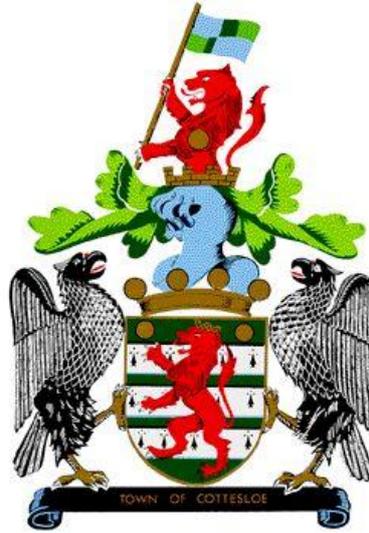


TOWN OF COTTESLOE



AUDIT COMMITTEE

MINUTES

**MAYOR'S PARLOUR, COTTESLOE CIVIC CENTRE
109 BROOME STREET, COTTESLOE
5.00PM, TUESDAY 14 FEBRUARY 2017**

**MAT HUMFREY
Chief Executive Officer**

17 February 2017

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1 DECLARATION OF MEETING OPENING / ANNOUNCEMENT OF VISITORS

The Presiding Member announced the meeting open at 5.15pm.

2 RECORD OF ATTENDANCE / APOLOGIES

Present

Cr Mark Rodda Presiding Member
Cr Philip Angers

Officers Present

Mr Mat Humfrey Chief Executive Officer
Mr Wayne Richards Finance Manager

Apologies

Cr Sandra Boulter

3 DECLARATION OF INTERESTS

Nil

4 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

Moved Cr Angers, seconded Cr Rodda

The Minutes of the meeting of the Audit Committee held on 1 November 2016 be confirmed.

Carried 2/0

5 OFFICER REPORTS

5.1 PURCHASING POLICY

File Ref: SUB/306
Attachments: [Cr Boulter Email Request 16 August 2016](#)
[Cr Boulter email Notice of Motion 28 October 2016](#)
[Purchasing Policy](#)
[City of Stirling Procurement Policy](#)

Responsible Officer: Mat Humfrey
Chief Executive Officer

Author: Garry Bird
Manager Corporate and Community Services

Proposed Meeting Date: 14 February 2017

Author Disclosure of Interest: Nil

SUMMARY

As a result of recent questions from Elected Members, predominantly Cr Boulter and Cr Thomas, the Town's Purchasing Policy was referred to the 1 November 2016 Audit Committee for discussion whereby it was resolved as follows;

'That consideration of the Town of Cottlesloe Purchasing Policy be deferred until a report has been presented to the February meeting of the Audit Committee, having regard to Cr Boulter's Notice of Motion and the Manager of Corporate and Community Services' report.'

In accordance with this Resolution, this report is again presented for Committee consideration along with Cr Boulter's email request submitted 28 October 2016.

BACKGROUND

The Town's Purchasing Policy was adopted in 2011, as a result of a fraud matter by a member if staff. The Policy is considered very restrictive in its application to minimise future acts of fraud.

The Policy was amended in 2015 to reflect changes to the *Local Government Act 1995* which increased the threshold for which a tender process needed to be undertaken (with exemptions).

The ability of staff to implement the Policy in practice is proving to be problematic, given the available staff resources and those required to comply with the Policy.

Staff consider it appropriate to have a discussion with the Audit Committee to address this issue in an honest and frank manner and seek direction from Council as to an agreed solution.

Effectively this discussion will revolve around;

1. Endorsing the existing Policy and allocating additional resources to ensure compliance, or

2. Review the Policy and relax its strict requirements to better reflect practices appropriate to the size of the Town of Cottesloe whilst still ensuring the objectives of the Policy are met.

STRATEGIC IMPLICATIONS

Priority Area 6 Providing open and accountable local governance
Major Strategy 6.2 Continue to deliver high quality governance, administration, resource management and professional development.

Purchasing practices that are considered efficient and accountable are considered important to ensure value for money and that public confidence in the Town of Cottesloe is maintained.

POLICY IMPLICATIONS

Purchasing Policy
Purchasing Orders Policy

STATUTORY ENVIRONMENT

Local Government Act 1995
Local Government (Functions and General) Regulations 1996

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this Item, although significant staff resources are required to administer the Policy. These costs are met from existing budget allocations.

