

TOWN OF BASSENDEAN
MINUTES
AUDIT AND GOVERNANCE COMMITTEE
HELD IN THE COUNCIL CHAMBER, 48 OLD PERTH ROAD, BASSENDEAN
ON WEDNESDAY 7 AUGUST 2019, AT 5.30PM

1.0 **DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The Acting 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 Melissa Mykytiuk, Acting Presiding Member
Cr Jai Wilson (from 5.45pm)
Tom Klaassen
Ian Walters

Staff/Consultants

Anne Cheng, Moore Stephens
Ron Back, Financial Advisor
Paul White, Director Corporate Services
Natalie Ong, Manager Strategy and Governance
Amy Holmes, Minute Secretary

Apologies

Cr Kathryn Hamilton
Peta Mabbs, CEO

3.0 **DEPUTATIONS**

Nil

4.0 CONFIRMATION OF MINUTES

4.1 Audit and Governance Meeting held on 5 June 2019

COMMITTEE/OFFICER RECOMMENDATION – ITEM 4.1

MOVED Cr Mykytiuk, Seconded Ian Walters, that the minutes of the Audit and Governance Committee meeting held on 5 June 2019, be confirmed as a true record.

CARRIED UNANIMOUSLY 3/0

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 Internal Audit Activity from Anne Cheng, Moore Stephens (WA) Pty Ltd

Please note, this is a standing item on the Audit and Governance Committee Agenda, to enable updates from Council's Internal Auditor.

Audit Regulation 17 Review

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

Moore Stephens has completed the Audit Regulation 17 Review and provided its report to the CEO. The CEO has reviewed that report and provided management comments in terms of follow up actions.

These actions have been identified as part of a broader reform agenda being led by the CEO to include amongst other objectives, a strengthening of governance across the organisation.

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;
 - (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.
- (3) The CEO is to report to the audit committee the results of that review.

Review of Risk Management, Legislative Compliance and Internal Controls, Moore Stephens, July 2019.

Assurance Plan for 2019-2020

The Proposed Assurance Plan for the current financial year is presented. The Assurance Plan was developed following the Audit Regulation 17 review to target areas based on exposure to financial and/or operational risk.

Town of Bassendean Assurance Plan for 2019-2020, Moore Stephens.

Cr Jai Wilson joined the meeting at 5.45pm.

The following points were raised:

- ***Councillors' risk management - tolerance and attitude. Needs to be explored further.***
- ***Procurement Risk - Currently dealing with lapsed contracts and changes to administrative process.***
- ***Position Description for Manager Finance is being finalised and will be advertised next week.***

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.1

AGC-1/08/19

MOVED Tom Klaassen, Seconded Ian Walters, that the Audit and Governance Committee:

1. Receives the update on Audit Activity from Moore Stephens;
2. Recommends to Council that it receives the Audit Regulation 17 Review from Moore Stephens and associated management comments; and
3. Reviews the Assurance Plan for 2019-2020 and recommends its approval by Council.

CARRIED UNANIMOUSLY 4/0

8.2 Audit Completion Report 2017-2018 – Identified Significant Adverse Trends (Ref: GOVN/CCLMEET/1 – Paul White, Director Corporate Services)

APPLICATION

The purpose of this report is 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 auditor, Macri Partners, in the Audit Completion Report for 2017-2018.

ATTACHMENTS

Audit Completion Report for the year ended 30 June 2018, Macri Partners

Department of Local Government, Sport and Cultural Industries letter to the Chief Executive Officer of the Town of Bassendean, 28 June 2019

Report to the Minister, Town of Bassendean External Audit Findings for 2017-2018.

BACKGROUND

Macri Partners conducted the audit of the Town of Bassendean's Annual Financial Statements for 2017-2018 in August 2018. Macri Partners provided its Audit Completion Report to the Audit and Governance Committee on 7 November 2018, which was received by Council on 27 November 2018.

Macri Partners 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.”

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

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

- (4) *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.*
- (5) *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 2019-2020 Budget and beyond.

COMMENT

The Department of Local Government, Sport and Cultural Industries wrote to the Town of Bassendean on 28 June 2019 and advised of the Town's 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.

