

Town of
Port Hedland



TOWN OF PORT HEDLAND

AUDIT, RISK AND GOVERNANCE COMMITTEE MEETING MINUTES

TUESDAY 8 MARCH 2016 AT 5:30PM

**COUNCIL CHAMBERS, MCGREGOR
STREET, PORT HEDLAND**

**“A nationally significant, friendly city that people
are proud to call home”**

*M.J. (Mal) Osborne
Chief Executive Officer*

TERMS OF REFERENCE

AIM/PURPOSE:

The Audit, Risk and Governance Committee has been established in accordance with Part 7 of the Local Government Act 1995 to:

1. Liaise with the Auditor(s) to assist Council in carrying out functions in relation to external audit, including liaising with the Auditor and develop a process for selection and appointment of a person as the Auditor.
2. Receive Quarterly Budget Review Reports;
3. Receive Quarterly Financial Reports on all of the Town of Port Hedland's Managed Community Facilities;
4. Review and suggest improvements to Risk Management within the organisation; and
5. Assist the organization in the development of an internal audit program and make recommendations to Council regarding:
 - Financial Management
 - Risk Management
 - Internal Controls
 - Legislative Compliance
 - Internal and External Audit Planning and Reporting

MEMBERSHIP

Mayor Kelly Howlett
Councillor Camilo Blanco – Presiding Member
Councillor Louise Newbery
Councillor Richard Whitwell

Proxy
Councillor David Hooper
Councillor Julie Arif

Community Members
Ms Nina Pangahas
Mr Ron Attwood

QUORUM

The quorum for the Committee be a minimum of 50% of its membership.

MEETING FREQUENCY, TIMES AND VENUE

Quarterly on Tuesdays at 5:30pm in Council Chambers or as determined from the Council from time to time.

DELEGATION:

The Town of Port Hedland Council provides delegated authority to the Audit, Risk and Governance Committee to meet annually with the Town's auditor(s) as required by Section 7.12A(2) of the Local Government Act 1995.

TENURE:

Ongoing

RESPONSIBLE OFFICER:

Director Corporate Services

(Adopted by Council at its Ordinary Meeting held 16 November 2011.

Amended by Council at its Ordinary Meeting held 23 October 2013.

Amended by Council at its Ordinary Meeting held on 11 December 2013.

Amended by Council at its Ordinary Meeting held on 27 May 2015.

Amended by Council at its Ordinary Meeting held on 28 October 2015.

Amended by Council at its Ordinary Meeting held on 25 November 2015.)

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ITEM 1 OPENING OF MEETING

The Presiding Member declared the meeting open at 5.35 pm.

ITEM 2 ACKNOWLEDGMENT OF TRADITIONAL OWNERS

The Presiding Member acknowledged the traditional owners, the Kariyarra people.

ITEM 3 RECORDING OF ATTENDANCE AND APOLOGIES

3.1 Attendance

Elected Members:

Councillor Camilo Blanco – Presiding Member
Mayor Kelly Howlett – Left the meeting at 6.30pm
Councillor Richard Whitwell

Community Members:

Ms Nina Pangahas
Mr Ron Attwood

Officers:

Sid Jain	Director Corporate Services
Chris Linnell	Director Community and Development Services
Dale Stewart	Acting Director Corporate Services
Peter Kocian	Executive Officer
Sara Bryan	Acting Director Works and Services
Josephine Bianchi	Governance Officer
Tammy Wombwell	Minute Taker

Public	2
Media	1
ToPH Officers	4

3.2 Apologies

Councillor Louise Newbery

3.3 Approved Leave of Absence

Nil

ITEM 4 RESPONSE TO PREVIOUS QUESTIONS

4.1 Questions from Public at Audit, Risk and Governance Committee Meeting held on Tuesday 9 February 2016

Nil

4.2 Questions from Committee Members at Audit, Risk and Governance Committee Meeting held on Tuesday 9 February 2016

Nil

ITEM 5 PUBLIC TIME

Important note:

'This meeting is being recorded on audio tape as an additional record of the meeting and to assist with minute-taking purposes which may be released upon request to third parties. If you do not give permission for recording your participation please indicate this at the meeting. The public is also reminded that in accordance with Section 6.16 of the Town of Port Hedland Local Law on Standing Orders nobody shall use any visual or vocal electronic device or instrument to record the proceedings of any meeting unless that person has been given permission by the presiding member to do so.'

