



TOWN OF
VICTORIA PARK



Audit Committee Minutes – 15 July 2019



WE'RE OPEN
VIC PARK

Please be advised that an **Audit Committee** meeting was held at **5:30 pm** on **Monday 15 July 2019** in the **Council Chambers**, Administration Centre at 99 Shepperton Road, Victoria Park.

Cr Jennifer Ammons-Noble – Presiding Member
18 July 2019

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1 OPENING

Cr Jennifer Ammons Noble opened the meeting at 05:31 pm and acknowledged the traditional owners.

2 ATTENDANCE

Banksia Ward

Cr Claire Anderson
Cr Karen Vernon (Deputy Presiding Member)

Jarrah Ward

Cr Jennifer Ammons Noble (Presiding Member)

Independent Members

Mr Jonathan Carly
Mr Neil Formosa

Chief Financial Officer Chief Operations Officer Manager Corporate Services

Mr Michael Cole
Mr Ben Killigrew
Mr Graham Pattrick

Secretary

Mr Liam O'Neill

2.1 Apologies

Jarrah Ward

Cr Brian Oliver

2.2 Approved Leave Of Absence

Nil.

3 DECLARATIONS OF INTEREST

Nil.

4 CONFIRMATION OF MINUTES

RESOLVED:

Moved: Cr Jennifer Ammons Noble

Seconded: Mr Neil Formosa

That the Audit Committee confirms the minutes of the Finance and Audit Committee held on 29 April 2019.

CARRIED (4 - 0)

For: Cr Claire Anderson, Cr Jennifer Ammons Noble, Mr Jonathan Carley, Mr Neil Formosa

Against: nil

5 PRESENTATIONS

5.1 Presentations

Nil.

6 METHOD OF DEALING WITH AGENDA BUSINESS

RESOLVED:

Moved: Cr Jennifer Ammons Noble

Seconded: Mr Jonathan Carley

That clause 6.10 Speaking Twice of the Town of Victoria Park Standing Orders Local Law 2011 be suspended for the duration of this meeting.

CARRIED (4 - 0)

For: Cr Claire Anderson, Cr Jennifer Ammons Noble, Mr Jonathan Carley, Mr Neil Formosa

Against: nil

7 REPORTS

7.1 Draft Interim Audit Report 2018-2019 Financial Year

Location	Town-wide
Reporting officer	Ann Thampoe
Responsible officer	Graham Pattrick
Voting requirement	Simple majority
Attachments	1. 2018-2019 Draft Interim Audit Management Report [7.1.1 - 9 pages]

Recommendation	
<p>That the Audit Committee</p> <ol style="list-style-type: none"> 1. Accepts the comments arising from the Auditor's 2018-2019 Draft Interim Audit. 2. Recommends Council support the Management Responses to those comments as contained within the body of this report. 	

Purpose

This report is to present the findings of the Interim audit, together with the responses from Management for the Committee's review and acceptance.

In brief

The 2018-2019 Interim audit was conducted by the Auditors appointed by the Auditor General's Office. The Interim Audit is primarily concerned with a review of internal controls, policies, procedures and management's compliance with those controls. The interim audit reports on an exception basis those items that require management's attention.

Background

1. Each year, as part of Council's audit process, an interim audit is undertaken to ascertain areas of potential review associated with Council's financial systems / processes. The advice received through the interim audit is then assessed by Management who note the comments and take action as required.
2. Management has reviewed the matters raised and consider them to be appropriate and have either already resolved or recognised actions to be taken.
3. These matters raised by the Auditor, and Management's response to each matter, are listed within the 2018-2019 Draft Interim Management Report which is attached.

Strategic alignment

Civic Leadership	
Strategic outcome	Intended public value outcome or impact

CL06 - Finances are managed appropriately, sustainably and transparently for the benefit of the community.	Ensure Town meets its legislative responsibility in accordance with part 7 of the <i>Local Government Act 1995</i>
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Engagement

Internal engagement	
All Service Areas	All Service areas were engaged as part of the Interim audit process and the auditors were provided access to the relevant staff members for consultation.

Legal compliance

[Part 7 of the Local Government Act 1995](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Compliance: Council not accepting auditor recommendation which may leave the Town open to fraud, error or non-compliance	Moderate	Unlikely	Moderate	Provide reasoning and detailed explanations to Council to enable informed decision making.
Financial Impact: Management not implementing auditor recommendations which will lead to poor financial management and control.	Major	Unlikely	Moderate	Consideration impacts of the recommendation on resource / system requirements. Once resources and/or systems are available implement recommendations.