STAFFING IMPLICATIONS

Staff resources to administer and implement the Policy are considered significant. The time taken to write a brief, seek quotations and then assess is time consuming and can be quite complex.

SUSTAINABILITY IMPLICATIONS

The Policy contains sustainability purchasing requirements.

CONSULTATION

Moore Stephens Pty Ltd
Staff

STAFF COMMENT

The existing Purchasing Policy is considered by staff to be an example of best practice and the requirement to obtain quotes for all purchases over \$250 and two quotes for purchases between \$250 and \$3,000 is difficult to question from a theoretical perspective.

Where staff finds difficulties in implementing these objectives relate to those purchases of a frequent nature and include;

- Engaging trades to fix relatively minor problems.

- Difficulties in getting companies to provide quotes.
- Time taken to prepare briefs for relatively minor matters.
- Engaging specialist services such as legal services where the exact brief can be difficult to define in the first instance.
- Having preference for companies who are regular suppliers and provide a quality service.

ADDITIONAL INFORMATION

As requested at the 1 November 2016 Committee Meeting, attached is a copy of the City of Stirling Procurement Policy which has less stringent requirements for purchases in the \$0 to \$10,000 range, which is the main area for concern amongst Council staff.

Cr Boulter's emails raise a number of matters some of which are beyond the scope of the Audit Committee. It is recommended that the Notice of Motion of 28 October 2016 be referred to Council for further consideration, depending on the outcome of this Meeting.

In regards to the request to have the Auditor review a number of transactions for compliance with the Purchasing Policy, this has been discussed previously and I understand it has been agreed to be undertaken when the Auditors are onsite for the 2016/17 interim audit.

VOTING

Simple Majority

OFFICER AND COMMITTEE RECOMMENDATION

Moved Cr Angers, seconded Cr Rodda

That the Town of Cottesloe Audit Committee recommend to Council:

- 1. The Purchasing Policy be reviewed by staff with a view to an amended Policy being prepared for consideration which reflects more flexible purchasing arrangements, particularly in the purchase range of \$0 to \$10,000.**
- 2. That Council's Auditors Mr Greg Godwin and Mr David Tomasi of Moore Stephens Pty Ltd be instructed to review the transactions as attached in conjunction with the 2016/17 interim audit, and report their finding back to the Audit Committee.**

Carried 2/0

5.2 APPOINTMENT OF AUDITOR – 2017/18 AUDIT

File Ref: SUB/534
Attachments: [Department of Local Government and Communities Circular 31-2016](#)
[Audit Contract Proposals](#)
Responsible Officer: **Mat Humfrey**
Chief Executive Officer
Author: **Garry Bird**
Manager Corporate & Community Services
Proposed Meeting Date: 14 February 2017
Author Disclosure of Interest: Nil

SUMMARY

The existing Audit Contract with Moore Stephens (formerly UHY Haines Norton Chartered Accountants) expires on 30 June 2017.

As such, Council is required to appoint a new Auditor effective 1 July 2017.

BACKGROUND

The existing contract was awarded by Council for a term of one year, based on anticipated changes to the *Local Government (Audit) Regulations 1996* where the State Government's Auditor General will appoint auditors to each local government. Council has recently received advice from the Department of Local Government and Communities that these legislative amendments will not have passed Parliament before its dissolution. As such they are recommending that Councils do not extend or renew audit contracts beyond the 2017/18 audit.

Based on this advice, it is recommended Council appoint an auditor for the 2017/18 year with an option of a one year extension which could be triggered off if the amendments have not been passed by Parliament in time for the 2018/2019 audit.

As Council has only recently sought quotations for the provisions of audit services, staff have contacted the three firms invited to quote to determine whether they were still able to supply the service for 2017/18. Of these three firms invited, two have committed to being able to provide the service for the same price contained in Year Two of their original proposal, with the third indicating they are unable to provide the service.

STRATEGIC IMPLICATIONS

Priority Area 6 Providing open and accountable local governance
Major Strategy 6.2 Continue to deliver high quality governance, administration, resource management and professional development.

A comprehensive audit process, undertaken in accordance with statutory requirements is in keeping with this major strategy.

POLICY IMPLICATIONS

There are no policy implications arising from the Officer Recommendation.

