



City of Belmont
STANDING COMMITTEE (AUDIT AND RISK)
MINUTES
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25 February 2019

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CONFIDENTIAL ATTACHMENTS INDEX

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TABLED ATTACHMENTS INDEX

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Tabled Attachment 2 – Item 11.2 refers

CONFIDENTIAL TABLED ATTACHMENTS INDEX

Confidential Tabled Attachment 1 – Item 11.1 refers

¹ Following advice from the Office of the Auditor General, this document is now confidential.

MINUTES OF THE STANDING COMMITTEE (AUDIT AND RISK) MEETING HELD IN THE RIVERVALE ROOM, CITY OF BELMONT CIVIC CENTRE, 215 WRIGHT STREET, CLOVERDALE ON MONDAY, 25 FEBRUARY 2019 COMMENCING AT 6.33PM.

MINUTES

COMMITTEE MEMBERSHIP

Cr G Sekulla, JP (Presiding Member)	West Ward
Cr M Bass (Deputy Presiding Member)	East Ward
Cr P Marks, Mayor (Ex-Officio) (<i>arr 6.34pm</i>)	East Ward
Cr J Davis	South Ward
Mr R Back	Independent Member

IN ATTENDANCE

Mr J Christie	Chief Executive Officer
Mr R Garrett	Director Corporate and Governance
Mr J Olynyk, JP	Manager Governance
Mr S Monks	Manager Finance
Mr R Das	Manager Information Technology
Mrs M Lymon	Principal Governance and Compliance Advisor
Ms E Whiteley	Compliance Administrator

OBSERVER

Cr R Rossi, JP, Deputy Mayor	West Ward
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GUESTS

Subha Gunalan	Director, Financial Audit
Don Cunninghame (<i>dep 7.22pm</i>)	Assistant Auditor General, Financial Audit
Kamran Aslam (<i>dep 7.22pm</i>)	A/Associate Director, Information Systems Audit

1. OFFICIAL OPENING

6.33pm The Presiding Member welcomed all those in attendance and declared the meeting open.

The Presiding Member read the Acknowledgement of Country.

Before I begin I would like to acknowledge the traditional owners of the land on which we are meeting today, the Noongar Whadjuk people, and pay respect to Elders past, present and future leaders.

6.34pm Cr Marks entered the meeting.

2. APOLOGIES AND LEAVE OF ABSENCE

Nil.

3. DECLARATIONS OF INTEREST THAT MIGHT CAUSE A CONFLICT

3.1 FINANCIAL INTERESTS

Nil.

3.2 DISCLOSURE OF INTEREST THAT MAY AFFECT IMPARTIALITY

Nil.

4. ANNOUNCEMENTS BY THE PRESIDING MEMBER (WITHOUT DISCUSSION)

4.1 ANNOUNCEMENTS

Nil.

4.2 DECLARATIONS BY MEMBERS WHO HAVE NOT GIVEN DUE CONSIDERATION TO ALL MATTERS CONTAINED IN THE BUSINESS PAPERS PRESENTLY BEFORE THE MEETING

Nil.

5. CONFIRMATION OF MINUTES

**5.1 STANDING COMMITTEE (AUDIT AND RISK) MEETING HELD 29 OCTOBER 2018
(Circulated under separate cover)**

OFFICER RECOMMENDATION

DAVIS MOVED, BASS SECONDED.

That the Minutes of the Standing Committee (Audit and Risk) Meeting held 29 October 2018 be confirmed as a true and accurate record.

CARRIED 5 VOTES TO 0

**6. QUESTIONS BY MEMBERS ON WHICH DUE NOTICE HAS BEEN GIVEN
(WITHOUT DISCUSSION)**

Nil.

**7. NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE PERSON
PRESIDING OR BY DISCUSSION**

Nil.

8. QUESTION BY MEMBERS WITHOUT NOTICE

Nil.

9. BUSINESS ADJOURNED FROM A PREVIOUS MEETING

Nil.

10. INFORMATION ITEMS

10.1 AUDIT PLANNING SUMMARY – PRESENTATION TO THE AUDIT COMMITTEE BY THE OAG

ATTACHMENT DETAILS

<u>Attachment No</u>	<u>Details</u>
Attachment 1 – Item 10.1 refers	Office of the Auditor General - Agenda
Attachment 2 – Item 10.1 refers	Office of the Auditor General – Audit Planning Summary

As an entrance meeting to the audit of the 2018-2019 Annual Financial Report respective Officers from the Office of the Auditor General (OAG) provided an overview. As per their agenda the planning summary included:

- Significant aspects of this year’s Audit Approach
- Key Requirements and Schedule for Providing Information

It was also advised that:

- Information systems will be part of the audit scope and will include vulnerability scans
- The audit is more detailed than in a typical year and that OAG will not fully recover costs from local governments.

