

TOWN OF BASSENDEAN
MINUTES
AUDIT AND GOVERNANCE COMMITTEE
WEDNESDAY 10 FEBRUARY 2021, 5.32PM

In accordance with regulation 12(2) and 14D of the *Local Government (Administration) Regulations 1996*, that due to the public health emergency arising from the COVID-19 Pandemic, the Audit and Governance Committee was held by electronic means.

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 ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

The Presiding Member advised that this was an additional meeting. The next meeting will be held on 10 March 2021.

3.0 ATTENDANCES, APOLOGIES AND APPLICATIONS FOR LEAVE OF ABSENCE

Present

Members

Cr Hilary MacWilliam, Presiding Member
Cr Kathryn Hamilton
Martin Le Tessier, Community Representative
Elliott Brannen, Community Representative

Staff/Consultants

Paul White, Director Corporate Services
Elizabeth Kania, Manager Governance and Strategy
Krushna Hirani, RSM
Alasdair Whyte, RSM
Jay Teichert, Office of the Auditor General
Ron Back, Financial Advisor
Amy Holmes, Minute Secretary

Apologies

Cr McLennan
Cr Barty

4.0 DECLARATIONS OF INTEREST

Nil

5.0 PRESENTATIONS OR DEPUTATIONS

Nil

6.0 CONFIRMATION OF MINUTES

6.1 Audit and Governance Meeting held on 4 November 2020

OFFICER RECOMMENDATION – ITEM 6.1

That the minutes of the Audit and Governance Committee meeting held on 4 November 2020, be confirmed as a true record.

The Presiding Member advised that the Minutes will be confirmed at the next meeting on 10 March 2021.

7.0 BUSINESS DEFERRED FROM PREVIOUS MEETING

Nil

8.0 REPORTS

Item No. 8.1	Audited Annual Financial Statements for the Year Ended 30 June 2020
Property Address (if applicable)	N/A
Landowner/Applicant (if applicable)	N/A
File Ref/ROC	FINM/AUD/7
Previous Council Reports (if applicable)	N/A
Directorate	Corporate Services
Authority/Discretion	<input type="checkbox"/> <input checked="" type="checkbox"/>

<input type="checkbox"/> Advocacy	When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.
<input type="checkbox"/> Executive	The substantial direction setting and oversight role of the Council. e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
<input type="checkbox"/> Legislative	Includes adopting local laws, town planning schemes and policies.
<input checked="" type="checkbox"/> Review	When the Council operates as a review authority on decisions made by Officers for appeal purposes.
<input type="checkbox"/> Quasi-Judicial	When the Council determines an application/matter that directly affects a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under <i>Health Act</i> , <i>Dog Act</i> or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.
Attachment No. 2	2A - 2019/20 Audited Annual Financial Statements 2B - Major Variances between the 2019/20 Budget and Actual amounts 2C Audit Closing Report for the year ended 30 June 2020 2D Audit Planning Memorandum for the year ended 30 June 2020
Confidential Attachment No. 1	Confidential: Findings Identified during the Audit (Management Letter)

Purpose

The purpose of this report is to submit for review the Audited Annual Financial Statements and the Audit Closing Report for the year ended 30 June 2020.

The Auditor General will issue the final Audit Report following review of the Audited Annual Financial Statements by the Committee.

The recommendations in this report are subject to the Auditor General issuing an unqualified audit opinion.

Background

The Instrument of Appointment and Delegation for the Committee ("Instrument") provides that the Committee has the authority of Council to:

- *Review the internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken;*
- *Formally meet with the Town's appointed internal and external auditor as necessary;*
- *Ensure that any matters raised by the internal and external audit that require action are actioned; and*
- *Advise Council on any or all of the above as deemed necessary.*

Further, the responsibilities of the Committee include:

- *Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report;*
- *Review with management and the internal and/or external auditors the results of the audit, including any difficulties encountered;*
- *Review the annual financial report and performance report of the Town of Bassendean and consider whether it is complete, consistent with information known to AG committee members, and reflects appropriate accounting principles;*
- *Review with management and the internal and/or external auditors all matters required to be communicated to the AG committee under the Australian Auditing Standards; and*
- *Review the draft Annual Financial Statements and recommend the adoption of the Annual Financial Statements to Council, in accordance with the timeframes as prescribed.*

The Town received the 2019/20 Audited Annual Financial Statements and Audit Closing Report on 4 February 2021 and 3 February 2021, respectively.

The audit process for 2019/20 was protracted, mainly due to the following factors:

- The late start to the interim audit, which meant that the Town's limited staff were spread across the interim audit and the 2020/21 annual budget process at the same time;
- The introduction of new income recognition standards AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for Profit Entities, and changes to AASB Leases, all effective from 1 July 2019. Due a range of factors, these standards were not able to be fully assessed and implemented prior to 30 June 2020;
- Changes initiated by the Department of Local Government, Sport and Cultural Industries to the Local Government (Financial Management) Regulations 1996, gazette on 6 November 2020 with retrospective application to the year ended 30 June 2020.

This resulted in delays bringing the 2019/20 Audited Annual Financial Statements to this Committee and ultimately to Council and a delay to the general meeting of electors.

Finally, the manner in which the audit was conducted placed considerable pressure on the Town's resources and caused stress to the Town's Finance staff. The Town will continue to work with RSM Australia to improve the audit process for 2020/21.