Presiding Member opened Public Question Time at 5:36pm

5.1 Public Question Time

Nil

Presiding Member closed Public Question Time at 5:37pm

Presiding Member opened Public Statement Time at 5:37pm

5.2 Public Statement Time

Nil

Presiding Member closed Public Statement Time at 5:37pm

ITEM 6 QUESTIONS FROM MEMBERS WITHOUT NOTICE

6.1 Ms Nina Pangahas

Is it possible for community members to attend the same workshop on the Borrowings and Reserves Policies that the Elected Members have attended?

Director of Corporate Services advised that it can be arranged for a future date.

ITEM 7 DECLARATION BY MEMBERS TO HAVE GIVEN DUE CONSIDERATION TO ALL MATTERS CONTAINED IN THE BUSINESS PAPER PRESENTED BEFORE THE MEETING

Mayor Howlett	Ms Pangahas
Councillor Blanco – Presiding Member	Mr Attwood
Councillor Whitwell	

ITEM 8 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

8.1 Confirmation of Minutes of the Audit, Risk and Governance Committee Meeting held on Tuesday 9 February 2016

201516/020 RECOMMENDATION/ AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR WHITWELL

SECONDED: MAYOR HOWLETT

That the Audit, Risk and Governance Committee confirm that the Minutes of the Audit, Risk and Governance Committee Meeting held on Tuesday 9 February 2016 are a true and correct record.

CARRIED 5/0

ITEM 9 ANNOUNCEMENTS BY PRESIDING MEMBER WITHOUT DISCUSSION

Nil

ITEM 10 PETITIONS/ DEPUTATIONS/ PRESENTATIONS/ SUBMISSIONS

Nil

Disclaimer

Members of the public are cautioned against taking any action on Committee decisions, on items on today's Agenda in which they may have an interest, until formal notification in writing by the Town has been received. Decisions made at this meeting can be revoked, pursuant to the Local Government Act 1995.

ITEM 11 REPORTS OF OFFICERS

11.1 Office of the CEO

5:43pm Mr Ron Attwood declared an impartiality in item 11.1.1 'Local Government Audit Framework and Audit Work Plan' as he employs RSM Bird Cameron as his Auditors.

Mr Attwood remained in attendance as permitted by the Local Government Act 1995 and Administration Regulations.

11.1.1 Local Government Audit Framework and Audit Work Plan

Author: Peter Kocian, Executive Officer

Authorising Officer: Mal Osborne, Chief Executive Officer

File No. 12/01/0001

DISCLOSURE OF INTEREST BY OFFICER

Nil

201516/021 RECOMMENDATION 1/ AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MAYOR HOWLETT

SECONDED: CR WHITWELL

That the Audit, Risk and Governance Committee receive the officer's report on the Local Government Audit Framework and Audit Work Plan.

CARRIED 5/0

RECOMMENDATION 2

That the Audit, Risk and Governance Committee note that the Town of Port Hedland has received an unqualified external Auditors Report for the last two financial years indicating the following:

- **The financial report of the Town of Port Hedland gives a true and fair view of the financial position of the Town of Port Hedland and of its financial performance;**
- **The financial report of the Town of Port Hedland complies with the *Local Government Act 1995* Part 6 and the Regulations under that Act and Australian Accounting Standards.**

201516/022 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MS PANGAHAS

SECONDED: CR WHITWELL

That the Audit, Risk and Governance Committee note that the Town of Port Hedland has received an unqualified external Auditors Report for the last two financial years.

CARRIED 5/0

RECOMMENDATION 3

That the Audit, Risk and Governance Committee endorse the establishment of a dedicated internal audit function, for an initial 12-month period, with the Internal Auditor to undertake the following activities and report directly to the Audit, Risk and Governance Committee;

- **Examination of financial and operating information that includes detailed testing of transactions, balances and procedures;**
- **A risk assessment with the intention of minimizing exposure to all forms of risk on the local government;**
- **A review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;**
- **A review of compliance with management policies and directives and any other internal requirements;**
- **Review of the annual Compliance Audit Return;**
- **Assist in the Chief Executive Officer's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.**

6:30pm Mayor Howlett left the meeting.

201516/023 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MS PANGAHAS

SECONDED: MR ATTWOOD

That the Audit, Risk and Governance Committee endorse the establishment of a dedicated internal audit function, for an initial 12-month period, with the Internal Auditor to undertake the following activities and report directly to the Audit, Risk and Governance Committee;

- **Review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;**
- **Examination of financial and operating information that includes detailed testing of transactions, balances and procedures;**
- **A risk assessment with the intention of minimizing exposure to all forms of risk on the local government;**
- **A review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;**
- **A review of compliance with management policies and directives and any other internal requirements;**
- **Review of the annual Compliance Audit Return;**
- **Assist in the Chief Executive Officer's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance**
- **Specific tasks requested by management.**

CARRIED 5/0

RECOMMENDATION 4

That the Audit, Risk and Governance Committee recommend to Council the adoption of Policy 1/022 Internal Audit Charter as presented in Attachment 8.