A series of questions were asked and responded to as follows:

- An external audit firm can be engaged to undertake the City’s review as required by Regulation 17 of the *Local Government (Audit) Regulations 1996* and Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*. If this review is carried out by the OAG, costs relating to the review should be reduced as part of the scope is included in the OAG’s financial audit.
- An Annual Financial Statement (AFS) proforma has been introduced in relation to the proposed audit schedule. The intent is to assist local governments early in the process to check that the AFS template is compliant and in this way feedback can be provided at an earlier stage. The proforma is an unofficial document to be used only to check on the content.
- The financial audit has changed from a four week audit period with two or three Auditors to the proposed scope with a seven to eight week on site audit period carried out by five Auditors. This will be time consuming and resource heavy for City Officers which could impact given the audit will be the main priority. Mr Cunninghame commented that only three auditors will generally be required.
- An OAG report is being tabled in Parliament on 13 March 2019 and will outline non-compliances identified through audits carried out across the local government sector through the 2017-2018 audits. OAG Officers recommend that City Officers refer to the report for areas of comparison or improvement.
- 2018-2019 is the first year the AOG will carry out the City’s in-house audit. The process will be assessed and the report will include areas for best practice as well as any non-compliances identified.
- There were no areas of non-compliance identified in the City’s 2017-2018 audit, and no indications that any change in process is required.

Note:

Item 11.1 – Focus Audit – Management of Supplier Master Files. This item was brought forward for discussion after Item 10.1 for the convenience of the guests from the Office of the Auditor General. Refer to page 7.

10.2 2018 AUDIT - ACTUALS

ATTACHMENT DETAILS

Attachment No	Details
Attachment 3 – Item 10.2 refers	2018 Audit Plan
Attachment 4 – Item 10.2 refers	2018 Audit - Actuals
Tabled Attachment 1 – Item 10.2 refers	Audit Actuals 2018

An outline of the actual audits undertaken throughout 2018 was provided (Refer to the [2018 Audit Plan - Attachment 3](#) and [2018 Audit – Actuals Attachment 4](#)).

The Audit Actuals 2018 presentation included the following:

- 2018 Audit Plan
- 2018 Audit – Actuals
- Response from Minister – Operational Comparison Report

(Refer [Tabled Attachment 1](#) for further information).

No questions were asked however it was noted that it was pleasing to receive an acknowledgment from the Minister.

11. ITEMS REQUIRING RECOMMENDATION TO COUNCIL

Note:

Item 11.1 – Focus Audit – Management of Supplier Master Files. This item was brought forward for discussion after Item 10.1 for the convenience of the guests from Office of the Auditor General. Refer to page 5.

11.1 FOCUS AUDIT – MANAGEMENT OF SUPPLIER MASTER FILES

BUSINESS EXCELLENCE BELMONT

ATTACHMENT DETAILS

Attachment No	Details
Confidential Attachment 1 – Item 11.1 refers	Focus Audit – Management of Supplier Master Files
Confidential Tabled Attachment 1 – Item 11.1 refers	Focus Audit – Management of Supplier Master Files Presentation

Voting Requirement : Simple Majority
Subject Index : 19/001
Location / Property Index : N/A
Application Index : N/A
Disclosure of any Interest : Nil.
Previous Items : Ordinary Council Meeting
Applicant : N/A
Owner : N/A
Responsible Division : Corporate and Governance

COUNCIL ROLE

- Advocacy** *When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive** *The substantial direction setting and oversight role of the Council eg. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets*
- Legislative** *Includes adopting local laws, town planning schemes and policies*
- Review** *When Council reviews decisions made by Officers*
- Quasi-Judicial** *When 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 Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal*

Item 11.1 Continued

PURPOSE OF REPORT

This report provides Council feedback on the focus audit regarding the management of supplier master files carried out by the Office of the Auditor General (OAG) during October 2018.

SUMMARY AND KEY ISSUES

There were four issues/findings raised as a result of the focus audit, three defined as moderate and one significant. The issues are summarised as:

1. A review of current processes including more comprehensive and documented procedures and policies (moderate).
2. A more robust review and approval process regarding changes to critical supplier/creditor information (significant).
3. Supplier information should be periodically reviewed and updated (moderate).
4. Conflicts of interest are managed particularly with the procurement of goods and services (moderate).

LOCATION

Not applicable.

CONSULTATION

There has been no specific consultation undertaken in respect to this matter.

STRATEGIC PLAN IMPLICATIONS

In accordance with the Strategic Plan Key Result Area: Business Excellence Belmont.

Objective: Achieve excellence in the management and operation of the local government.

Strategy: Ensure Council is engaged at a strategic level to enable effective decision making.

POLICY IMPLICATIONS

There are no policy implications associated with this report.

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996 effectively make the Auditor General's Office responsible for the financial and performance auditing of local governments. Performance (focus) audits are then required to be reported to the local government as per Section 7.12AK of the *Local Government Act 1995*.

Item 11.1 Continued

BACKGROUND

The OAG advised the City on the 27 September 2018 that the City had been selected for a focus audit regarding the management of supplier master files. In total five State agencies and five Local governments had been selected.

The focus audit was undertaken during late October 2018 with the final report, following management feedback, received on the 5th December 2018.

