



MISSION AND VALUES OF COUNCIL

"A Sustainable Community that is inclusive, attractive, healthy and pleasant to live in, that uses our land so as to preserve our history and environment, respects the rights and equality of our citizens and manages our future growth wisely."

CONFIRMED MINUTES

OF THE

AUDIT COMMITTEE MEETING

12 MAY 2015

OUR VISION

"A thriving and friendly community that recognises our history and embraces cultural diversity and economic opportunity, whilst nurturing our unique natural and built environment."

OUR MISSION

"To deliver affordable and quality Local Government services."

CORE VALUES OF THE SHIRE

The core values that underpin the achievement of the mission will be based on a strong customer service focus and a positive attitude:

Communication

Integrity

Respect

Innovation

Transparency

Courtesy

DISCLAIMER

The purpose of Council Meetings is to discuss, and where possible, make resolutions about items appearing on the agenda. Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a Member or Officer, or on the content of any discussion occurring, during the course of the meeting.

Persons should be aware that the provisions of the Local Government Act 1995 (Section 5.25 (e)) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person. The Shire of Broome expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any resolution of Council, or any advice or information provided by a Member or Officer, or the content of any discussion occurring, during the course of the Council meeting.

SHIRE OF BROOME
AUDIT COMMITTEE MEETING
TUESDAY 12 MAY 2015
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Chairperson:.....Date:.....

NOTICE OF MEETING

Dear Council Member,

The next Audit Committee of the Shire of Broome will be held on Tuesday, 12 May 2015 in the Council Chambers, Corner Weld and Haas Streets, Broome, commencing at 4:00.

Regards



K R DONOHOE
Chief Executive Officer

8/05/2015

Chairperson:.....Date:.....

**MINUTES OF THE AUDIT COMMITTEE MEETING OF THE SHIRE OF BROOME,
HELD IN THE COUNCIL CHAMBERS, CORNER WELD AND HAAS STREETS, BROOME,
ON TUESDAY 12 MAY 2015, COMMENCING AT 4:00.**

1. OFFICIAL OPENING

The Chairman welcomed Councillors, Officers and declared the meeting open at 4:03pm.

2. ATTENDANCE AND APOLOGIES

Attendance:	Cr C Campbell	Shire President
	Cr H Tracey	Deputy Shire President
	Cr D Male	(from 4:04pm)

Leave of Absence: Nil

Apologies: Nil

Officers:	Paul Martin	Deputy Chief Executive Officer
	Sam Mastrolembo	Director Corporate Services
	Michael Dale	Director Engineering Services
	Theresa Bengtson	Manager Financial Services
	Suzie Haslehurst	Manager Community Development
	Rochelle Piggin	Manager Governance

3. DECLARATIONS OF FINANCIAL INTEREST / IMPARTIALITY

Nil.

4. CONFIRMATION OF MINUTES

COUNCIL RESOLUTION:

Moved: Cr H Tracey

Seconded: Cr G Campbell

That the Minutes of the Audit Committee held on 10 February 2015 be confirmed as a true and accurate record of that meeting.

CARRIED UNANIMOUSLY 2/0

Cr DM Male entered the Meeting at 4.04pm.

5. REPORT OF OFFICERS

5.1 2014/2015 QUARTER 3 FINANCE AND COSTINGS REVIEW	
LOCATION/ADDRESS:	Nil
APPLICANT:	Nil
FILE:	FRE02
AUTHOR:	Senior Finance Officer
CONTRIBUTOR/S:	Manager Financial Services
RESPONSIBLE OFFICER:	Director Corporate Services
DISCLOSURE OF INTEREST:	Nil
DATE OF REPORT:	5 May 2015

SUMMARY: The Audit Committee is requested to consider the results of the Quarter 3 Finance and Costing Review (FACR) of the Shire's budget for the period ended 31 March 2015, including proposed budget amendments to 30 June 2015.

BACKGROUND

Previous Considerations

Between 1 January and 31 March, a local government is to carry out a review of its annual budget for that year and this is to be submitted to the Council within 30 days of completion. This process was completed as part of the Quarter 2 Finance and Costing Review (FACR) and presented to the Audit Committee for consideration on 10 February 2015. Subsequently, a number of recommendations from the Audit Committee were presented to Council for consideration at the Ordinary Meeting of Council on 26 February 2015.