201516/024 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR BLANCO

SECONDED: MS PANGAHAS

That the Audit, Risk and Governance Committee recommend that adoption of Policy 1/022 Internal Audit Charter as presented in Attachment 8 be deferred until the ARG terms of reference are workshopped with the ARG committee.

CARRIED 4/0

RECOMMENDATION 5

That the Audit, Risk and Governance Committee endorse the following internal audit scope and work plan for the 2016 calendar year:

Task	Scope	Resourcing
Risk Register	Regulation 17 of the Audit Regulations requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance at least once every two years. The review was completed in April 2015 and resulted in the development of a Risk Management Improvement Plan. The Town has partnered with Local Government Insurance Services to convert this information into a comprehensive Risk Register to be reported to the ARG Committee on a quarterly basis.	Executive Officer/LGIS
Better Practice Review	The Town has recently participated in the Local Government Better Practice Review Program, an initiative undertaken by the Department of Local Government and Communities. The review covered key areas of local government activities and operations, including governance, integrated planning and reporting, planning and regulatory functions, asset and financial management, community relations and workforce planning. The Town will	Governance Coordinator/Executive Officer

	receive the Departments draft report by the end of February 2016.	
Purchasing Policy	Regulation 11A of the FMR requires a local government to prepare or adopt a purchasing policy in relation to contracts for other persons to supply goods or services. The existing Policy needs to be revised to reflect recent legislative amendments. A procurement audit is also being undertaken to assess compliance with the Act, Regulations and Policy.	Executive Officer/Risk Analyst
Investments	Regulation 19 of the FMR states that a local government is to establish and document internal control procedures to ensure control over investments. The control procedures are to enable the identification of the nature and location of all investments and the transactions related to each investment.	Management Accountant - Treasury
Controls for Payments of Accounts (including Credit Cards)	Regulation 11 of the FMR states that a local government is to develop procedures for the authorization of, and the payment of, accounts to ensure that there is effective security for, and properly authorized use of cheques, credit cards, computer encryption devices and passwords, purchasing cards and any other devices or methods by which goods, services, money or other benefits may be obtained. The Town will be developing and implementing a centralized Procurement Function and a report will be provided to the ARG Committee.	Executive Officer/Contract Risk Analyst
Financial Management Review	Regulation 5 (2) of the FMR requires the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (not less than once in every four financial years) and report to the local government the results of those reviews. The next review is due for completion by June 2016.	External Auditors – RSM Bird Cameron
Debt Management Policy	Regulation 5 of the FMR states that the CEO is to establish efficient systems and procedures for the proper collection of all money owing to the local government. Aged Receivables listing and collection procedure to be reviewed.	Manager Financial Services/Financial Accountant
Controls for Purchasing	Section 6.8 of the Act states that a local government is not to incur expenditure	Executive Officer

	<p>from its municipal fund for an additional purpose except where the expenditure is; incurred in a financial year before the adoption of the annual budget by the local government (i.e. carry over projects funded by the municipal surplus brought forward); is authorized in advance by resolution; or is authorized in advance by the Mayor in an emergency. The review will occur with the 2016/17 budget to include an analysis of carryover projects, capital projects and retentions, and associated funding from unspent grants and reserves.</p>	
Bank Accounts	<p>Regulation 8 of the FMR requires a local government to maintain a separate account with a bank for each of the following purposes; money required to be held in the municipal fund; money required to be held in the trust fund; and money required to be held in reserve accounts. Money from different accounts may be placed in a common investment authorized by the Act.</p>	<p>Management Accountant - Treasury</p>
Cash Handling	<p>Regulation 5 of the FMR states that the CEO is to establish efficient systems and procedures for the safe custody and security of all money collected or held by the local government. A Cash Handling Procedure is to be developed.</p>	<p>Management Accountant - Treasury</p>
Audit of Rating Categories	<p>Section 6.33 of the Act requires land to be rated according to any, or a combination, of the following characteristics; the purpose for which the land is zoned; a purpose for which the land is held or used as determined by the local government; and whether or not the land is vacant land. The Town has over 7300 rateable assessments and a review is required to ensure that properties are correctly categorized for rating purposes. This was identified in the 2012 Financial Management Review.</p>	<p>Senior Officer Rates</p>

201516/025 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MR ATTWOOD

SECONDED: MS PANGAHAS

That the Audit, Risk and Governance Committee endorse the following internal audit scope and work plan for the 2016 calendar year:

Task	Scope	Resourcing
Risk Register	Regulation 17 of the Audit Regulations requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance at least once every two years. The review was completed in April 2015 and resulted in the development of a Risk Management Improvement Plan. The Town has partnered with Local Government Insurance Services to convert this information into a comprehensive Risk Register to be reported to the ARG Committee on a monthly basis.	Executive Officer/LGIS
Better Practice Review	The Town has recently participated in the Local Government Better Practice Review Program, an initiative undertaken by the Department of Local Government and Communities. The review covered key areas of local government activities and operations, including governance, integrated planning and reporting, planning and regulatory functions, asset and financial management, community relations and workforce planning. The Town will receive the Departments draft report by the end of February 2016.	Governance Coordinator/Executive Officer
Purchasing Policy	Regulation 11A of the FMR requires a local government to prepare or adopt a purchasing policy in relation to contracts for other persons to supply goods or services. The existing Policy needs to be revised to reflect recent legislative amendments. A procurement audit is also being undertaken to assess compliance with the Act, Regulations and Policy.	Executive Officer/Risk Analyst
Investments	Regulation 19 of the FMR states that a local government is to establish and document internal control procedures to	Management Accountant - Treasury

	ensure control over investments. The control procedures are to enable the identification of the nature and location of all investments and the transactions related to each investment.	
Controls for Payments of Accounts (including Credit Cards)	Regulation 11 of the FMR states that a local government is to develop procedures for the authorization of, and the payment of, accounts to ensure that there is effective security for, and properly authorized use of cheques, credit cards, computer encryption devices and passwords, purchasing cards and any other devices or methods by which goods, services, money or other benefits may be obtained. The Town will be developing and implementing a centralized Procurement Function and a report will be provided to the ARG Committee.	Executive Officer/Contract Risk Analyst
Financial Management Review	Regulation 5 (2) of the FMR requires the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (not less than once in every four financial years) and report to the local government the results of those reviews. The next review is due for completion by June 2016.	External Auditors – RSM Bird Cameron
Debt Management Policy	Regulation 5 of the FMR states that the CEO is to establish efficient systems and procedures for the proper collection of all money owing to the local government. Aged Receivables listing and collection procedure to be reviewed.	Manager Financial Services/Financial Accountant
Controls for Purchasing	Section 6.8 of the Act states that a local government is not to incur expenditure from its municipal fund for an additional purpose except where the expenditure is; incurred in a financial year before the adoption of the annual budget by the local government (i.e. carry over projects funded by the municipal surplus brought forward); is authorized in advance by resolution; or is authorized in advance by the Mayor in an emergency. The review will occur with the 2016/17 budget to include an analysis of carryover projects, capital projects and retentions, and associated funding from unspent grants and reserves.	Executive Officer

Bank Accounts	Regulation 8 of the FMR requires a local government to maintain a separate account with a bank for each of the following purposes; money required to be held in the municipal fund; money required to be held in the trust fund; and money required to be held in reserve accounts. Money from different accounts may be placed in a common investment authorized by the Act.	Management Accountant Treasury	-
Cash Handling	Regulation 5 of the FMR states that the CEO is to establish efficient systems and procedures for the safe custody and security of all money collected or held by the local government. A Cash Handling Procedure is to be developed.	Management Accountant Treasury	-
Audit of Rating Categories	Section 6.33 of the Act requires land to be rated according to any, or a combination, of the following characteristics; the purpose for which the land is zoned; a purpose for which the land is held or used as determined by the local government; and whether or not the land is vacant land. The Town has over 7300 rateable assessments and a review is required to ensure that properties are correctly categorized for rating purposes. This was identified in the 2012 Financial Management Review.	Senior Officer	Rates

CARRIED 3/2 ON THE PRESIDING MEMBER'S CASTING VOTE

201516/026 RECOMMENDATION 6/ AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MS PANGAHAS

SECONDED: CR BLANCO

That the Audit, Risk and Governance Committee note that the current terms of reference for the Audit, Risk and Governance Committee will be reviewed and workshopped with the Committee.

CARRIED 4/0

201516/027 RECOMMENDATION 7/ AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR WHITWELL

SECONDED: MS PANGAHAS

That the Audit, Risk and Governance Committee note the Audit Work Plan as detailed in Attachment 7 of this report.

CARRIED 4/0

201516/028 RECOMMENDATION 8/ AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR WHITWELL

SECONDED: MR ATTWOOD

That the Audit, Risk and Governance Committee hold meetings on the second Tuesday of every month for 2016 at 5:30pm in Council Chambers.