The collective results of the audits will be provided by the OAG to Parliament with the audit findings/recommendations of individual agencies and local governments only reported to those respective entities.

Although the management of the supplier master file, which includes specific supplier information such as bank details, has been reviewed during past financial audits no significant matters have been identified. The OAG undertook a very focused, intensive and detailed audit.

OFFICER COMMENT

As a result of the findings and recommendations listed in the letter received from the OAG there are a number of changes to current processes and procedures that are to be implemented by 31 March 2019. The changes are included in the 'Management Comments' section of the attached letter ([Confidential Attachment 1](#)).

These can be summarised as:

1. Following the finalisation of process/procedural changes they will then be documented and subject to internal audits.
2. A more robust review/approval process will be introduced when amending supplier details, particularly bank details.
3. Periodic (at least semi-annual) reviews of the supplier master files will be undertaken.
4. Procurement documents and procedures will be reviewed and updated to improve existing controls regarding conflicts of interest.

FINANCIAL IMPLICATIONS

There are no financial implications evident at this time.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

SOCIAL IMPLICATIONS

There are no social implications associated with this report.

Item 11.1 Continued

Committee Notes

The Focus Audit – Management of Supplier Master Files presentation included the following:

- Overview
- Policies and Procedures
- Review of Changes to Supplier Master Files
- Monitoring and Compliance
- Ineffective Management of Conflicts of Interest

(Refer [Confidential Tabled Attachment 1](#) for further information).

A series of questions were asked and responded to as follows:

- When a conflict of interest is declared, the relevant Officer should remove themselves completely from the procurement process.
- The City's controls are adequate, however declaration of interest is ultimately the responsibility of the interested party. Processes and procedures can be in place, however it is up to each individual to declare an interest and remove themselves from the process.
- Segregation of duties is a key component of the City's controls. Processes have been established, including putting relevant delegations and authorisation requirements in place to ensure that no Officer will be involved in every area of the procurement process.

7.22pm **The Manager Finance departed the meeting.**

7.22pm **Mr Cunninghame and Mr Aslam departed the meeting and did not return.**

OFFICER RECOMMENDATION

That the Council note the results of the focus audit on the supplier master file as detailed in [Confidential Attachment 1](#) and note the action proposed to address the findings.

ALTERNATIVE COMMITTEE RECOMMENDATION

MARKS MOVED, DAVIS SECONDED,

That the Council note the results of the Focus Audit on the Supplier Master File as detailed in [Confidential Attachment 1](#) and note the action proposed to address the findings with an update to be provided to the July Standing Committee (Audit and Risk) Meeting advising of the progress and finalisation of those recommendations.

CARRIED 5 VOTES TO 0

Item 11.1 Continued

Note:

At the request of the Presiding Member, the Committee were asked if it was acceptable for Ms Gunalan, Director, Financial Audit, Office of the Attorney General to remain for the rest of the meeting.

COMMITTEE MOTION

DAVIS MOVED, BASS SECONDED,

That Ms Gunalan is invited to remain for the rest of the meeting.

CARRIED 5 VOTES TO 0

7.25 pm The Manager Finance returned to the meeting.

11.2 STATUTORY COMPLIANCE AUDIT RETURN 2018

BUSINESS EXCELLENCE BELMONT

ATTACHMENT DETAILS

<u>Attachment No</u>	<u>Details</u>
Attachment 5 – Item 11.2 refers	2018 Compliance Audit Return
Tabled Attachment 2 – Item 11.2 refers	Compliance Audit Return 2018 Standing Committee (Audit and Risk)

Voting Requirement : Simple Majority
Subject Index : 39/005 Statutory Compliance Return
Location/Property Index : N/A
Application Index : N/A
Disclosure of any Interest : Nil.
Previous Items : 27 March 2018 OCM - Item 12.3
Applicant : N/A
Owner : N/A
Responsible Division : Corporate and Governance

COUNCIL ROLE

- Advocacy** *When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive** *The substantial direction setting and oversight role of the Council eg adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative** *Includes adopting local laws, local planning schemes and policies.*
- Review** *When Council reviews decisions made by Officers.*
- Quasi-Judicial** *When Council determines an application/matter that directly affect 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 local planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*

PURPOSE OF REPORT

To provide Council with the outcomes of the Statutory Compliance Audit Return for the period 1 January 2018 to 31 December 2018 as provided in [Attachment 5](#).

Item 11.2 Continued

SUMMARY AND KEY ISSUES

It is a requirement of the *Local Government Act 1995* that all local governments carry out an audit of compliance in the prescribed manner and form approved by the Minister.

The Department of Local Government, Sport and Cultural Industries provided a set of questions via the Departmental Portal in January 2019. This year the audit questions focussed on key areas of potential non-compliance as in previous years.

The City of Belmont's 2018 compliance score is 100%, continuing the ongoing 100% compliance from the previous years.

LOCATION

Not applicable.

CONSULTATION

In completing the 2018 Statutory Compliance Audit Return, internal consultation has occurred with relevant officers of each department.