Financial implications

Current budget impact	Budget allocated within the 2019/2020 budget is sufficient to implement the auditor recommendations
Future budget impact	Not applicable

Analysis

Management content with the audit findings and will implement the recommendations as noted within the management's response that is attached to the report. It is therefore recommended the Audit committee support the management responses to those comments as attached.

Relevant documents

Not applicable

Further Consideration

Cr Karen Vernon arrived to the meeting at 05:36 pm.

The following questions arose during the consideration of the report at the meeting of the Audit Committee on 15 July 2019:

Audit Finding 1

How can we not eliminate the risk of purchase orders being raised after invoicing?

This would be difficult as human nature is prone to occasional mistakes. When an invoice arrives before a purchase order then we flag that staff member in the system and provide training in order to prevent this in future.

What is the explanation for AAPT and Marketforce cases identified in the findings?

This question was taken on notice.

The identified rate in the findings is that 2 out of 18 invoices did not have a purchase order. Is this a representative sample?

This question was taken on notice.

Audit Finding 2

Are the auditors findings inconsistent with their recommendation?

The Town will approach the external auditor to clarify this matter.

Audit Finding 3

Should a resolution of this matter be reached than December 2019?

The Town does have a number of procedures in place to carry out background check on new suppliers and will continue to improve them. However conducting a full ASIC check on every new supplier would represent a significant compliance cost to the Town.

Are we really at risk given the composition of Council, would the risk not be greater in tender evaluation?

Officers on tender panels are required to make statutory declarations that they are not a related party to any tenderer or have any conflict of interest. It is incumbent on Councillors to declare their own interests not for the Town to identify them.

Are we committing to implementing this recommendation?

The Town will be seeking more information from the auditors about exactly what they intended before making any commitment.

Audit Finding 4

Is the Town aware of the credit card reconciliation solution provided by the bank?

Yes, however we only have two credit cards so it is not considered efficient to utilise this service.

Audit Finding 5

What progress has been made since last year on reducing leave balances?

This question was taken on notice.

How long will it take to address to extinguish this issue?

This question was taken on notice.

Can further information be provided regarding a demographic analysis of what sort of staff are not taking leave?

This question was taken on notice.

Audit Finding 6

No questions.

Audit Finding 7

Would the proposed policy mentioned under Management Comment be an operational policy or Council policy?

Management has not determined if this will be a policy or management practice at this time. However the Town does currently have a raft of different guidelines and plans regarding IT security however the Auditors were seeking a specific single policy document on this matter. It's considered an operational policy as it user access to the Town's network and systems is limited to employees. Councillor's IT use is restricted to emails, the Councillor Portal and Docs on Tap while Officers have far greater access to a number of information systems. Given this recommendation has been raised with the Audit Committee, the draft policy will be brought to Audit for review prior to approval.

Are staff when inducted required to read all policies and sign they understand them? If not are they doing the same for IT documentation? Are inductions and onboarding dealing with ensuring staff understanding the policies and practices of the Town?

Officers when inducted are provided with a number of documents including documents on confidentiality and appropriate use of IT systems. The Town will continue to work to improve its induction processes to ensure Officers understand their obligations on these matters.

Audit Finding 8

Have the auditors painted a broad brush with this finding given that the Town has plenty of documentation on disposal of land assets?

While the Town has plenty of documentation for asset disposals, the Town is happy to implement this recommendation.

Other questions

Cr Karen Vernon left the meeting at 07:10 pm.

Cr Karen Vernon returned to the meeting at 07:12 pm.

How have the systems failures related to the fines and bad-debt been addressed?

Response - The fines are now lodged as soon as they go overdue on a monthly basis. This process required a change to the Authority system and our own internal processes.

All outstanding fines must be lodged within 2 years from the infringement date and we are lodging these within 6 months and on a monthly basis.

There were \$1.38 million of overdue infringements in the May financial statements in the 90 day+ window?

Response - The most recent report was for May. The write-off was approved by Council in June and when the June report is finalised there will be a significant reduction. Infringements referred to Fines Enforcement Registry will still appear as outstanding and FER will from time to time advise that some fines are unrecoverable.