CARRIED 4/0

EXECUTIVE SUMMARY

This report provides an overview of the local government audit framework and key audit findings over the last four years. It also recommends an internal audit plan which includes items that are traditionally considered “high-risk”, with items having been identified in external audit management letters and the previous financial management review. The internal audit work plan also references the internal audit framework detailed in the WA Local Government Accounting Manual.

DETAILED REPORT

Role of Audit Committee:

The Terms of Reference for the Audit, Risk and Governance Committee define the role/purpose of the Committee as follows:

The Audit and Finance Committee objective is to assist the Town of Port Hedland Council in liaising with the auditor and overseeing the external audit function and promoting the transparency and accountability of Council's financial management systems and reporting

The Audit and Finance Committee has been established in accordance with Part 7 of the Local Government Act 1995 to:

- 1. Liaise with the Auditor(s) to assist Council in carrying out functions in relation to external audit, including liaising with the Auditor and develop a process for selection and appointment of a person as the Auditor;*
- 2. Receive Quarterly Budget Review Reports;*
- 3. Receive Quarterly Financial Reports on all of the Town of Port Hedland's Managed Community Facilities;*
- 4. Review and suggest improvements to Risk Management within the organisation; and*
- 5. Assist the organization in the development of an internal audit program and make recommendations to Council regarding:*

- Financial Management*
- Risk Management*
- Internal Controls*

- *Legislative Compliance*
- *Internal and External Audit Planning and Reporting*

The Department of Local Government and Communities has also prepared operational guidelines on audit in local government (see Attachment 2). The guidelines outline audit requirements including the establishment of an audit committee and key functions.

The Guidelines define the role of the audit committee “to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability”.

The Guidelines also state that the audit committee needs to form an opinion of the local governments internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent.

Legislative Audit Framework:

The *Local Government Act 1995*, *Local Government (Audit) Regulations 1996* and *Local Government (Financial Management) Regulations 1996* detail the statutory requirements with respect to audit of local government. The following reporting requirements to the audit committee are mandatory:

Item	Requirements	Legislation
External Audit Report	The Auditor is to provide a report (annually) giving an opinion on the financial position of the local government and the results of the operations of the local government. Where it is considered by the auditor appropriate to do so, the audit is to prepare a management report to accompany the auditor’s report.	Regulation 10 of the Local Government (Audit) Regulations 1996
Compliance Audit Return	Local Governments are required to complete a statutory compliance return (Compliance Audit Return) annually and have the return adopted by Council. The return is a checklist of a local government’s compliance with the requirements of the Act and its Regulations, concentrating on areas	Regulation 14 of the Local Government (Audit) Regulations 1996

	of compliance considered 'high risk'. The audit committee is to review the Compliance audit Return and report to the Council the results of that review.	
Risk Management/Internal Controls/Legislative Framework	The CEO is to review the appropriateness and effectiveness of a local governments and procedures in relation to risk management, internal control and legislative compliance at least once every two years and report to the audit committee the results of that review.	Regulation 17 of the Local Government (Audit) Regulations 1996
Financial Management Review	The CEO is review the appropriateness and effectiveness of the financial management systems and procedures of the local government at least once every four years and report the results of that review.	Regulation 5 of the Local Government (Financial Management) Regulations 1996

External Audit Framework:

Pursuant to section 7.2 of the *Local Government Act 1995*, the accounts and annual financial report of a local government for each financial year are required to be audited by an Auditor appointed by the local government. The Act and Regulations prescribe the scope of the external audit of the annual financial statements of the local government. The operational guidelines also include a minimum standard audit specification.

Regulation 7 of the *Local Government (Audit) Regulations 1996* requires that an Audit Agreement be executed between the local government and its Auditor. An Audit Agreement is to include:-

- The objectives of the audit;
- The scope of the audit;
- A plan for the audit;
- Details of the remuneration;
- The method to be used by the local government to communicate with and supply information to the auditor.

The Town's Audit Agreement is presented under confidential cover as attachment 3 to this report. The Audit Agreement includes an audit plan and methodology, with critical matters for audit being:

- Revenue – rates revenue, government grants, fees and charges
- Expenditure – salaries and wages, depreciation, materials and contract expense, insurance
- Current Assets – bank and short-term assets, receivables, inventory
- Non-Current Assets – property, plant, furniture and equipment, infrastructure and depreciation
- Liabilities – creditors and accruals, loan borrowings, provision for annual and long service leave entitlements
- Reserve Funds
- Contingent Liabilities
- Capital Commitments
- Accounting Policies
- Cash Flow Statement
- Financial Ratios

Internal Audit Framework:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of risk management, control, and governance processes. Establishing a formal internal audit function is not a legislative requirement but the development of appropriate internal controls will enhance risk management processes.