Macri Partners, in its Audit Completion Report for 2017-2018, reported that the Town of Bassendean's Asset Sustainability Ratio has been below the DLGSC standard for the last three years.

	Town of Bassendean			DLGSC Standard
	2018	2017	2016	
Asset Sustainability Ratio	0.48	0.42	0.65	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 of Bassendean 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.

However, the Town of Bassendean will continue to identify funding opportunities for further capital renewal and replacement in future years.

The Town of Bassendean will review its fair value asset measurement and depreciation rates during 2019-2020.

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 Department of Local Government, Sport and Cultural Industries (DLGSC) standard is met if the Operating Surplus is 0.01.

Macri Partners, in its Audit Completion Report for 2017-2018 reported that the Town of Bassendean's Operating Surplus Ratio has been below the DLGSC standard for the last three years.

	Town of Bassendean			DLGSC Standard
	2018	2017	2016	
Operating Surplus Ratio	-0.03	-0.05	-0.01	0.01

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

The Town of Bassendean will introduce differential rating in its 2019-2020 budget, which is estimated to increase rates revenue by 0.7 per cent. The Town will explore further sources of own source revenue as part of its long-term financial planning. The Town intends to review its costing and pricing framework during 2019-2020 to assist with expenditure management.

It is worth noting that for the 2017-2018 financial year, only 40 per cent of local governments in Western Australia met the required standard for the Asset Sustainability Ratio and 20 per cent of local governments met the required standard for the Operating Surplus Ratio.

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.

The comment was made that these ratios are not necessarily meaningful and perhaps need to be reviewed, as a high percentage of local governments are not meeting them.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.2

AGC-2/08/19

MOVED Tom Klaassen, Seconded Ian Walters, that the Audit and Governance Committee recommends to Council that it:

1. Receives the officer's report;
2. Directs the CEO to:
 - a. Provide the Report to the Minister, attached to the Audit and Governance Committee Agenda of 7 August 2019, to the Minister for Local Government, The Hon. David Templeman MLA; and
 - b. Publish a copy of the Report to the Minister, attached to the Audit and Governance Committee Agenda of 7 August 2019, on the Town of Bassendean's official website.

CARRIED UNANIMOUSLY 4/0

8.3 2018-2019 Interim Audit – Revised Interim Audit Report – Office of the Auditor General (Ref: FINM/AUD1 – Paul White, Director Corporate Services)

APPLICATION

The purpose of this report is to provide Council, through the Audit and Governance Committee, with:

1. Details of the Revised Internal Audit Report for 2018-2019 furnished by the Office of the Auditor General; and
2. An update to management comments relating to finding number one by the Office of the Auditor General: Purchasing Policy.

ATTACHMENTS

Accounting for work bonds, building bonds and hire bonds, Office of the Auditor General, 1 July 2019.

2018-2019 Revised Interim Audit Report, Office of the Auditor General, 23 July 2019.

BACKGROUND

The Auditor General was provided with the power to conduct performance audits and annual financial audits of Western Australian local governments in October 2017. The Auditor General adopted a program of gradual oversight of annual financial audits for local government entities, commencing with the 2017-2018 financial year. The Auditor General was responsible for the audit of the Town of Bassendean from 2018-2019.

In practice, Macri Partners will conduct the 2018-2019 annual financial audit for the Town of Bassendean, with oversight and final audit sign off by the Auditor General.

Macri Partners, conducted an interim audit of systems and processes in March 2019. The purpose of the interim audit of systems and processes was to evaluate the Town of Bassendean's internal control environment to obtain an understanding of key business processes, risks and internal controls. The interim audit of systems and processes provides a level of assurance to auditors, the CEO, the Audit and Governance Committee and Council as to the level of controls that are in place and adherence to those controls.

The Auditor General provided its interim audit results to the CEO of the Town of Bassendean on 30 May 2019. The Auditor General identified a number of deficiencies in internal controls and rated each deficiency as having significant, moderate or minor implication. The Interim Audit Report, with management comments that addressed the identified deficiencies, was presented to the Audit and Governance Committee for its meeting on 5 June 2019.

