

TOWN OF BASSENDEAN

MINUTES

AUDIT AND RISK MANAGEMENT COMMITTEE

HELD IN THE COUNCIL CHAMBER, 48 OLD PERTH ROAD, BASSENDEAN
ON WEDNESDAY 10 AUGUST 2016 AT 5.30PM

1.0 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Presiding Member declared the meeting open, welcomed all those in attendance and conducted an Acknowledgement of Country.

2.0 ATTENDANCES, APOLOGIES AND APPLICATIONS FOR LEAVE OF ABSENCE

Present

Cr Gerry Pule, Presiding Member
Cr Paul Bridges
Cr Mike Lewis
Mr Ian Walters
Mrs Michelle Rutherford

Staff

Mr Mike Costarella, Director Corporate Services
Mr Ken Lapham, Manager Finance Services
Mr Ken Cardy, Acting Director Operational Services
Mrs Amy Holmes, Minute Secretary

Consultant

Mr Ron Back, Consultant Financial Advisor

3.0 DEPUTATIONS

Nil

4.0 CONFIRMATION OF MINUTES

4.1 Minutes of the Meetings held on 8 June 2016

It was noted that Item 8.1 stating The 2014/15 financial period, should read '2015/16 financial period'.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 4.1

MOVED Cr Bridges, Seconded Cr Lewis, that the minutes of the meeting held on 8 June 2016, as amended, 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

Nil

8.0 REPORTS

8.1 Auditing of Local Government by the Auditor General – Minister for Local Government and New Audit Contract (Ref: FINM/AUD1 Ken Lapham, Manager Corporate Services)

APPLICATION

The purpose of this report is to:

1. Advise Council of the Minister for Local Government's intention to amend the Local Government Act and appoint the Auditor General and the Office of Auditor General (OAG) to take responsibility for local government financial audits from the 1 July 2017; and

2. Engage an Auditor for a further 2 years in accordance with the Minister for Local Government recommendation.

DECLARATION OF INTEREST

The Director Corporate Services declared an impartiality interest in this item as Marci Partners (Mr Anthony Macri, the proprietor) is a family acquaintance.

BACKGROUND

The Town received advice from the Minister for Local Government in March 2016, that in order to provide an independent oversight of the sector, he intends to amend the Local Government Act to allow the OAG to take responsibility for local government financial audits from the 1 July 2017.

The Town of Bassendean's current Audit Contract expires on 30 September 2016 to enable the Auditor to undertake an audit of the 2015/16 financial year. It is therefore necessary to engage an auditor for the ensuing 1-2 years commencing from 1 October 2016.

ATTACHMENTS

Attachment No. 1:

Correspondence from the Minister for Local Government, Community Services; Seniors and Volunteering; Youth

STRATEGIC IMPLICATIONS

Leadership and Governance

Objective

Improve capability and capacity
Strengthen Council governance and compliance

Strategies

Ensure financial sustainability.
Review governance processes

COMMENT

In regards to the correspondence from the Minister for Local Government, it should be noted that currently, this is **only a proposal** and subject to legislative changes. The Minister has not yet provided what (if any) additional costs would be imposed on Local Governments for the Audit to be conducted by the OAG.

However, given that the proposal by the Minister removes the ability for Council to appoint its own auditor and negotiate a fair and viable contract, there is likely to be additional costs that will need to be met by the Local Government. At this point, Council could seek additional information on the proposal in regards to the potential financial impost to Local Governments. This may also be a whole of industry approach through WALGA.

As the current audit contract expires on 30 September 2016, quotes for the appointment of an Auditor have been obtained for the ensuing two financial years using the WALGA preferred supplier contracts.

Four submissions and quotations were received from:

- Macri Partners;
- Moore Stephens;
- Grant Thornton; and
- Butler Settineri.

STATUTORY REQUIREMENTS

Local Government Act 1995- Part 7 — Audit

Division 2 — Appointment of auditors

7.2. Audit

The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.