STRATEGIC COMMUNITY PLAN IMPLICATIONS

In accordance with the Strategic Community Plan Key Result Area: Business Excellence Belmont.

Objective: Maximise organisation effectiveness and reputation as an organisation employer and a community.

Strategy: Ensure that the organisation's capacity and capability meets strategic, customer and operational needs.

Corporate Key Action: The City must remain capable of fulfilling its strategic objectives which are supported by customer needs and operational activities. Capacity for growth to meet future needs is an imperative.

POLICY IMPLICATIONS

There are no policy implications associated with this report.

Item 11.2 Continued

STATUTORY ENVIRONMENT

Regulation 14 of the *Local Government (Audit) Regulations 1996* requires that a compliance audit for the period 1 January to 31 December is completed each year in a form approved by the Minister. Regulation 14 also requires the Standing Committee Audit and Risk to review the Compliance Audit Return and present those results to Council. The Compliance Audit Return is then to be adopted by Council and recorded in the minutes.

Regulation 15 of the *Local Government (Audit) Regulations 1996* requires that after the adoption by Council of the Compliance Audit Return, a certified copy (signed by both the Mayor and Chief Executive Officer) of the return, together with a copy of the minutes of the meeting in which the return was adopted and any additional information is required to be submitted to the Executive Director of the Department of Local Government, Sport and Cultural Industries by 31 March.

BACKGROUND

The compliance audit period is 1 January to 31 December 2018 and once the audit is completed the City is required to:

1. Present the Compliance Audit Return to the Standing Committee (Audit and Risk)
2. Present the Compliance Audit Return to Council
3. Seek Council's endorsement of the completed Compliance Audit Return
4. Return the endorsed and certified Compliance Audit Return, along with a copy of the Council Minutes, to the Department of Local Government, Sport and Cultural Industries by no later than 31 March 2019.

In completing the Compliance Audit Return, the Chief Executive Officer and other designated officers have undertaken an audit of the City's activities, practices and procedures applicable to each section and requirement of the return to ensure that an independent, thorough and rigorous process is undertaken.

The audit questions for the 2018 period focussed on key areas of potential non-compliance and were the same as previous years with the exception of election-based questions.

The Compliance Audit Return is required to be completed online through the Department of Local Government, Sport and Cultural Industries website. A copy of the completed return is provided as [Attachment 5](#) to this report and is a printout of the City's registered responses.

Once Council has resolved its satisfaction with the contents of the return, it can be jointly certified by the Mayor and Chief Executive Officer and then submitted to the Department of Local Government, Sport and Cultural Industries.

Council may also refer the completed Compliance Audit Return to the Auditor or other external inspection service for an independent check.

Item 11.2 Continued

OFFICER COMMENT

The City of Belmont has achieved the following:

Compliance Area	Full Compliance	Non-Compliance
Commercial Enterprises by Local Government	5	0
Delegation of Power/Duty	13	0
Disclosure of Interest	16	0
Disposal of Property	2	0
Finance	16	0
Integrated Planning and Reporting	7	0
Local Government Employees	5	0
Official Conduct	6	0
Tenders for Providing Goods and Services	25	0

The 2018 Compliance Score is 100%.

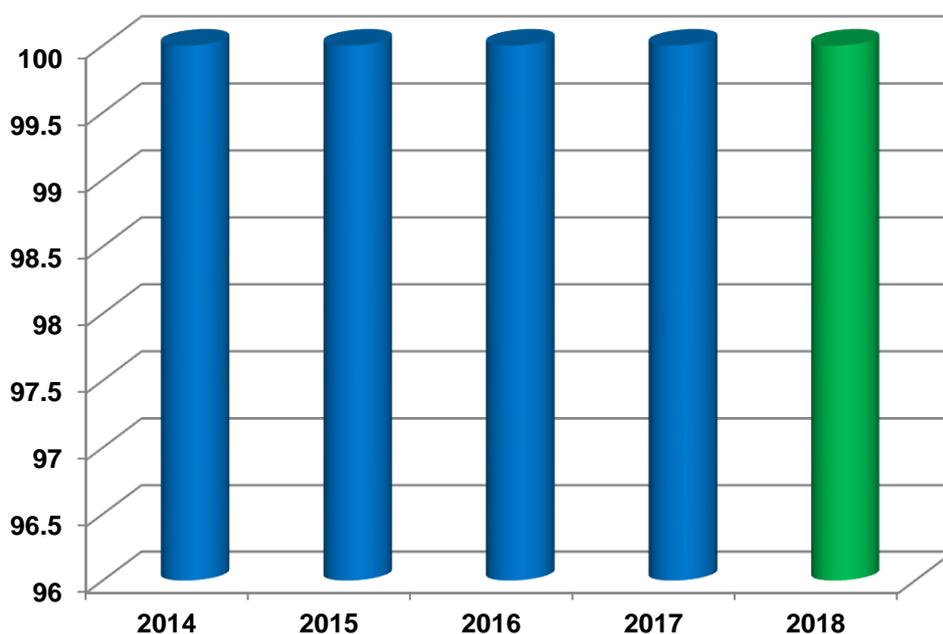
The City of Belmont conducted an internal audit to determine responses to questions in the Compliance Audit Return. To further substantiate its responses, the City has opted to provide evidence through citation of items from the City's Council meetings and documents registered on ECM. Reference is also made to information contained in hard copy, which includes original copies of Elected Member and designated officer Primary and Annual Returns.