The Interim Audit Report identified a deficiency which the Auditor General described as having significant implication relating to Trust Fund Moneys. The Auditor General found that:

“the Town has been holding Bond and Security deposit monies within its municipal fund and recognising an asset on the Statement of Financial Position along with a corresponding liability, interest earned on these funds has been retained by the Town.”

The Auditor General made the following recommendation:

“To facilitate accurate reporting for the 30 June 2019 the Town should:

- report bond/security monies as trust funds in the Notes to the financial report; and*
- reliable estimate past interest earned that is payable to persons entitled to receive it.”*

The Audit and Governance Committee disagreed and resolved to replace the management comment, which agreed with the Auditor General’s recommendation to the following:

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

Council received the Auditor General’s Interim Audit Report, as amended, at its Ordinary Council Meeting on 25 June 2019.

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

The *Local Government Act 1995*, section 6.9 states:

- (1) *A local government is to hold in the trust fund all money or the value of assets —*
 - (a) *that are required by this Act or any other written law to be credited to that fund; and*
 - (b) *held by the local government in trust.*

- (2) *Money or other property held in the trust fund is to be applied for the purposes of, and in accordance with, the trusts affecting it.*
- (3) *Where money or other property is held in the trust fund, the local government is to —*
 - (a) *in the case of money, pay it to the person entitled to it together with, if the money has been invested, any interest earned from that investment;*
 - (b) *in the case of property, deliver it to the person entitled to it.*
- (4) *Where money has been held in the trust fund for 10 years it may be transferred by the local government to the municipal fund but the local government is required to repay the money, together with any interest earned from its investment, from that fund to a person claiming and establishing a right to the repayment.*

FINANCIAL CONSIDERATIONS

Funding to meet the costs associated with the 2019 interim audit exists in the 2018-2019 budget.

COMMENT

The Office of the Auditor General published a position paper on accounting for work bonds, building bonds and hire bonds on 1 July 2019.

The Office of the Auditor General obtained independent legal advice and stated:

“ ... unless agreements between developers/hirers and the entity require bond moneys to be held in the Trust Fund, they should not be held in the Trust Fund.

There are no provisions in the [Local Government] Act or any other written law that specify that work bonds, building bonds and hire bonds are to be credited to, or held in, the Trust Fund, and these moneys are not held in trust. Consequently, section 6.9 of the [Local Government] Act is not applicable to these funds, and they should be held in the Municipal Fund.

We recommend however that separate accounting records should be maintained for these moneys, as one of the control measures to ensure they are used for the correct purpose.

As section 6.9(3)(a) of the [Local Government] Act is only applicable to moneys held in the Trust Fund, any interest earned while the moneys are in the Municipal Fund, can be retained by the entity.”

The Auditor General provided its revised interim audit results to the CEO of the Town of Bassendean on 23 July 2019. The revised interim audit results exclude the deficiency relating to Trust Fund Monies.

The Town of Bassendean can continue to hold bond and security deposits within its municipal fund and retain interest earned on those deposits, in the absence of any agreement for the deposit to be held in the Trust Fund.

Council Policy 6.14 - Purchasing Policy

The Auditor General’s interim audit results included a deficiency described as having moderate implication relating to the Town of Bassendean’s Purchasing Policy.

A revised Purchasing Policy was presented to the Audit and Risk Committee for its meeting on 5 June 2019. The Audit and Risk Committee recommended Council adopt the revised Purchasing Policy, with an amendment relating to local suppliers. Council endorsed the updates to the Purchasing Policy at its Ordinary Council Meeting on 25 June 2019.

The management comment responding to the Auditor General’s interim audit results relating to the Purchasing Policy included the following:

“In the longer term, the Town is committed to undertaking a more comprehensive review of procurement to move towards a centre-led model (under the Director Corporate Services) to strengthen oversight and minimise risk; and consider sustainability in procurement.”

The Town of Bassendean plans to implement a procurement and contract management framework in 2020, following recruitment of a Procurement, Contracts and Leases Coordinator in late 2019. That position is a new position created as part of the Town of Bassendean’s new organisational structure, endorsed by Council at a Special Council Meeting on 10 June 2019.