STATUTORY ENVIRONMENT

Local Government Act 1995 Division 2

Division 2 — Appointment of auditors

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.*

FINANCIAL IMPLICATIONS

The costs of audits are met within operational budgets.

STAFFING IMPLICATIONS

There are no staffing implications arising from the Officer Recommendation.

SUSTAINABILITY IMPLICATIONS

There are no sustainability implications arising from the Officer Recommendation.

CONSULTATION

Officers consulted the Western Australian Local Government Association's preferred supplier panel for companies that could be approached to provide a proposal for audit services. Three companies were approached; being Moore Stephens, Grant Thornton and Deloitte. Deloitte did not provide a proposal.

STAFF COMMENT

A copy of the original proposal received from the two firms is attached for the information of Committee Members.

The cost of providing the specified audit services for the 2017/18 year would be as follows:

NAME	YEAR 1(ex GST)
Grant Thornton	\$16,750
Moore Stephens	\$19,500

An assessment of the two submissions received indicates that both firms would have the ability to undertake the audit to the prescribed standard and have demonstrated experience in this specialised field.

The net cost difference between the two proposals is \$2,750. However, even with this cost saving in mind, Moore Stephens were considered to be the Town's preferred option as they are the current auditors and have proven themselves to be efficient, highly competent and thorough in their audit processes over a number of years.

It is a valid argument to suggest that auditors should be changed at regular intervals and if looking to award a contract for a term on longer than one year the proposal from Grant Thornton would be viewed more favourably. Staff are concerned that with the impending change to our auditors when the legislative amendments have been enacted, Council would face the prospect of three different auditors in three financial years which is not considered ideal.

VOTING

Simple Majority for committee purposes. An Absolute Majority of Council will be required to appoint the Auditor.

OFFICER AND COMMITTEE RECOMMENDATION

Moved Cr Angers, seconded Cr Rodda

That the Town of Cottesloe Audit Committee recommend to Council that Mr Greg Godwin and Mr David Tomasi of Moore Stephens be appointed as the Auditor for the Town of Cottesloe for the period 01 July 2017 to 30 June 2018, with the option of a further one year term if the proposed amendments to the Audit Regulations are not enacted in time for the 2018/2019 audit.

Carried 2/0

5.3 2016 COMPLIANCE AUDIT RETURN

File Ref: SUB/1859
Attachments: [2016 Compliance Audit Return](#)
Responsible Officer: Mat Humfrey
Chief Executive Officer
Author: Garry Bird
Manager Corporate & Community Services
Proposed Meeting Date: 14 February 2017
Author Disclosure of Interest: Nil

SUMMARY

A recommendation is made to adopt the Compliance Audit Return for 2016 and authorise the Mayor and Chief Executive Officer to certify the Return so that it may be returned to the Department of Local Government by the due date of 31 March 2017.

BACKGROUND

Each year the Department of Local Government issues a Compliance Audit Return that covers a sample of legislative provisions required under the provisions of the *Local Government Act (1995)*, which is required to be completed by staff and endorsed by Council prior to submission.

STRATEGIC IMPLICATIONS

Priority Area 6 Providing open and accountable local governance.
Major Strategy 6.2 Continue to deliver high quality governance, administration, resource management and professional development.

A high level of statutory compliance is in keeping with major Strategy 6.2.

POLICY IMPLICATIONS

There are no policy implications arising from the Officer Recommendation.

STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Audit) Regulations 1996

Local Government Act 7.13 Clause 1 (i) and 2

- (1) (i) requiring local governments to carry out, in the prescribed manner and in a form approved by the Minister, an audit of compliance with such statutory requirements as are prescribed whether those requirements are –
- (i) of a financial nature or not; or
 - (ii) under this Act or another written law.
- (2) Regulations may also make any provision about audit committees that may be made under section 5.25 in relation to committees.'

'Local Government (Audit) Regulations 1996 Regulations 14 and 15

14. Compliance audits by local governments

- (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.*
- (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.*
- (3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.*
- (3) After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be –*
 - (a) presented to the council at a meeting of the council; and*
 - (b) adopted by the council; and*
 - (c) recorded in the minutes of the meeting at which it is adopted.*

[Regulation 14 inserted in Gazette 23 Apr 1999 p. 1724-5; amended in Gazette 30 Dec 2011 p. 5580-1.]