Proposal

That the Audit and Governance Committee:

- Reviews the Audit Closing Report for the year ended 30 June 2020; and
- Reviews the 2019/20 Audited Financial Statements; and
- Recommends adoption by Council of the 2019/20 Audited Financial Statements, subject to the Auditor General issuing an unqualified audit opinion.

Communication and Engagement

The Town and its auditors RSM Australia engaged in regular communication during the conduct of the audit.

Strategic Implications

Priority Area 6: Providing Visionary Leadership and Making Great Decisions

Direction	Potential Strategies	What Success Looks Like
Reinforce a culture of collaboration, trust and demarcation between Council, administration and the community	<ul style="list-style-type: none"> • Build understanding and support for the vision and Strategic Community Plan • Demonstrate clear connections between the Strategic Community Plan, project and business as-usual services and operations • Create an organisational culture of performance, innovation and excellence • Develop shared values between Council, administration and the community 	<p>SHORT TERM</p> <ul style="list-style-type: none"> • Openness and transparency of decision making • Enhanced staff morale • Staff have appropriate strategic direction • Agreement on the link between projects and Strategic Community Plan • General alignment regarding values

Comment

The audit for the 2019/20 financial year has been completed and provides an overview of the financial activities of the Town of Bassendean for the 2019/20 year.

2019/20 Closing Surplus

The estimated closing surplus at 30 June 2020 was anticipated to be \$745,317. Following the conclusion of the financial year and the completion of the Annual Audit, the actual closing surplus for the 2019/20 financial year was \$796,267.

A list of the major variances between the 2019/20 Budget and Actual amounts are included as an attachment to the Agenda.

RSM Australia made one significant finding and two moderate findings from the final audit:

- Revenue recognition standards (significant);

- Fixed asset capitalisation dates (moderate); and
- Management of annual leave (moderate).

These are detailed further in the attached document, Findings Identified During the Audit, with management comments to the auditor. Management has accepted the findings and has or will introduce measures to address those findings.

RSM Australia also reported indicators of significant adverse trends, being the Asset Sustainability Ratio and Operation Surplus Ratio, which have been below the Department of Local Government, Sport and Cultural Industries standard for the last three years.

The Town is aware of the continuing adverse movement in these two ratios, the reversal of which requires a whole of Town approach to asset management and long-term financial and operational planning. The Town is presently conducting a comprehensive review of its asset management plans and its long-term financial plan and will endeavor to identify opportunities for capital renewal and replacement in the coming years. The Town will continue to explore further sources of own source revenue and is closely managing operating expenditure.

The Town will prepare a report for the Minister for Local Government to address the two ratios, being a significant issue under section 7.12A(4) of the Act. The draft report to the Minister will be tabled at the next meeting of the Committee.

Statutory Requirements

The Local Government (Audit) Regulations 1996 sets out some functions of an Audit Committee, including Regulation 16(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”.

The Audit Regulations require the CEO to provide certain documents to the Auditor General (Regulation 9A).

The Audit Regulations specify requirements for the auditor’s report (Regulation 10), including a requirement for the auditor’s report to be forwarded to the Mayor, CEO and Minister for Local Government within 30 days of completing the audit.

The Section 6.4 of the *Local Government Act 1995* requires a local government to prepare an annual financial report and to submit accounts to its auditor (Section 6.4):

- 1) *A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.*
- 2) *The financial report is to –*
 - a) *be prepared and presented in the manner and form prescribed; and*

- b) contain the prescribed information.*
- 3) *By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor-*
 - a) The accounts of the local government, balanced up to the last day of the preceding financial year;*
 - b) The annual financial report of the local government for the preceding financial year.*

Local Government (Financial Management) Regulations 1996 detail the requirements for a financial report prepared in compliance with section 6.4 of the Act.

Part 7 of the Act contains various audit provisions, including Division 3 which governs the conduct of the audit including the right of access to accounts and documents of the local government. Section 7.9 states:

An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —

- a) the mayor or president; and*
- b) the CEO of the local government; and*
- c) the Minister.*

Division 4 of Part 7 of the Act governs duties of local governments, including the requirement to assist the auditor carry out their duties and, relevantly, the requirement to prepare a report to the Minister to address any matters identified as significant by the auditor (section 7.12A(4)).

Financial Considerations

Funding to meet the costs associated with the 2020 final audit exists in the 2020/21 annual budget.

Risk Management Implications

The Town has not yet received the audit opinion from the Auditor General.

RSM Australia will recommend to the Auditor General that an unqualified audit opinion be issued on the financial statements, meaning RSM Australia considers the annual financial report was based on proper accounts and records and fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2020 and its financial position at the end of that period.

There is a risk that the Auditor General will form a different opinion to that formed by RSM Australia.

The Director Corporate Services advised that the Town has accepted the findings of RSM Australia and a response has been provided. The signed financial statements and management letter will be returned to RSM.

Committee/Officer Recommendation – Item 8.1
AGC-1/02/21

MOVED Cr MacWilliam, Seconded Martin Le Tessier, that the Audit and Governance Committee recommends that Council:

1. Receives the Audit Closing Report for the year ended 30 June 2020; and
2. Adopts the 2019/20 Audited Annual Financial Statements, subject to the Auditor General issuing an unqualified audit opinion.

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

Nil

12.0 CLOSURE

The next Audit and Governance Committee meeting is to be held on Wednesday 10 March 2021, commencing at 5.30pm.

There being no further business, the Presiding Member closed the meeting at 5.56pm.