The Town of Bassendean's procurement and contract management framework will include a further review of Council Policy 6.14 – Purchasing Policy, as part of the development of a broader framework to develop principles, processes and procedures that will apply to all purchases of goods, services and works by the Town.

The procurement framework will aim to ensure the following fundamental principles are applied to every procurement at the Town of Bassendean:

- Value for money;
- Open and fair competition;
- Accountability;
- Risk management;
- Probity and transparency; and
- Sustainability.

The Town of Bassendean has adopted some interim measures to strengthen its procurement processes, pending development of the procurement and contract management framework, including:

- Reviewing its Purchasing Policy;
- Improving the quality and consistency of procurement documentation; and
- Revising procurement procedures and qualitative evaluation criteria.

The procurement and contract management framework will, once developed, be submitted to the Audit and Governance Committee for review, prior to provision to Council.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.3

AGC-3/08/19

MOVED Cr Wilson, Seconded Tom Klaassen, that the Audit and Governance Committee:

1. Recommends to Council that it receives the Auditor General's revised Interim Audit Report, as attached to the Audit and Governance Committee Agenda of 7 August 2019.
2. Notes the administration's plan to develop a new procurement and contract management framework for future consideration by the Committee in 2020.

CARRIED UNANIMOUSLY 4/0

8.4 Annual Closed Circuit Television (CCTV) Report (Ref: INFT/ACQ/1) – Sharna Merritt, Senior Ranger

APPLICATION

The purpose of this report is to present the 2018/19 annual statistics for the Towns' existing CCTV systems, as per the requirements of the Closed Circuit Television (CCTV) Management & Operational Manual.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.4

AGC-4/08/19 MOVED Ian Walters, Seconded Tom Klaassen, that the Audit and Governance Committee receives the CCTV Management and Operation Annual Report.
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

COMMITTEE RECOMMENDATION – ITEM 11.0(a)

AGC-5/08/19 MOVED Cr Wilson, Seconded Cr Mykytiuk, that the meeting go behind closed doors in accordance with Section 5.23 of the Local Government Act 1995, the time being 6.20pm.
CARRIED UNANIMOUSLY 4/0

Mr Ron Back left the meeting at 6.20pm and did not return.

11.1 Update on Audit Activity from Anne Cheng, Moore Stephens (WA) Pty Ltd – Stan Moses Management Group Inc. – Moore Stephens Draft Report, June 2019

Confidential Attachment - Agreed Upon Procedures – Stan Moses Management Group, Draft Report, Moore Stephens, June 2019

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.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 11.1

AGC-6/08/19

MOVED Cr Wilson, Seconded Tom Klaassen, that the Audit and Governance Committee receives the Stan Moses Management Group report from Moore Stephens and associated management comments, as attached to the Audit and Governance Agenda of 7 August 2019.

CARRIED UNANIMOUSLY 4/0

11.2 Street Sweeping Contract – Legal Dispute (Ref: GOVN/CCLMEET/1 – Paul White, Director Corporate Services)

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.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 11.2

AGC-7/08/19

MOVED Cr Wilson, Seconded Tom Klaassen, that the Confidential Officer's report attached to the Audit and Governance Committee Agenda of 7 August 2019, be received.

CARRIED UNANIMOUSLY 4/0

11.3 Payment of Superannuation on Annual Leave Loading (Ref: GOVN/CCLMEET/1) – Paul White, Director Corporate Services

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.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 11.3

AGC-8/08/19

MOVED Tom Klaassen, Seconded Cr Wilson, that:

1. The Officer's Report attached to the Audit and Governance Committee Agenda of 7 August 2019, be received; and
2. The Committee endorses the Point 2 listed in the Officer/Committee Recommendation and shown in the Confidential Minutes.

CARRIED UNANIMOUSLY 4/0

12.0

CLOSURE

The next meeting is to be held on Wednesday 13 November 2019, commencing at 5.30pm (subject to confirmation).

There being no further business, the Presiding Member closed the meeting at 7.20pm.