15. Compliance audit return, certified copy of etc. to be given to Executive Director

- (1) After the compliance audit return has been presented to the council in accordance with regulation 14(3) a certified copy of the return together with –*
 - (a) a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and*
 - (b) any additional information explaining or qualifying the compliance audit,**is to be submitted to the Executive Director by 31 March next following the period to which the return relates.*
- (2) In this regulation –*

Certified in relation to a compliance audit return means signed by –

 - (a) the mayor or president; and*
 - (b) the CEO.*

FINANCIAL IMPLICATIONS

There are no financial implications arising from the Officer Recommendation.

STAFFING IMPLICATIONS

There are no staffing implications arising from the Officer Recommendation.

SUSTAINABILITY IMPLICATIONS

There are no sustainability implications arising from the Officer Recommendation.

CONSULTATION

Senior Staff
Governance Coordinator

STAFF COMMENT

The Compliance Audit Return for 2016 has been completed and it is recommended that the Committee recommend to Council its adoption and further, authorise the

Mayor and Chief Executive Officer to certify the Return so that it can be forwarded to the Department of Local Government and Communities.
The 2016 Compliance Audit Return has identified no areas of non compliance by the Town of Cottesloe.

VOTING

Simple Majority

OFFICER AND COMMITTEE RECOMMENDATION

Moved Cr Rodda, seconded Cr Angers

THAT the Town of Cottesloe Audit Committee recommend to Council the adoption of the 2016 Compliance Audit Return, noting that there are no areas of non compliance, and authorise the Mayor and Chief Executive Officer to certify the Return so that it may be returned to the Department of Local Government and Communities by the due date of 31 March 2017.

Carried 2/0

5.4 DEPRECIATION ON CERTAIN LEASED BUILDINGS NOT MANAGED BY THE TOWN

File Ref: SUB/534
Attachments: [Local Government Operation Guideline Number 18 – Financial Ratios](#)
Responsible Officer: Garry Bird
Author: Manager Corporate & Community Services
Wayne Richards
Finance Manager
Proposed Meeting Date: 14 February 2017
Author Disclosure of Interest: Nil

SUMMARY

It is important that the Town calculates the depreciation charges on its Buildings accurately as it is used in a variety of performance indicators as regards the financial health and sustainability of the Town.

BACKGROUND

From 1 July 2012, the Local Government (Financial Management) Regulations were amended and the measurement of non-current assets at Fair Value became mandatory. During the year ended 30 June 2013 the Town commenced the process of adopting Fair Value in accordance with the regulations. These amendments allowed for a phasing in of fair value in relation to fixed assets over three years.

Three new asset management ratios were introduced around this time and these are reported on annually as a part of the Town's Annual Financial Report. The new ratios, in conjunction with existing ratios are used in conjunction with other information to assess the financial health and sustainability of a Local Government and to make it easier to compare Council's.

In the Town's most recent Management Report from the Town's Auditors Moore Stephens for the year ended 30 June 2016, the Asset Sustainability was flagged at below trend at 0.54 as compared to the target of greater than or equal to 1.1. This ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation expenses. Expenditure on new or additional assets is excluded. Depreciation expense represents an estimate of the extent to which the assets have been consumed during that period.

STRATEGIC IMPLICATIONS

The replacement of assets is measured against depreciation and hence arriving at a more accurate depreciation figure will have an impact on capital expenditure requirements.

POLICY IMPLICATIONS

The Town's depreciation policy is adopted each year as a part of the adoption of the annual budget.

The Department of Local Government Guideline number 18, "Financial Ratios – 4.6 Asset Sustainability Ratio" (attached) is calculated by measuring capital expenditure on **renewal** or **replacement** of assets, relative to depreciation expense. This ratio is an approximation of the extent to which **assets managed by a local government** are being replaced as these reach the end of their useful lives. Therefore assets not managed by the Town should be excluded from this depreciation calculation.

The depreciation policy will be amended to include this clause in forthcoming budgets should this agenda item be accepted.

STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

FINANCIAL IMPLICATIONS

If the officer's recommendation is accepted, annual depreciation will reduce by approximately \$144,500 per annum, however it should be noted this is a non cash item and therefore would have no impact on the rate setting statement.

STAFFING IMPLICATIONS

There are no staffing implications arising from the officer's recommendation.

SUSTAINABILITY IMPLICATIONS

If the officer's recommendation is accepted, there would be a small favourable impact on some of the Town's financial ratios, particularly the asset sustainability ratio.