OFFICER RECOMMENDATION:

That the Audit Committee

1. Accepts the comments arising from the Auditor's 2018-2019 Draft Interim Audit.
2. Recommends Council support the Management Responses to those comments as contained within the body of this report.

RESOLVED:

Moved: Cr Karen Vernon

Seconded: Mr Neil Formosa

That the Audit Committee:

1. Notes 2018-2019 Draft Interim Audit.
2. Recommends that Council receives the 2018-2019 Draft Interim Audit.
3. Recommends that Council request a further report to the Audit Committee of the draft IT security & user access policies and result of the review of the procurement policy to the October meeting of the Audit Committee.
4. That the Chair of the Audit Committee of the Town of Victoria Park provide written feedback to the Office of the Auditor General on the Towns concerns with the Audit process for 2018-2019 financial year.

CARRIED (5 - 0)

For: Cr Claire Anderson, Cr Jennifer Ammons Noble, Cr Karen Vernon, Mr Jonathan Carley, Mr Neil Formosa

Against: nil

Reason: That this committee has now considered the draft interim report the auditor recommendation and it has become apparent that the timing in which we have received that information has resulted in an opportunity lost for the Town of Victoria Park to address those matters before the close of the financial year. The Committee would further seek to receive reports on particular matters raised in the management responses.

7.2 Asset Sustainability Ratio - Audit Opinion

Location	Town-wide
Reporting officer	Ann Thampoe
Responsible officer	Graham Pattrick
Voting requirement	Simple majority
Attachments	Nil

Recommendation

That the Audit Committee

1. Notes the adverse trend over the past three years of the Asset Sustainability Ratio;
2. In accordance with Section 7.12A(4) of the Local Government Act 1995 receives the report on the Asset Sustainability Ratio;
3. Notes the action to be taken to monitor the ratio over the 2019/2020 financial year;

Purpose

This report is to present matters identified as significant within the 2017-2018 Independent auditor's report, together with actions taken or intended to be taken by Management for the Audit Committee's review and acceptance.

In brief

The Independent Auditor's Report for the financial year ended 30 June 2018 identified an adverse trend in the financial position or the financial management practices of the Town, due to the asset sustainability ratio being below the Department of Local Government, Sport and Cultural Industries standard for the past three financial years. The Town's asset sustainability ratio indicates an improvement in the trend and is expected to meet the Department's standard of 0.9 within the 2019-2020 financial year.

Background

1. Each year, as part of Council's audit process, an Independent Audit is undertaken to assess Council's Annual Financial Report and the legitimacy and accuracy of Council's accounts. An Independent audit report is then produced by the Auditor.
2. The Auditor, after completing the audit, is to forward a copy of the audit and / or management report to –
 - The Mayor;
 - The Chief Executive Officer; and
 - The Minister, via the Department of Local Government, Sport and Cultural Industries.

3. The Independent Auditor's Report formed part of Council's 2017-2018 Annual Report. Any issues arising from the Independent audit report are to be investigated and action taken to resolve those issues.
4. The independent Auditor's report for the financial year ended 30 June 2018 was presented to the Finance and Audit Committee at its meeting of 26 November 2018. As part of the report the Auditor noted there was a significant adverse trend within the asset sustainability ratio which has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the last three years as follows:

	2018	2017	2016
5. Asset sustainability ratio	0.72	0.61	0.28

6. According to the DLGSCI Operational Guideline, the standard is met if the ratio can be measured and is 90% (or 0.90). The standard is improving if this ratio is between 90% and 110% (or 0.90 and 1.10).
7. Section 7.12A(4) of the Local Government Act 1995, requires a local government to 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. 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. Due to an oversight, this has not occurred.
8. While the Town's ratio has improved each year since 2016 from 0.28 in 2016, 0.61 in 2017 and 0.72 in 2018, it is still below 0.9. In order to achieve 0.9, the Town would need to increase expenditure on capital renewal and replacement.
9. It should be noted that the ratio is calculated on actual expenditure for the year as at 30 June 2018. It should also be noted that as at 30 June 2018, there was a significant carry over of planned capital renewal works totaling \$1,378,000.
10. Had most of this work been completed, the ratio for 2017/2018 would have improved to 0.88.
11. In addition to the above, the proposed asset renewal program as listed in the adopted budget for 2019/2020 together with estimated depreciation expenses is projected to result in an Asset Sustainability Ratio of \$1.01 which is above the DLGSCI standard and is shown as follows:

Asset Renewal Expenditure	2019/2020
Land and Buildings	\$ 1,276,400
Plant and Machinery	\$ 1,265,000
Furniture and Equipment	\$ 183,400

Information Technology	\$ 130,000
Roads	\$ 2,427,000
Drainage	\$ 165,000
Pathways	\$ 663,000
Parks	\$ 2,953,670
Other	\$ 370,000
Total	\$ 9,433,470
Total Depreciation	\$ 9,381,500
Projected Asset Sustainability Ratio	1.01

12. In addition to the above, the Town will be conducting a comprehensive revaluation of its non-current asset, which would provide the Town with fair values for its non-current assets, asset conditions and updated depreciation rates.

Strategic alignment

Civic Leadership	
Strategic outcome	Intended public value outcome or impact
CL06 - Finances are managed appropriately, sustainably and transparently for the benefit of the community.	To report on matters identified by the auditor as significant in regard to adverse trends and recognise actions intended to be taken with respect to those matters.

Engagement

Internal engagement	
All Service area leaders and senior management	All Service area leaders who have responsibility in asset renewal and senior management teams have been informed of the adverse trend within the Asset Sustainability Ratio and provided guidance on actions to be taken to improve the ratio

Legal compliance

[Section 7.12A\(4\) of the Local Government Act 1995](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Financial impact Town not allocating sufficient funds towards renewal or replacement of assets.	Major	Unlikely	Moderate	Town to allocate sufficient budget and resources towards renewing or replacing assets that are reaching the end of its useful life relative to depreciation expense. Ensure condition of assets monitored and recorded in a centralised database. Funds to be allocated for the proactive maintenance of these assets to ensure longevity of the assets. Assets are revalued and measured at fair value to ensure an effective calculation of depreciation.

Financial implications

Current budget impact	Sufficient funds exist within the 2019-2020 budget for required capital renewal works as well as a comprehensive revaluation of non-current assets.
Future budget impact	To overcome the adverse trend within the Asset Sustainability Ratio the Town would need to prioritise funding towards asset renewal and replacements.

Analysis

- The Town's Asset Sustainability Ratio is improving each year. Funds allocated for renewal and replacement expenditure within the adopted budget for 2019/2020 is projected to meet the standard. Progress towards completing the capital works program will be monitored throughout the year and reported on a monthly basis to Council.
- In addition, the Town's depreciation expense will be revised as required as part of the ongoing review of asset data, condition monitoring etc for the Town's Asset Management Plans under the Integrated Planning and Reporting Framework.

15. The Town will also be conducting a comprehensive revaluation of its non-current assets within the 2019-2020 financial year, which would provide updated fair values for these assets as well as revised depreciation rates which in turn would provide an accurate reflection on the asset sustainability .

Relevant documents

Not Applicable

The following questions were raised at the meeting of the Audit Committee 15 July 2019:

May we please have additional commentary regarding the oversight noted on p9 — specifically, the implications of failure to publish mitigation measures related to matters from the auditor's report?

Response – The failure to publish mitigation measures has resulted in a follow up letter from the Department of Local Government, Sport and Cultural Industries requesting action be taken to address this. Administration is required to report this to Council noting action taken to address this finding. Once received by Council the Town is required to provide a copy to the Minister and publish this on the Town's website

Is the 2019/20 revaluation of non-current assets anticipated to reflect positively on the asset sustainability of the Town?

Response – The revaluation of non-current assets will include a review of each asset's remaining useful life, its condition assessment and any residual value. It should be noted that fair value of infrastructure assets is a developing process in local government. It's is hoped this will also reflect positively on the asset sustainability ratio.

What is the range of life of assets and will this be considered?

Response – The asset revaluation will consider the useful life for each asset. The policy provides for a range.

What happens if there are delays in asset renewal expenditures?

The Town is working consistently to schedule our works programme to be completed each financial year. The draft 2019 - 2020 budget estimates a 1.01 asset renewal ratio.

What happens if the revaluation of non current assets does not meet the required level?

Response - If a further significant finding was made, it will be reported to Council along with action to be taken to address that finding. However, should the revaluation process not meet predictions, Town Officers will review the findings and whether the results truly reflect fair value.

What is the monthly report mentioned in the Officer report.

The report referred to in paragraph 13 is part of the monthly financial reporting for May.