When reading the questions shown in the Compliance Audit Return (refer [Attachment 5](#)) it should be noted that they should be read in conjunction with the relevant extract of the *Local Government Act 1995* and / or associated Regulations.

The 2018 Statutory Compliance Audit Return contains a total of 95 questions. This is an increase from the 2017 return due to the inclusion of a new questions within the Finance compliance area relating to *Local Government (Audit) Regulations 1996, Regulation 17* and the CEO systems and procedures review.

Item 11.2 Continued

Figure 1 – City of Belmont Annual Compliance Audit Return Compliance Rates.



FINANCIAL IMPLICATIONS

There are no financial implications evident at this time.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

SOCIAL IMPLICATIONS

There are no social implications associated with this report.

Committee Notes

The Compliance Audit Return 2018 Standing Committee (Audit and Risk) presentation included the following:

- Areas of Questioning
- Level of Compliance
- Where to from Here?

(Refer [Tabled Attachment 2](#) for further information).

Item 11.2 Continued

OFFICER RECOMMENDATION

That the Standing Committee (Audit and Risk) approve that Council:

1. Receive and adopt the 2018 Compliance Audit Return, as provided in [Attachment 5](#) as a true and accurate representation of the outcomes of the audit of statutory activities.
2. Authorise the Mayor and Chief Executive Officer to complete the 'Joint Certification' of the 2018 Compliance Audit Return.
3. Request the Chief Executive Officer to forward the certified 2018 Compliance Audit Return and a copy of the minutes relative to this report to the Department of Local Government, Sport and Cultural Industries by 31 March 2019 in accordance with the requirements of the Local Government (Audit) Regulations 1996.

Mr Back put forward the following motion.

ALTERNATIVE COMMITTEE RECOMMENDATION

BACK MOVED, BASS SECONDED,

That the Standing Committee (Audit and Risk) approve that Council:

- 1. Receive and adopt the 2018 Compliance Audit Return, as provided in [Attachment 5](#).***
- 2. Authorise the Mayor and Chief Executive Officer to complete the Joint Certification of the 2018 Compliance Audit Return.***
- 3. Request the Chief Executive Officer to forward the certified 2018 Compliance Audit Return and a copy of the minutes relative to this report to the Department of Local Government, Sport and Cultural Industries by 31 March 2019 in accordance with the requirements of the Local Government (Audit) Regulations 1996.***

CARRIED 5 VOTES TO 0

7.45pm Cr Rossi departed the meeting.

11.3 FINANCIAL MANAGEMENT REVIEW AND REGULATION 17 REVIEW

BUSINESS EXCELLENCE BELMONT

ATTACHMENT DETAILS

<u>Attachment No</u>	<u>Details</u>
Confidential Attachment 2 – Item 11.3 refers	Auditors Report

Voting Requirement : Simple Majority
Subject Index : 19/001
Location / Property Index : N/A
Application Index : N/A
Disclosure of any Interest : Nil.
Previous Items : Ordinary Council Meeting
Applicant : N/A
Owner : N/A
Responsible Division : Corporate and Governance

COUNCIL ROLE

- Advocacy** *When Council advocates on its own behalf or on behalf of its community to another level of government / body / agency.*
- Executive** *The substantial direction setting and oversight role of the Council eg. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets*
- Legislative** *Includes adopting local laws, town planning schemes & policies*
- Review** *When Council reviews decisions made by Officers*
- Quasi-Judicial** *When 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 Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal*

PURPOSE OF REPORT

This report provides feedback from the City's auditors as a result of the Financial Management Review and the review of certain systems and procedures to demonstrate compliance with Regulation 17 of the *Local Government (Audit) Regulations 1996*. The reviews were carried out during November and December 2018.

Item 11.3 Continued

SUMMARY AND KEY ISSUES

Although there two very minor system improvement items raised, it was found that the overall effectiveness of the financial management systems and procedures of the Council with respect to the areas reviewed as reasonable and appropriate. This includes systems and procedures relevant to risk management, internal control and legislative compliance.

LOCATION

Not applicable.

CONSULTATION

There has been no specific consultation undertaken in respect to this matter.

STRATEGIC PLAN IMPLICATIONS

In accordance with the Strategic Plan Key Result Area: Business Excellence Belmont.

Objective: Achieve excellence in the management and operation of the local government.

Strategy: Ensure Council is engaged at a strategic level to enable effective decision making.

POLICY IMPLICATIONS

There are no policy implications associated with this report.