The Quarter 3 FACR process commenced on 20 April 2015 and Council's Executive Management Group considered the results on Friday, 8 May 2015. The results of the FACR are now presented for the consideration of the Audit Committee. Following consideration, and recommendation from the Committee, the matter will be presented to Council.

COMMENT

The forecast financial position to 30 June 2015 was a \$116k deficit following the mid-year budget review. In response to Council's request that the CEO achieve budget normalisation at the end of the Q3 FACR meetings, the Executive scrutinised each account for savings and the proposed amendments are predicting an end of year surplus of \$10k.

It should be noted that the Shire undertook an organisational restructure which has had a significant impact upon expenditure within salaries accounts. A reconciliation of the salaries accounts was undertaken to forecast the end of year impact of the restructure. This has resulted in some budget amendment recommendations to cover long service leave and excess annual leave payments, which have been offset by a proposed transfer from the Leave Reserve.

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Gross Impact to 30 June 2015	Excess Annual Leave Value	Long Service Leave Value	Less LSL Reimbursement from Shires	Total Qualified for Transfer from Leave Reserve	Net Impact to 30 June 2015
\$270,551.23	(\$33,608.61)	(\$159,504.08)	(\$8,687.02)	(\$184,425.67)	\$68,751.52

The final forecast of all the amendments to salary accounts and the corresponding transfer from the Leave Reserve is a \$68,752 deficit impact to the Shire of Broome.

It should also be noted that there has been a significant increase in the income for Rates, however this has been deemed as organisational savings and is being proposed as a transfer to reserve. However, it is recommended that some of the additional costs associated with the organisational restructure be offset by a portion of these funds. In addition, Due to the current economic climate the Shire of Broome has witnessed a decrease in building and development applications which has adversely affected the income from this function. It is recommended that a portion of the savings offset this loss.

The associated costs proposed to be offset by organisational savings are as follows:

- \$68,752 in additional salary related costs;
- an additional \$45,000 in relief staff necessary to cover key functions in finance;
- an additional \$35,000 in recruitment and training costs;
- \$50,000 decrease in planning fees

While the restructure is expected to have a positive impact on the Shire's expenses in the future, it is not expected to become apparent until the 2015/2016 financial year.

A comprehensive list of accounts has been included for perusal by the Committee and summarised by Directorate, with comparison to previous FACRs conducted this financial year below:

	FACR Q1 (Income)/Expense	FACR Q2 (Income)/Expense	FACR Q3 (Income)/Expense	YTD Impact (Income)/Expense
Executive - Total	(2,500)	23,500	(9,700)	11,300
Business Enterprise and Community Development - Total	63,622	14,327	(92,500)	(14,551)
Corporate Services - Total	0	0	0	0
Development Services - Total	11,000	15,500	15,000	41,500
Engineering Services - Total	(10,000)	0	(39,088)	(49,088)
Other Agenda items not requiring a FACR Amendment	0	207	0	207
	62,122	53,534	(126,288)	(10,632)

CONSULTATION

Nil

STATUTORY ENVIRONMENT

Local Government (Financial Management) Regulation 1996

Chairperson:.....Date:.....

6.8. Expenditure from municipal fund not included in annual budget

- 1) A local government is not to incur expenditure from its municipal fund for an additional purpose except where the expenditure —
 - a) is incurred in a financial year before the adoption of the annual budget by the local government;
 - b) is authorised in advance by resolution*; or
 - c) is authorised in advance by the mayor or president in an emergency.
- (1a in subsection (1) –
 “additional purpose means a purpose for which no expenditure estimate is included in the local government’s annual budget.”)

POLICY IMPLICATIONS

Materiality in Financial Reporting Policy 2.1.1.

FINANCIAL IMPLICATIONS

The net result of the 3rd Quarter FACR estimates is a forecast surplus of \$10,632 to 30 June 2015.

The Chief Executive Officer has identified that the Road Reserve balance is \$1,178,637, which represents only a minimal contingency considering the road network and probable future leverage requirements within the growth centre development phase of Broome and recommends that organisational savings be allocated to this reserve.