The internal audit function can either be resourced internally or contracted out. The Town of Port Hedland does not have a dedicated Internal Auditor, with partial responsibilities allocated to the Executive Officer. The Governance Coordinator is also charged with internal audit functions from a legislative compliance perspective.

All internal audit reports must be referred to the Audit Committee for consideration. An internal auditors activities should typically include the following:

- Examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
- A risk assessment with the intention of minimizing exposure to all forms of risk on the local government;
- A review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- A review of compliance with management policies and directives and any other internal requirements;
- Review of the annual Compliance Audit Return;
- Assist in the CEOs biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.

The internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day to day management of local

government activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility.

The role of the external auditor can also be expanded to include an internal audit function, provided that it complements the external audit and does not cloud the objectivity and independence of the external audit (i.e. an external auditor must not audit information prepared by them or their accounting practice). A good example is where local governments decide to use the services of the external auditor to undertake a review of the financial management systems and procedures. This provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

Audit Results/Findings:

The Executive Officer has completed a review of audit documentation and reports from the last four years with a view of presenting a summary of key audit findings and recommendations to the Audit, Risk and Governance Committee. The review has involved an assessment of the following documents, many of which are appendages to this report:

- External Auditors Reports
- Interim and Annual Audit Management Letters
- 2012 Financial Management Review
- Compliance Audit Returns
- 2015 Risk Review
- Internal Audit Reports

The following overview is provided:

Item	2011/12	2012/13	2013/14	2014/15	Additional Comment
External Audit Reports	Non-compliance with section 6.5 (3) of the Act with regards to completion date of annual financial report (not received until 19 February 2013)	Non-compliance with Local Government (Financial Management) Regulations 1996 with regards to non-completion of Asset Renewal and Asset Consumption Ratios	Unqualified Audit Report	Unqualified Audit Report	A clean audit report has been received for the last two financial years indicating full compliance with the Act and Regulations as they relate to the Annual Financial Report. Audit sign off occurred in October in 2013/14 and 2014/15 indicating strong preparedness and timeliness of audit work by staff.
Interim Management Letters	No management letter provided.		Issues identified from the 2014 interim audit included; high turnover of staff which inhibits the Town's retention of intellectual knowledge and system processes, impairment of capital assets, journal entries, grant revenue documentation, unreconciled receivables, stale cheques, employee leave balances.	Issues identified from the 2015 interim audit included; reconciliation of payroll report to the general ledger, fortnightly payroll variance reporting, employee personnel file information, capturing of timesheets into the Synergy system, monthly bank reconciliation, monthly credit card reconciliation, year-end accounting issues, Council minutes, monthly financial	Key findings have predominantly related to the reconciliation of balance sheet accounts: That reconciliation of all significant accounts be prepared on a timely basis. That management review month-end reconciliations to ensure all reconciling items are highlighted and adequately resolved on a timely basis. Finance have now implemented a monthly audit file, and all balance sheet accounts are reconciled on a periodic

				reports, implementation of recommendations from the review of the risk management, internal controls and legislative compliance.	basis (monthly or quarterly).
Annual Management Letters	Audit findings for 2011/12 financial year included; lack of internal audit function, timeliness and preparedness for audit, subsequent general ledger adjustments after audit, bank reconciliations, stale cheques, unreceipted deposits, reconciliation of reserves, reconciliation of payroll suspense account and receipt of goods and services.	Audit findings for the 2012/13 financial year included; trade and other payables, Pilbara Underground Power Project, grant revenues, debt apportionment between current and non-current, trade and other receivables.	Audit findings for the 2013/14 financial year included; high annual leave accruals.	Audit findings for the 2014/15 financial year included; high annual leave accrual, negative leave balances, fortnightly payroll variance reporting, no loan agreements in place regarding 2 self-supporting loans, overhead allocations.	The 2011/12 Annual Financial Report was not finalized until 19 February 2013, with audit sign off received on the 23 February 2013. The Management Letter details a number of key issues with regards to accounts not being fully reconciled, and the Town not being fully prepared for audit due to a number of balance sheet items requiring review including cash, fixed assets, accrued expenses and reserves. This resulted in significant delays and additional time costs incurred. The Town was also non-compliant with section 6.5 (3) of the Act which requires the accounts and annual financial report to be