CONSULTATION

There has been consultation with senior staff at the Town and the Town's Auditors.

STAFF COMMENT

The maintenance of certain buildings within the Town are the responsibility of third parties as directed by various lease arrangements, this includes buildings at Wearne Hostel, Indiana Tea House and Barchetta. Therefore it is proposed that Council does not depreciate these buildings in its accounting system whilst these arrangements are in place. This should lead to more accurate depreciation charges and asset management ratios.

VOTING

Simple Majority

OFFICER RECOMMENDATION

Moved Cr Rodda, seconded Cr Angers

THAT Council resolve to not depreciate the buildings at Wearne Hostel, Indiana Tea House and Barchetta whilst the current lease arrangements are in place and that the depreciation policy be amended accordingly in the Town's budget.

AMENDMENT

Moved Cr Rodda, seconded Cr Angers

That the words 'the Town of Cottesloe Audit Committee recommend to' be added after the word 'that' and before the word 'Council'

Carried 2/0

COMMITTEE RECOMMENDATION

That the Town of Cottesloe Audit Committee recommend to Council, that Council resolve to not depreciate the buildings at Wearne Hostel, Indiana Tea House and Barchetta whilst the current lease arrangements are in place and that the depreciation policy be amended accordingly in the Town's budget.

THE AMENDED SUBSTANTIVE MOTION WAS PUT

Carried 2/0

5.5 AUDIT COMMITTEE CHARTER

File Ref: SUB/534
Attachments: [Draft Audit Committee Charter](#)
Responsible Officer: Mat Humfrey
Chief Executive Officer
Author: Garry Bird
Manager Corporate & Community Services
Proposed Meeting Date: 14 February 2017
Author Disclosure of Interest: Nil

SUMMARY

In order to properly define the role of all Council committees staff are currently preparing a Charter for consideration by each Committee and Council.

As such, the Draft Audit Committee Charter is attached for the consideration of the Committee.

BACKGROUND

The Town of Cottesloe has several committees that play an important role in advising Council on a wide range of matters. The importance of this role and the commitment of committee members to their role are not questioned.

The reason for introducing a Charter is to improve the processes associated with committee meetings by:

1. Defining the membership of the committee.
2. Clarifying voting entitlements.
3. Providing terms of reference for the committees' activities.
4. Detailing meeting frequency, minute taking responsibilities, quorum numbers and other administrative processes.
5. Ensuring members are aware of statutory obligations such as declarations of interest, code of conduct etc., particularly for community members who may not be so familiar with the *Local Government Act 1995* and accompanying Regulations.

STRATEGIC IMPLICATIONS

Priority Area 6 Providing open and accountable local governance
Major Strategy 6.2 Continue to deliver high quality governance, administration, resource management and professional development.

Effective committee procedures and processes are in keeping with this major strategy.

POLICY IMPLICATIONS

There are no policy implications arising from the Officer Recommendation.

STATUTORY ENVIRONMENT

Local Government Act 1995

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 him or her as a member of an audit committee.*
- (4) *An employee is not to be a member of an audit committee.*

FINANCIAL IMPLICATIONS

There are no financial implications arising from the Officer Recommendation.

STAFFING IMPLICATIONS

There are no staffing implications arising from the Officer Recommendation.

SUSTAINABILITY IMPLICATIONS

There are no sustainability implications arising from the Officer Recommendation.

CONSULTATION

Senior Staff
Governance Coordinator
Department of Local Government and Communities

STAFF COMMENT

The introduction of a Charter for all Council committees' will improve the efficiency of the committee system and standardise many of their processes. The role of the Audit Committee is defined by the *Local Government Act 1995* and in this respect is different to many of the other committee's of Council whose role is not so specific.

For the purposes of consistency across all Council committees' it is recommended that the Audit Committee also has a charter.

VOTING

Simple Majority

OFFICER AND COMMITTEE RECOMMENDATION

Moved Cr Rodda, seconded Cr Angers

That the Town of Cottesloe Audit Committee recommend to Council the adoption of the Audit Committee Charter as attached.

Carried 2/0

6 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY ELECTED MEMBERS/OFFICERS BY DECISION OF MEETING

Nil

7 MEETING CLOSURE

The Presiding Member announced the meeting closed at 5.45pm.