STRATEGIC IMPLICATIONS

Our People Goal – Foster a community environment that is accessible, affordable, inclusive, healthy and safe:

Effective communication

Affordable services and initiatives to satisfy community need

Our Prosperity Goal – Create the means to enable local jobs creation and lifestyle affordability for the current and future population:

Affordable and equitable services and infrastructure

Our Organisation Goal – Continually enhance the Shire’s organisational capacity to service the needs of a growing community:

Sustainable and integrated strategic and operational plans

Responsible resource allocation

Improved systems, processes and compliance

VOTING REQUIREMENTS

Absolute Majority

COUNCIL RESOLUTION:
(REPORT RECOMMENDATION)

Chairperson:.....Date:.....

Moved: Cr H Tracey

Seconded: Cr DM Male

The Audit Committee recommends that Council:

- 1. Receives the 3rd Quarter Finance and Costing Review Report for the period ended 31 March 2015;**
- 2. Adopts the operating and capital budget amendment recommendations for the period ended 30 June 2015 as attached.**
- 3. Approves the budget to transfer \$344,250 of the remaining of organisational savings to Road Reserve.**
- 4. Acknowledges that the Q3 FACR has achieved a predicted surplus of \$10K to 30 June 2015.**

CARRIED UNANIMOUSLY BY ABSOLUTE MAJORITY 3/0

Attachments

1. Quarter 3 Finance & Costing Review Report

5.2 AUDIT REGULATION 17 IMPROVEMENT PLAN BIENNIAL PROGRESS REPORT - REVIEW OF THE APPROPRIATENESS AND EFFECTIVENESS OF SYSTEMS AND PROCESSES FOR RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE

LOCATION/ADDRESS: NIL
APPLICANT: NIL
FILE: ADM03
AUTHOR: Manager Human Resources
CONTRIBUTOR/S: Manager Financial Services
RESPONSIBLE OFFICER: Chief Executive Officer
DISCLOSURE OF INTEREST: NIL
DATE OF REPORT: 5 May 2015

SUMMARY: The Audit Committee is presented with a report for review on the progress of the Audit Regulation 17 Improvement Plan which was adopted by Council at the Ordinary Meeting of Council held 27 November 2014. The Improvement Plan contains a list of actions identified by the auditors requiring actions to improve the appropriateness and effectiveness of the Shire of Broome's systems and processes in regards to risk management, internal control and legislative compliance.

The Audit Committee is required to review the attached updated improvement plan prepared by the newly established Audit Regulation 17 Technical Advisory Group on the progress of the plan, then report to Council on the result of the Audit Committee's review.

BACKGROUND

Previous Considerations

OMC 28 August 2014	Item 10.2
SMC 27 June 2014	Item 9.4.6
OMC 27 November 2014	Item 10.3

The functions of local government Audit Committees have been expanded under amendments gazetted in 2013 to the *Local Government (Audit) Regulations 1996* (the Regulations) to include reviewing the appropriateness and effectiveness of a local government's systems and procedures in regard to risk management, internal control and legislative compliance.

Specifically, Audit Regulation 17 (Audit Reg 17) of *the Regulations* requires the Chief Executive Officer (CEO) to conduct a review and report the results to the Audit Committee on the effectiveness of the systems and procedures regarding risk management, internal control and legislative compliance. The Department's *Audit in Local Government Guideline No. 9* advises that the review can be undertaken either on an internal or external audit basis.

At the Ordinary Meeting of Council (OMC) held 28 August 2014, Council adopted the Audit Committee's recommendation to engage an external auditor to comply with the requirements of the Regulations. UHY Haines Norton (UHYHN) was appointed as the audit firm to conduct the review.

The inaugural CEO's report on the biennial Regulation 17 Review was presented to Council at the Ordinary Meeting of Council held 27 November 2014. The requirement to

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report biannually to the Audit Committee on the progress of the improvement plan is one of the actions listed within the plan.

COMMENT

Purpose

The purpose is to report on the improvement plan actions biannually to the Audit Committee in May and November after endorsement by Executive Management Group (EMG).

REGULATION 17 REVIEW

The Shire of Broome appointed an external auditor to conduct a third party review of organisational practices in accordance with updated legislation contained within Regulation 17 of *the Regulations*.