					submitted by 30 September. When compared to the audit findings in 2013/14 and 2014/15, it is evident that the Towns audit performance has improved considerably with no significant audit findings, no instances of statutory non-compliance and audit sign off received on the 9 October 2014 and 19 October 2015. This is despite the significant workload associated with the revaluation of land, buildings and infrastructure assets.
Annual Compliance Audit Return	OCM 14 March 2012. Two areas of non-compliance were reported; Primary Return not lodged on time by 2 new employees; Annual Return not lodged on time by 4 employees.	OCM 13 March 2013. Two areas of non-compliance were reported; Annual Return not lodged on time by 2 elected members; Auditors Report for 11/12 FY not received by 31 December.	OCM 26 March 2014. One area of non-compliance reported; Auditors Report for 12/13 FY not received by 31 December.	OCM 25 March 2015. Four areas of non-compliance were reported; late lodgement of Annual Return by an Officer who was on LSL; public submissions for a major land transaction and a disposal of property closed earlier than the statutory timeframe;	The Department of Local Government and Communities was satisfied with the Towns explanation in relation to matters raised and actions to be taken. The Department only formally corresponded in relation to the late lodgement of Annual and Primary Returns, in order for them to formally contact individuals concerned.

				requirement to go to tender for the engagement of consultants/contractors where value exceeds \$100k.	
Financial Management Review	<p>Areas that were reviewed included: Purchases/Payments/Payables, Receipts/Receivables/Cash, Payroll, Rates, Cost Allocations, Minutes and Meetings, Principal Activity Plan, Fixed Assets and Registers. Reconciliation issues were identified in the following areas: Cash at Bank/Reserves Accruals Payroll Suspense Account Rate Categories Asset Register</p>				<p>Required every 4 years; last completed in June 2012 so required by mid-2016. Provision contained in Audit Agreement for RSM Bird Cameron to complete this review at a lump sum cost of \$17,600.</p> <p>The internal audit program presented will also pick up items which are typically reviewed as part of a Financial Management Review and will complement this body of work.</p>
Biennial review of systems and procedures in					Required every 2 years; last review presented to the Audit Committee on 22

<p>regard to risk management, internal controls and legislative compliance</p>					<p>April 2015. A quarterly management improvement plan is to be presented to the Committee; as well as an assessment of resourcing required to support an internal audit and risk management function.</p>
<p>Internal Audit Reports</p>					<p>A number of internal audit/business improvement initiatives have commenced. Reports have either been finalized or are in the process of being drafted. These include: Department of Local Government and Communities Better Practice Review Program (Draft Report due end of February 2016) Business Improvement Program (Report prepared by Consultant Peter Keane) Fees and Charges Guiding Financial Principles (Draft Report received from UHY Haines Norton)</p>

					<p>Review of Procurement and Disposal Events (Final Report received from Moore Stephens)</p> <p>Internal Procurement Audit assessing compliance of purchasing/tenders with the Act, Regulations and Policies (Project has commenced with draft Report due end of February)</p> <p>All of the above reports will be presented to the Audit, Risk and Governance Committee over the next six months for consideration of key recommendations.</p>
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FINANCIAL AND RISK IMPLICATIONS

At the Audit and Finance Committee meeting of 22 April 2015, the Committee resolved in part as follows:

“Request the CEO, or his delegate (s), to bring a report back to Council on the budget allocation and structural change required to embed an integrated risk management system in the organisation”.

It is recommended that a dedicated internal audit function be established to support the internal audit work plan which has been developed. The requirement for an internal audit function was raised by the Auditors in 2011/12 (see Annual Management Letter) and this requirement is captured in the Corporate Business Plan. Recent discussions with Elected Members also indicate support for an internal audit program.

Indicative costings for a 12-month appointment of an Internal Auditor are as follows:

Item	Cost
Salary (Level 6)	\$101,477
Superannuation (9.5%)	\$9,640
Workers Compensation (2%)	\$2,030
Resources and Materials	\$5,000
Training and Development	\$2,000
Uniform	\$700
Housing and Utilities (Allowance)	\$20,000
Motor Vehicle (Not Applicable)	\$0
Total	\$140,847

The 2015/16 Budget includes an allocation of \$1,959,010 in salaries for corporate management (GL 406201). Year to date actual expenditure amounts to \$1,201,354 so the proposed appointment will be funded out of the existing budget.