STATUTORY ENVIRONMENT

Section 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer (CEO) to “*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 financial years) and report to the local government the results of those reviews.*”

The requirement for a review had previously been not less than every 4 years but this was amended to every 3 years in June 2018.

Item 11.3 Continued

Regulations 16 and 17 of the Local Government (Audit) Regulations 1996 state that:

- ‘16. Functions of audit committee
An audit committee has the following functions —
- (c) *to review a report given to it by the CEO under regulation 17(3) (the **CEO’s report**) and is to —*
 - (i) *report to the council the results of that review; and*
 - (ii) *give a copy of the CEO’s report to the council;*
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; and*
 - (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.’*

BACKGROUND

The previous financial management review for the purposes of meeting this regulation was reported to Council in February 2015 and was based on an independent review by the City’s external auditor.

The City’s current auditors also perform this review for a number of other local government clients. The review not only provides support that the financial management systems and procedures of Council are reasonable and appropriate but also provides recommendations to further improve such systems and procedures.

Regulation 17 of the *Local Government (Audit) Regulations 1996* was introduced in 2013 to set out that the CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to risk management, internal control, and legislative compliance.

In previous years City officers have carried out the review of these functions in consultation with the CEO for the results to be reported to the Standing Committee (Audit and Risk) and Council.

A recent change in the Regulations has resulted in the financial management review and the Regulation 17 review both requiring review every three years where previously the review timeline was every four years and two years respectively. It was considered appropriate for the reviews to be carried out concurrently by an independent external audit firm.

Item 11.3 Continued

OFFICER COMMENT

The report from Grant Thornton ([Confidential Attachment 2](#) refers) details the items raised as a result of the review.

Only two minor issues were raised in the report in relation to the Regulation 17 review. An extract from page 7 of Grant Thornton's report is provided below, with acknowledgement of the City's position italicised (added) for ease of reference.

“Results/Recommendations

Based on review procedures performed, two areas of improvement are noted. We note there is no organisational policy that consolidates all operational management and corporate administration policies into a single document, instead of keeping an overflow of documents on the intranet. *The Manager Governance and the Governance unit are in the process of drafting a Corporate policy document which will contain various operational policies and this is expected to roll out in mid - late 2019.*

Secondly, we note that no financial management systems and review was undertaken in the last four years, which is contrary the three-year compliance period detailed within regulations. It is noted that the previous review was finalised in February 2015 and the changes to the Local Government act 1996 (sic) were gazetted on 26 June 2018. As the amendment was put in place during 2018, it meant that it was not possible for the City to meet the three-year compliance this year. *Management personnel understands this three-year requirement and has appropriate procedures in place to ensure financial management reviews are done on a timely basis.”*

FINANCIAL IMPLICATIONS

There are no financial implications evident at this time.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

SOCIAL IMPLICATIONS

There are no social implications associated with this report.

Committee Notes

A question was asked and responded to as follows:

- Refer to Audit Regulation 5 (*Financial Management Regs*) throughout report and recommendation

Item 11.3 Continued

OFFICER RECOMMENDATION

That Council note the results of the Financial Management Review and the review of certain systems and procedures to demonstrate compliance with Regulation 17 of the Local Government (Audit) Regulations 1996 as detailed in [Confidential Attachment 2](#).

7.50 pm Cr Rossi returned to the meeting.

Mr Back put forward the following motion.

ALTERNATIVE COMMITTEE RECOMMENDATION

BACK MOVED, DAVIS SECONDED,

That Council note the appropriateness and effectiveness of the City's financial management systems in accordance with Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 and Regulation 17 of the Local Government (Audit) Regulations 1996 as detailed in [Confidential Attachment 2](#).

CARRIED 5 VOTES TO 0

11.4 TERMS OF REFERENCE FOR THE STANDING COMMITTEE (AUDIT AND RISK)

BUSINESS EXCELLENCE BELMONT

ATTACHMENT DETAILS

<u>Attachment No</u>	<u>Details</u>
Attachment 6 – Item 11.4 refers	Revised Terms of Reference – Standing Committee (Audit and Risk)
Attachment 7 – Item 11.4 refers	Letter Dated 12 December 2018 from the Department of Local Government, Sport and Cultural Industries
Attachment 8 – Item 11.4 refers	Letter Dated 18 January 2019 from West Australian Local Government Association (WALGA)

Voting Requirement	:	Simple Majority
Subject Index	:	154/007 – Standing Committee
Location/Property Index	:	N/A
Application Index	:	N/A
Disclosure of any Interest	:	Nil.
Previous Items	:	27 September 2016 OCM – Item 12.14 30 October 2017 SC(Audit and Risk) 29 October 2018 SC (Audit and Risk) – Item 11.4
Applicant	:	N/A
Owner	:	N/A
Responsible Division	:	Corporate and Governance

COUNCIL ROLE

- Advocacy** *When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive** *The substantial direction setting and oversight role of the Council eg adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative** *Includes adopting local laws, local planning schemes and policies.*
- Review** *When Council reviews decisions made by Officers.*
- Quasi-Judicial** *When Council determines an application/matter that directly affect 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 local planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*

Item 11.4 Continued

PURPOSE OF REPORT

To present revised Terms of Reference to the Standing Committee (Audit and Risk) (refer [Attachment 6](#)) for recommendation to Council for endorsement.