The '*Regulation 17 Review*' audit produced a comprehensive "Improvement Plan" sanctioned into three main compliance areas;

- Risk Management (RM)
- Legislative Compliance (LC)
- Internal Controls (IC)

A cumulative total of fifty-eight framework components and action items were identified to increase procedural and system effectiveness in accordance with legislative requirements.

The "*Improvement Plan*" provides the organisation with a comprehensive overview of business practices and continuous improvement methodologies that work towards increasing best practice standards across all Shire Directorates.

Please see attached "*Regulation 17 Review Improvement Plan*"

Technical Advisory Group

Following the "*Regulation 17 Review*" the Shire established an internal Technical Advisory Group (TAG). The TAG performs a vital role in the Shire's ability to fulfil its governance and responsibilities in relation to reporting, internal control and structure, risk management systems, legislative requirements and ethics.

The TAG consists of key Shire personnel to appropriately oversee strategic and operational business requirements contained within the "*Regulation 17 Review*". The intent for this group is to effectively communicate and implement objectives throughout the organisation.

The TAG meets monthly to review and update specific actions contained in the plan. Membership of the TAG is comprised of the following positions:

Director Corporate Services (Chair)
 Manager Governance
 Manager Financial Services
 Manager Human Resources

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Manager Health & Rangers
 Manager Information Services
 Manager Community Development
 Manager Operations Engineering
 Waste Coordinator

The TAG intends to retain a decentralised risk structure in order to ensure that should turnover arise within any one role the organisation's compliance function and reporting is not adversely affected and instead drives business continuity.

As stated in the Terms of Reference, the primary goal of the TAG is to implement and maintain the appropriateness and effectiveness of the Shire of Broome's systems and procedures in relation to risk management, legislative compliance and internal controls. The TAG will:

- Progress the implementation of risk management across the organisation and to monitor risk management practices.
- Maintain internal controls across the organisation and monitor adherence to internal controls practices.
- Progress the implementation of the legislative compliance framework.

IMPROVEMENT PLAN

"Improvement Plan" action items contained within the "Regulation 17 Review" are allocated to members within the TAG committee and prioritised in accordance with organisational need and capacity.

There are a number of actions that are partially complete or in progress full details are contained in the attachment.

The following action items have been completed in accordance with the "Regulation 17 Review".

No	Framework Component Improvements
RM 201	Risk Matrix amended in accordance with ISO 31000 (international best practice standards)
RM 3.1	Risk Management Working Group (Audit Reg 17 TAG) has been established and monthly meetings initiated
RM3.2	Risk Agenda topic included on weekly EMG Agenda
RM3.3	Records of inductions maintained on personnel files
RM3.9	Business Operating Procedure for Hazard Reporting has been established.
LC 2.4	Legislative Compliance Working Group (Audit Reg 17 TAG) has been established and monthly meetings initiated
IC2.2	Internal Controls Working Group (Audit Reg 17 TAG) has been established and monthly meetings initiated

The following action items have been progressed in accordance with the "Regulation 17 Review" pending Council consideration;

No.	Framework Components
RM1.2	DRAFT Policy Work Safety Health
IC 1.1	DRAFT Policy Internal Control
IC1.8	Policy 2.1.2 Investment of Surplus Funds

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The above documents are attached to this report for review and notation by the Audit Committee and subsequent recommendation to Council for adoption. These policies have been workshopped with the Audit Committee on 6 May 2015 with attendance from Councillors Campbell, Tracey and Male.

Policy 2.1.2 Investment of Surplus Funds was identified as one of the actions requiring review for compliance with Regulation 19C from the *Local Government (Financial Management) Regulations 1996 (FMR)*. The document is submitted with deletions marked as ~~struck through~~ and additions in red. Since the Audit Committee workshop, clarification was sought from the review auditors on the application of *FMR 19C* of which restricts local governments to investing funds only with banks (authorised deposit taking institutions) and in the form of cash, resulting further deletions in Policy 2.1.2 of any references to securities, managed funds and credit risk ratings which are irrelevant under the restrictions.

The TAG has identified next level priorities to include, but not limited to:

Risk Management

- Re-development of the Risk Management Strategy and Framework.
- Re-establishment of the risk register.
- Contractor induction management.
- Risk training.