7.3. Appointment of auditors

(1) A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint a person, on the recommendation of the audit committee, to be its auditor.*

** Absolute majority required.*

(2) The local government may appoint one or more persons as its auditor.

(3) The local government's auditor is to be a person who is —

- (a) a registered company auditor; or*
- (b) an approved auditor.*

7.5. Approval of auditors

The Minister may approve a person who, immediately before the commencement of this Act —

- (a) was a registered local government auditor within the meaning of that term in Part XXVII of the Local Government Act 1960 as in force before that commencement; and*
 - (b) was the auditor of a local government,*
- as an approved auditor for the purposes of this Act.*

7.6. Term of office of auditor

- (1) The appointment of a local government's auditor is to have effect in respect of the audit of the accounts and annual financial report of the local government for a term of not more than 5 financial years, but an auditor is eligible for re-appointment.*
- (2) The appointment of an auditor of a local government ceases to have effect if —*
 - (a) his or her registration as a registered company auditor is cancelled; or*
 - (b) his or her approval as an approved auditor is withdrawn; or*
 - (c) he or she dies; or*
 - (d) the auditor ceases to be qualified to hold office as auditor or becomes a disqualified person; or*
 - (e) the auditor resigns by notice in writing addressed to the local government; or*
 - (f) the appointment is terminated by the local government by notice in writing.*
- (3) Where —*
 - (a) the registration of a local government's auditor as a registered company auditor is suspended; or*
 - (b) a local government's auditor becomes unable or unwilling to carry out all or part of his or her duties,*

the local government is to appoint a person to conduct the audit or to complete that part of the audit which remains to be conducted, as the case requires.*

** Absolute majority required.*

FINANCIAL CONSIDERATIONS

An amount of \$18,000 has been included the 2016/17 Budget and additional amounts have also been included in the Long Term Financial Plan for future years.

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.1

ARMC - 1/08/16 MOVED Cr Lewis, Seconded Cr Bridges, that the Audit and Risk Management Committee:

1. Receives the correspondence from the Minister for Local Government; Community Services; Seniors and Volunteering; Youth;
2. Requests additional information on the costs associated with the audit services undertaken by the OAG;
3. Appoints Mr Anthony Macri from Macri Partners to undertake the audit requirements in accordance with the scope submitted with the quote obtain for the Audit Services; and
4. Macri Partners be appointed for the period commencing 1 October 2016 and expiring on 30 September 2018.

CARRIED BY AN ABSOLUTE MAJORITY 5/0

8.2 Audit & Risk Management Committee Meeting held on 8 June 2016 (Ref: GOVNCCL/MEET/3, Michael Costarella, Director Corporate Services)

APPLICATION

The purpose of this report was for Council to receive the report on the actions undertaken by Officers on the 2015/16 Interim Audit Report recommendation as resolved by Council in June 2016.

ATTACHMENTS

Attachment No. 2:

Contract Procurement Checklist

Confidential Attachment No. 1:

2015/16 Interim Audit Report
2014/15 Interim Audit Report
2013/14 Interim Audit Report
2012/13 Interim Audit Report

BACKGROUND

In March 2016, Macri & Partners Auditors 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; and
- Review of Council Minutes.

The Interim Audit includes a summary of the issues identified by the Auditor, as well as management comments and appropriate actions being undertaken in response to the issues raised by Macri & Partners.

At the June 2016 OCM Council resolved (in part) OCM – 18/06/16 - MOVED Cr Pule, Seconded Cr Bridges, that:

1. Council notes the Interim Audit Report for the 2015/16 financial period from Macri & Partners;
2. Council notes the Statement on the Fraud and Error Assessment and authorises the Chairperson of the Audit and Risk Management Committee to sign the Statement and on-forward it to the Auditors;
3. A report detailing the processes and procedures that have been put in place to address the issues raised in the interim audit report be presented;
4. A report be presented to the next meeting of the Audit & Risk Management Committee that addresses the issues raised in the past three interim audits and whether any matters remain outstanding;
5. Within six months, an **independent** internal audit of the procurement system, **including a fraud risk analysis with a focus on the procurement process** be undertaken and reported to the Audit and Risk Management Committee;

6. Council supports in principle the concept of additional resources to ensure compliance with governance issues and seeks a report as to the possible implementation of this;

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.