SUMMARY AND KEY ISSUES

Following changes to the *Local Government (Audit) Regulations 1996* commencing 27 June 2018, amendments to the Terms of Reference for the Standing Committee (Audit and Risk) are required.

LOCATION

Not applicable.

CONSULTATION

There has been no specific consultation undertaken in respect to this matter.

STRATEGIC COMMUNITY PLAN IMPLICATIONS

In accordance with the Strategic Community Plan Key Result Area: Business Excellence Belmont.

Objective: Achieve excellence in the management and operation of the local government.

Strategy: Ensure decision making is supported by effective information and knowledge management.

POLICY IMPLICATIONS

There are no policy implications associated with this report.

Item 11.4 Continued

STATUTORY ENVIRONMENT

Part 7 of the *Local Government Act 1995* details the audit of the financial accounts of the local government. Section 7.1A states:

7.1A. Audit Committee

- (1) *A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.*
- (2) *The members of the audit committee of a local government are to be appointed* by the local government and at least 3 of the members, and the majority of the members, are to be council members. * Absolute majority required.*
- (3) *A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent the CEO as a member of an audit committee.*
- (4) *An employee is not to be a member of an audit committee.*

The *Local Government (Audit) Regulations 1996* detail the role and requirements of local government audit committees; in particular, Regulation 16 outlines the functions of the audit committee:

16. Audit Committee, Functions of

An audit committee —

- (a) *is to provide guidance and assistance to the local government —*
 - (i) *as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*
 - (ii) *as to the development of a process to be used to select and appoint a person to be an auditor; and*
- (b) *may provide guidance and assistance to the local government as to —*
 - (i) *matters to be audited; and*
 - (ii) *the scope of audits; and*
 - (iii) *its functions under Part 6 of the Act; and*
 - (iv) *the carrying out of its functions relating to other audits and other matters related to financial management; and*
- (c) *is to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —*
 - (i) *report to the council the results of that review; and*
 - (ii) *give a copy of the CEO's report to the council.*

[Regulation 16 inserted in Gazette 31 Mar 2005 p. 1043; amended in Gazette 8 Feb 2013 p. 867.]

Item 11.4 Continued

BACKGROUND

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that will enable the Auditor General to audit local government finances and performance.

The changes to the Act have been supported by amendments to the *Local Government (Audit) Regulations 1996*, gazetted on Tuesday, 26 June 2018.

Regulations 9 and 16 of the *Local Government (Audit) Regulations 1996* have been deleted and replaced as follows:

9. Performance of audit

(1) *In this regulation-*

Australian Accounting Standards means the standards made and amended from time to time by the Australian Accounting Standards Board continued under the Australian Securities and Investments Commission Act 2001 (Commonwealth) section 261.

(2) *An auditor must carry out an audit in accordance with the Australian Auditing Standards made or formulated and amended from time to time by the Auditing and Assurance Standards Board established by the Australian Securities and Investments Commission Act 2001 (Commonwealth) section 227A.*

(3) *An auditor must carry out the work necessary to form an opinion whether the annual financial report —*

(a) *is based on proper accounts and records; and*

(b) *fairly represents the results of the operations of the local government for the financial year and the financial position of the local government at 30 June in accordance with —*

(i) *the Act; and*

(ii) *the Australian Accounting Standards (to the extent that they are not inconsistent with the Act).*

9A. CEO to provide documents to Auditor General carrying out financial audit

(1) *In this regulation —*

audit document means —

(a) *the strategic community plan as defined in the Local Government (Administration) Regulations 1996 regulation 19BA; or*

(b) *the corporate business plan as defined in the Local Government (Administration) Regulations 1996 regulation 19BA; or*

(c) *another plan or informing strategy specified by the Auditor General; or*

(d) *another document specified by the Auditor General.*

(2) *The CEO must provide a copy of an audit document to the Auditor General within 14 days after the Auditor General requests it for the purposes of a financial audit under Part 7 Division 3A of the Act.*

Item 11.4 Continued

16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and*
 - (ii) its functions relating to other audits and other matters related to financial management;**
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
 - (i) report to the council the results of that review; and*
 - (ii) give a copy of the CEO's report to the council;**
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and*
 - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (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;*
- (f) to oversee the implementation of any action that the local government —
 - (i) is required to take by section 7.12A(3); and*
 - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
 - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
 - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.*

As notified at the Standing Committee (Audit and Risk) meeting held on Monday, 30 October 2017, the *Local Government Amendment (Auditing) Act 2017* was gazetted on Friday, 27 October 2017 and therefore the Auditor General will now conduct or arrange financial audits for local government and this is applicable to the City of Belmont.

A revision to the Standing Committee (Audit and Risk) Terms of Reference is pertinent to ensure consistency with amended legislation and responsibilities of the Standing Committee (Audit and Risk) (refer [Attachment 6](#)).