A budget amendment of \$24K has been proposed in the Quarter 3 Finance and Costing Review (FACR) to investigate and mitigate corporate risk under Regulation 17, to be funded from part of the Local Government Insurance Scheme bonus received this year.

Legislative Compliance

- Develop Policy to support legislative compliance
- Investigate and develop a Shire of Broome Legislative Compliance Framework
- Develop a Legislative Compliance Register
- Develop Legislative Compliance Strategy

Internal Controls

- Develop Bank Signatures Business Operating Procedure
- Develop Cash Handling Business Operating Procedure
- The Improvement Plan is to identify gaps based on risk with insurance identified as a priority.

The Shire of Broome strategic future planning for risk and internal and external compliance requirements will focus on Business Continuity Planning which promotes a self reliable sustainable system that enables Shire operations to continue within existing resources in the event of major change or emergency.

Some of the actions require analysis for levels of appropriateness specific to the Shire of Broome's operational and strategic circumstances. In other cases, a staged approach

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may be required with the view to continuous review, reporting and improvement to achieve best practice outcomes for specific actions. The objective of this overall process is to ensure systems and procedures are in place that allow the Shire of Broome to achieve its strategic objectives for the benefit of public value, in the most effective and efficient way possible in line with the Shire's Mission, "To deliver affordable and quality Local Government services."

This report recommends the review of the attached updated "Improvement Plan" prepared by the newly established Audit Regulation 17 Technical Advisory Group on the progress of the plan with amended timeframes and responsible officers, then report to Council on the result of the Audit Committee's review, inclusive of any items or amendments for the CEO to action.

CONSULTATION

UHY Haines Norton
Chamber of Commerce and Industry

STATUTORY ENVIRONMENT

Local Government (Audit) Regulations 1996

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.

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 at least once every 2 calendar years.
- (3) The CEO is to report to the audit committee the results of that review.

POLICY IMPLICATIONS

2.1.2 Investment of Surplus Funds

FINANCIAL IMPLICATIONS

A budget amendment of \$24K has been proposed in the Quarter 3 Finance and Costing Review (FACR) to investigate and mitigate corporate risk under Regulation 17, to be funded from part of the Local Government Insurance Scheme bonus received this year.

STRATEGIC IMPLICATIONS

Our People Goal – Foster a community environment that is accessible, affordable, inclusive, healthy and safe:

Effective communication

Affordable services and initiatives to satisfy community need

Accessible and safe community spaces

A healthy and safe environment

Our Prosperity Goal – Create the means to enable local jobs creation and lifestyle affordability for the current and future population:

Affordable and equitable services and infrastructure

Our Organisation Goal – Continually enhance the Shire’s organisational capacity to service the needs of a growing community:

An organisational culture that strives for service excellence

Sustainable and integrated strategic and operational plans

Responsible resource allocation

Effective community engagement

Retention and attraction of staff

Improved systems, processes and compliance

VOTING REQUIREMENTS

Simple Majority

**COUNCIL RESOLUTION:
(REPORT RECOMMENDATION)**

Moved: Cr DM Male

Seconded: Cr H Tracey

The Audit Committee recommends that Council:

- 1. Receives the Audit Regulation 17 progress report and attached updated Improvement Action Plan.**

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- 2. Adopts the reviewed actions, timelines and responsible officers as detailed in the Improvement Action Plan.**
- 3. Adopts the proposed policies as attached:**
 - (a) Work Safety Health Policy**
 - (b) Internal Control (Governance and Internal Controls) Policy**
- 4. Adopts the reviewed Policy 2.1.2 Investment of Surplus Funds as attached.**

CARRIED UNANIMOUSLY 3/0

Attachments

- 1. Audit Reg 17 Improvement Action Plan
- 2. Policy 2.1.2 Investment of Surplus Funds REVIEWED
- 3. DRAFT Work Safety Health Policy
- 4. DRAFT Internal Control Policy

6. MOTIONS WITHOUT NOTICE

Nil.

7. MATTERS BEHIND CLOSED DOORS

Nil.

8. MEETING CLOSURE

There being no further business the Chairman declared the meeting closed at 4.17pm.