In relation to each item of the Council Resolution, staff make the following comments:

Item 3 - A report detailing the processes and procedures that have been put in place to address the issues raised in the interim audit report be presented.

The Interim report included a number of changes to the Procurement procedures for all authorised officers. These included:

1. *The Contracts Officer will provide a monthly report to each authorised Officer that shows the amount paid to each contractor and whether the amount is consistent with the RFQ or RFT. Any discrepancies will be referred to the Manager and Director of the division to review and resolve.*

Staff Comment

Staff have been provided with training on the Creditors module and the report is available. The Contracts Officer has been running the report and monitoring the amounts.

2. *Staff are required to submit a checklist (see attached) with their request for quotes or request for tenders to be advertised - This will ensure that the amounts included in the RFQ and RFT will define whether either a Tender or an RFQ will be advertised.*

Staff Comment

A Contract Procurement checklist has been developed and ALL officers are required to complete the checklist prior to any RFQ or RFT being formally advertised. A copy of the checklist is included as an attachment to this report.

3. *Staff are currently discussing a modification to the purchasing order system with ITVISION that will ensure that no orders will be able to be issued to the successful contractor when the amount paid to the contractor exceeds the Tender amount or the Tender threshold.*

Staff Comment

ITVISION has been requested to modify the Purchasing Order system to provide an additional level of control when raising purchase orders. It is envisaged that this will be completed.

4. *ALL staff will again be provided with a revised Procurement Procedure Manual as well as additional training that will be conducted on a six monthly basis.*

Staff Comment

The Procurement Procedure has been updated and will be distributed to all authorised Officers. The CEO addressed all Managers at the June CEO Forum and requested that Managers ensure that Staff are familiar with the changes which have been implemented.

A further review will be conducted in December 2016 and further training will be provided at that time.

5. *Staff will be required to obtain additional quotes (in accordance with the Procurement procedures) for services provided by WALGA preferred suppliers. The quotes will be attached to requisition and request for the purchase order.*

Staff Comment

The Procurement Procedures have been amended to incorporate the requirement to obtain additional quotes for services provided by WALGA preferred suppliers. All Authorised Officers have been made aware of this requirement and to date this has been complied with.

6. *To ensure that there is additional scrutiny of tenders and contracts, the position of the Contracts Officer will be transferred to the Corporate Services area and will become the responsibility of the Director of Corporate Services.*

Staff Comment

The Executive has reconsidered this matter as the Contracts Officers has a good repour with the Manager of Asset Services who has provided considerable training and assistance to ensure that there is full compliance with Tender and Procurement procedures. Since the employment of the current Contracts Officer, the Officer has assisted in developing a number of procedures and processes which to date have provided good internal controls for RFQ and RFTs. Accordingly Staff request that Council review this matter at the conclusion of a 6 months period. Additionally, there is no accommodation available for the Contracts Officer at either 35 Old Perth Road or 48 Old Perth Road.

7. *The Town has now advertised tenders for concrete work throughout the Town and this will be presented to Council at its May 2016 Ordinary Council meeting.*

Staff Comment

This recommendation has now been addressed by Council and no further action is required.

8. *Item 4 - A report be presented to the next meeting of the Audit & Risk Management Committee that addresses the issues raised in the past three interim audits and whether any matters remain outstanding;*

Staff Comment

2014/15 Interim Audit Report

The Interim Audit's Report was presented to the Audit and Risk Management Committee May 2015 and included the following items:

- Purchasing, Payments and Creditors - this was in reference to the purchase of Hardware at a local business without obtaining other quotes. This matter was resolved as the amount did not require other quotes.
- Sundry Debtors - four Debtor amounts were queried and management comments made.
- Receipting - the issue of a report being signed by a Senior Officer was resolved.
- Payroll - the reinstatement of casual employees was addressed with the IT supplier and resolved.
- Journal Entries - the matter of the report being available was resolved.