Item 11.4 Continued

OFFICER COMMENT

The revised Terms of Reference reflect the amendments made to the *Local Government (Audit) Regulations 1996*.

The amendments made to the Terms of Reference are shown by track changes in [Attachment 7](#).

The key changes to the Terms of Reference include:

- Duties and responsibilities - deletion of b, c, d and e as the Office of the Auditor General is now responsible for appointing an auditor
- An additional duty regarding support to the auditor
- A change to the CEO reports review period.

At the 29 October 2018 Meeting of the Standing Committee (Audit and Risk), it was resolved:

That the Standing Committee (Audit and Risk) defer the recommendation to adopt the reviewed Terms of Reference for the Standing Committee (Audit and Risk) pending further written advice and information being received from the Department of Local Government, Sport and Cultural Industries and the Western Australian Local Government Association.

Letters were sent to the Department of Local Government, Sport and Cultural Industries (DLGSCI) and the Western Australian Local Government Association (WALGA) on 26 November 2018. A response from the DLGSCI dated 12 December 2018 was received by the City on 18 December 2018 (see [Attachment 7](#)) and a response from WALGA dated 18 January 2019 was received on 22 January 2019 (see [Attachment 8](#)).

With regard to the response from the DLGSCI, the Committee should note that in paragraph three, the DLGSCI state “the function of the audit committee to ‘guide and assist’, as referred to in Regulation 16, is to occur at the strategic level, not at the operational level.”

Item 11.4 Continued

With regard to the response from WALGA, the Committee should note that the City of Belmont response to the Local Government Act Review – Stage 2 proposes the following:

<p><u>Audit Committee: Local Government (Audit) Regulations 1996</u></p> <p>The City of Belmont Standing Committee (Audit and Risk) raised concerns in regard to the context of recent amendments to Regulation 16 of the <i>Local Government (Audit) Regulations 1996</i> and the implications of the audit committee assisting with a local government’s financial management.</p> <p>Regulation 16 states: Functions of audit committee An audit committee has the following functions — (a) to guide and assist the local government in carrying out — (i) its functions under Part 6 of the Act; and (ii) its functions relating to other audits and other matters related to financial management;’</p> <p>Part 6 of the Act includes the preparation of the annual budget, preparing the annual financial report and other general financial responsibilities of the local government many of which have significant operational components.</p> <p>WALGA also considered this issue when providing feedback on the draft Regulation to the Department of Local Government, Sport and Cultural Industries, through our State Council meeting resolution on 7 March 2018:</p> <p><i>“Proposed amendment of Regulation 16 - Supported subject to:</i> (i) <i>Sub-regulation 16(a) being deleted as Audit Committee involvement in ‘guiding and assisting’ Local Government to prepare budgets, financial reports, rates, etc. compromises the Committee’s objectivity /impartiality when undertaking the audit role.</i></p> <p><i>The redraft is proposed to avoid any confusion between the Audit Committee function and the CEO’s responsibilities for the administration of the Local Government.”</i></p>	<p><u>City of Belmont Position:</u></p> <p>That Regulation 16 of the <i>Local Government (Audit) Regulations 1996</i> be amended to clarify the separation of operational matters, the function of the Administration by the CEO, and that of Council and the Audit and Risk Committee.</p>
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FINANCIAL IMPLICATIONS

There are no financial implications evident at this time.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

Item 14.1 Continued

SOCIAL IMPLICATIONS

There are no social implications associated with this report.

OFFICER RECOMMENDATION

That the Standing Committee (Audit and Risk) recommend that Council endorse the revised Terms of Reference for the Standing Committee (Audit and Risk) (refer [Attachment 6](#)).

Mr Back put forward the following motion.

ALTERNATIVE COMMITTEE RECOMMENDATION

BACK MOVED, DAVIS SECONDED.

That the Standing Committee (Audit and Risk) recommend that Council endorse the revised Terms of Reference for the Standing Committee (Audit and Risk) (refer [Attachment 6](#)) with the inclusion of the wording 'Financial management systems' at item 3 (c)(iv)

CARRIED 5 VOTES TO 0

12. NEXT MEETING

The next meeting of the Standing Committee (Audit and Risk) will be held on Monday 22 July 2019 commencing at 6.30pm.

13. CLOSURE

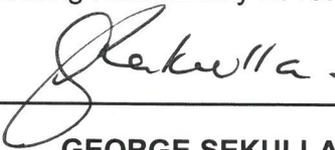
There being no further business the Presiding Member thanked everyone for their attendance and closed the meeting at 7.58pm.

MINUTES CONFIRMATION CERTIFICATION

The undersigned certifies that these minutes of the Standing Committee (Audit and Risk) Meeting held 25 February 2019 were confirmed as a true and accurate record at the Standing Committee (Audit and Risk) Meeting held 22 July 2019:

Signed by the Person Presiding: _____

PRINT name of the Person Presiding:


GEORGE SEKULLA

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