATIONS

Nil

COMMENT

Nil

*Committee members requested a corporate calendar to align auditing requirements with meeting dates.*

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.1

**AGC-1/02/19** MOVED Tom Klaassen, Seconded Ian Walters, that Council adopts the following:

1. In seeking to further enhance assurance, it is proposed that the Town’s Internal Auditors have:

* a functional reporting line to the Audit and Governance Committee; and
* an administrative reporting relationship to the Chief Executive Officer;

2. In light of the above and to facilitate a functional reporting line to the Audit and Governance Committee, it is further proposed that:

* a standing invitation to all AG Committee meetings be extended to the Town’s Internal Auditor;

3. The Audit and Governance Committee’s Instrument of Appointment (attached) be updated (as highlighted) to reflect the above changes outlined in ‘1’ and ‘2’;

4. The internal auditors undertake an 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) (c) of the *Local Government (Financial Management) Regulations 1996;*

5. A report to the Audit and Governance Committee on the outcomes of the above (i.e. ‘4’), be provided by 30 June 2019; and

6. The Strategic Audit Plan for 1 July 2019 onwards be informed by the above (i.e. ‘5’).

CARRIED BY AN ABSOLUTE MAJORITY 5/0

**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**

Nil

**12.0 CLOSURE**

The next meeting is to be held on Wednesday 8 May 2019, commencing at 5.30pm.

There being no further business, the Presiding Member closed the meeting at 6.25pm.