- IT Controls - the issue of the formal review of access rights to modules in the Synergyssoft system was resolved.
- Minutes of Meetings - the signing of the minute books issue was resolved.

2013/14 Interim Audit Report

The Interim Audit's Report was presented to the Audit and Risk Management Committee May 2015 and included the following items:

- Rates - The issue of the reports being reviewed by a Senior Officer was resolved
- Sundry Debtors - Three Debtors amount were queried and management comments made.
- Bank Reconciliation - The issue of the unrepresented cheques has been resolved.
- Journal Entries - The matter of the procedures being available was resolved.
- Tender Register - The location of the Tender Register at the Depot was resolved.

2012/13 Interim Audit Report

The Interim Audit's Report was presented to the Audit and Risk Management Committee May 2015 and included the following items:

1. Creditors - the issue of the creditors setup being segregated from the Account Payable Officer was resolved.
2. IT Controls - the issue of the development of the written procedures for the backup and disaster recovery is still outstanding and will be completed by December 2016.
3. Investment of Surplus Funds - This issue of the documented internal control procedures was addressed and resolved.
4. Stores and Depot - The matter of the fuel issues and delivery procedures was resolved.

SUMMARY

Accordingly, the only item that remains outstanding is the documenting of the current procedures for the backup and disaster recovery shown under Point 2 above - IT Controls.

*Item 5 - Within six months, an **independent** internal audit of the procurement system, **including a fraud risk analysis with a focus on the procurement process** be undertaken and reported to the Audit and Risk Management Committee;*

Staff Comment

Staff have prepared an RFQ (Requests for Quote) for internal audit services for the next 4 years commencing from the 2016/17 financial year. It is envisaged that the RFQ will be advertised in August 2016 and a report will be presented to the Audit and Risk Management Committee meeting in October 2016. The specifications for the RFQ includes the requirement to conduct a full audit of the procurement procedures in the 2016/17 financial year, followed by other financial matters including - payroll, debtors etc.

Item 6 - Council supports in principle the concept of additional resources to ensure compliance with governance issues and seeks a report as to the possible implementation of this;

Staff Comment

The Internal Audit of the procurement procedures may provide suggestions of any further requirements and it is suggested that this matter be deferred pending the outcome of the internal audit report for 2016/17.

Cr Pule asked Town staff how the Town would fair in a disaster and asked that the response be recorded in the Minutes.

The Director Corporate Services responded that risk management procedures are reviewed every two years which includes IT disaster recovery and backup and these will be reviewed this December.

The committee had a number of questions in relation to the confidential attachments.

COMMITTEE RECOMMENDATION – ITEM 8.2(a)

ARMC - 2/08/16 MOVED Cr Pule, Seconded Ian Walters, that the meeting go behind closed doors but that Mr Ron Back remains in the meeting, the time being 6.10pm.

CARRIED UNANIMOUSLY 5/0

COMMITTEE RECOMMENDATION – ITEM 8.2(b)

ARMC - 3/08/16 MOVED Cr Bridges, Seconded Michelle Rutherford, that the meeting come from behind closed doors, the time being 6.45pm.

CARRIED UNANIMOUSLY 5/0

COMMITTEE/OFFICER RECOMMENDATION – ITEM 8.2

ARMC - 4/08/16 MOVED Cr Lewis, Seconded Michelle Rutherford, that the Audit and Risk Management Committee receives the information on the actions undertaken by staff in the management reports for the 2012/13, 2013/14, 2014/15 and 2015/16.

CARRIED UNANIMOUSLY 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 will be held on Wednesday 12 October 2016 commencing at 5.30pm.

There being no further business, the Presiding Member declared the meeting closed, the time being 6.55pm.