OFFICER RECOMMENDATION:

That the Audit Committee

1. Notes the adverse trend over the past three years of the Asset Sustainability Ratio;
2. In accordance with Section 7.12A(4) of the Local Government Act 1995 receives the report on the Asset Sustainability Ratio;
3. Notes the action to be taken to monitor the ratio over the 2019/2020 financial year;

RESOLVED:

Moved: Cr Karen Vernon

Seconded: Mr Neil Formosa

That the Audit Committee recommends to Council

- 1. Notes the trend over the past three years of the Asset Sustainability Ratio;**
- 2. In accordance with Section 7.12A(4) of the Local Government Act 1995 receives the report on the Asset Sustainability Ratio;**
- 3. Notes the action to be taken to monitor the ratio over the 2019/2020 financial year;**

CARRIED (5 - 0)

For: Cr Claire Anderson, Cr Jennifer Ammons Noble, Cr Karen Vernon, Mr Jonathan Carley, Mr Neil Formosa

Against: nil

Reason: To ensure Council considers this matter.

7.3 Next Meeting Dates

Location	Town-wide
Reporting officer	Liam O'Neill
Responsible officer	Danielle Uniza
Voting requirement	Simple majority
Attachments	1. Audit Committee Schedule [7.3.1 - 1 page]

Recommendation

That the Audit Committee sets the meeting dates for the remainder of its term for Monday, 12 August and Monday, 14 October.

Purpose

To determine the date of the next meeting of the Audit Committee.

In brief

- The Audit Committee currently has no set meeting dates for the remainder of its term which expires on 19 October 2019.
- At its meeting held 21 May 2019, Council resolved to adopt a workplan for the Audit Committee, which has been included in this report as Attachment 7.3.1. In accordance with this workplan, the Committee has to hold further meetings in August and October.
- It is proposed that the Audit Committee sets the date of the meetings required for August and October.

Background

1. The Audit Committee currently has no set meeting dates for the remainder of its term which expires on 19 October 2019.
2. At its meeting held 21 May 2019, Council resolved to adopt a workplan for the Audit Committee, which has been included in this report as Attachment 7.3.1. In accordance with this workplan, the Committee has to hold further meetings in August and October.

Strategic alignment

Civic Leadership	
Strategic outcome	Intended public value outcome or impact
CL08 - Visionary civic leadership with sound and accountable governance that reflects objective decision-making.	Ensuring the Audit Committee meets demonstrates sound governance.

Engagement

Not applicable.

Legal compliance

Meeting Procedures Local Law 2019

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Compliance The Audit Committee does not complete the workplan required by Council.	Moderate	Unlikely	Moderate	The Audit Committee holds a further meeting.

Financial implications

Current budget impact	Sufficient funds exist within the annual budget to address this recommendation.
Future budget impact	Not applicable.

Analysis

3. To better align with the Council meeting schedule, it is proposed that the Audit Committee holds its meetings on the second week of both months.
4. It is proposed that the remaining meeting dates be set to Monday, 12 August and Monday, 14 October.

OFFICER RECOMMENDATION:

That the Audit Committee sets the meeting dates for the remainder of its term for Monday, 12 August and Monday, 14 October.

ALTERNATE MOTION:

Moved: Cr Karen Vernon

Seconded: Cr Jennifer Ammons Noble

That the Audit Committee sets the meeting dates for the remainder of its term for Monday, 19 August 2019 and Monday, 14 October 2019 at 5:30pm.

CARRIED (5 - 0)

For: Cr Claire Anderson, Cr Jennifer Ammons Noble, Cr Karen Vernon, Mr Jonathan Carley, Mr Neil Formosa

Against: nil

Reason: To avoid a clash of the August meeting with the Tree Protection Local Law Workshop.

8 MOTION FOR WHICH PREVIOUS NOTICE HAS BEEN GIVEN

9 MEETING CLOSED TO THE PUBLIC

9.1 Matters For Which The Meeting May Be Closed

9.2 Public Reading Of Resolutions That May Be Made Public

Nil.

10 CLOSURE OF COMMITTEE MEETING

There being no further business, Cr Jennifer Ammons Noble closed the meeting at 07:59 pm.

I confirm these minutes to be true and accurate record of the proceedings of the Committee.

Signed:

Cr
Jennifer
Ammons
Noble

Dated this:

Day of:

2019