In addition, the Town has appointed a Risk Analyst on a fixed term six-month contract, to focus principally on procurement. The scope of this role includes:

- Undertake a procurement audit on all suppliers over \$50k per annum to assess compliance with legislation and policy;
- Undertake an audit of all tenders to assess compliance with legislation and to assess contract documentation;
- Review current purchasing policies and develop a single consolidated Policy;
- Review all contract templates, including referral to legal, to develop a suite of AS General Conditions of Contract templates for each contract type;
- Review all Expression of Interest (EOI), Request for Quotation (RFQ) and Request for Tender (RFT) documentation, including referral to legal, in order to develop robust templates to match the General Conditions of Contract documents;
- Develop a procurement checklist to support all EOIs, RFQs and RFTs;

- Develop and implement a framework to establish a panel of pre-qualified suppliers with a strong buy local focus to support local businesses;
- Review wording used on all purchase orders, including referral to legal, to ensure the appropriate legal protection for the Town i.e. develop standard terms and conditions;
- Investigate and develop a framework for the control of purchases and authorisation of payments for all supplies under a determined threshold i.e. purchasing cards.

STATUTORY AND POLICY IMPLICATIONS

The local government audit framework is governed by the Local Government Act 1995 and Regulations including the Local Government (Administration) Regulations 1996, Local Government (Audit) Regulations 1996, Local Government (Financial Management) Regulations 1996 and Local Government (Functions and General) Regulations 1996.

4.1.1 of the Corporate Business Plan is relevant that the Town “Deliver high quality corporate governance, accountability and compliance”. This includes the following actions:

- Provide corporate oversight through the Audit, Risk and Governance Committee
- Establish an internal audit function
- Implement a risk management framework
- Comply with all statutory obligations included in the yearly Compliance Audit Return

ATTACHMENTS

1. Audit Committee Terms of Reference
2. Local Government Operational Guidelines Number 9 – Audit in Local Government (Under Separate Cover)
3. Audit Agreement between the Town of Port Hedland and RSM Bird Cameron (Confidential – Under Separate Cover)
4. Interim Audit Management Letters 2011/12 - 2014/15 (Confidential – Under Separate Cover)
5. Annual Audit Management Letters 2011/12 – 2014/15 (Confidential – Under Separate Cover)
6. Annual External Audit Reports 2011/12 – 2014/15
7. Audit Work Plan
8. Draft Policy 1/022 – Internal Audit Charter

26 February 2016

1 COUNCIL COMMITTEES

1.1 Audit Risk and Governance Committee

Terms of Reference

Aim/Purpose:

The Audit, Risk and Governance Committee has been established in accordance with Part 7 of the Local Government Act 1995 to:

1. Liaise with the Auditor(s) to assist Council in carrying out functions in relation to external audit, including liaising with the Auditor and develop a process for selection and appointment of a person as the Auditor.
2. Receive Quarterly Budget Review Reports;
3. Receive Quarterly Financial Reports on all of the Town of Port Hedland's Managed Community Facilities;
4. Review and suggest improvements to Risk Management within the organisation; and
5. Assist the organization in the development of an internal audit program and make recommendations to Council regarding:
 - Financial Management
 - Risk Management
 - Internal Controls
 - Legislative Compliance
 - Internal and External Audit Planning and Reporting

Quorum:

The quorum for the Committee be a minimum of 50% of its membership.

Membership:

Elected Members:

Mayor Howlett
Cr Blanco
Cr Newbery
Cr Whitwell

Proxies:

Cr Arif
Cr Hooper

Community Members:

Ms Nina Pangahas
Mr Ron Attwood

Meeting Frequency, Times and Venue

Quarterly on Tuesdays at 5:30pm in Council Chambers or as determined from the Council from time to time.

Delegation:

The Town of Port Hedland Council provides delegated authority to the Audit, Risk and Governance Committee to meet annually with the Town's auditor(s) as required by Section 7.12A(2) of the Local Government Act 1995.

Tenure:

Ongoing

Responsible Officer:

Director Corporate Services

(Adopted by Council at its Ordinary Meeting held 16 November 2011. Amended by Council at its Ordinary Meeting held 28 October 2015 with appointment of community member on 25 November 2015).



Annual Financial Report & Auditor's Report



Grant Thornton

2011/12

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**Independent Auditor's Report
To the Ratepayers of Town of Port Hedland**

We have audited the accompanying financial report of Town of Port Hedland (the "Council"), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information to the financial report and the statement by the Chief Executive Officer.

Responsibility of the Council for the financial report

The Council of the Town of Port Hedland are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1995 Part 6. This responsibility includes such internal controls as the Council determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of



Annual Financial Report & Auditor's Report



accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's Opinion

In our opinion,

- a the financial report of Town of Port Hedland
 - i presents fairly, in all material respects, the Council's financial position as at 30 June 2012 and of its performance and cash flows for the year then ended ; and
 - ii complies with Australian Accounting Standards (including the Australian Accounting Interpretations); and
 - iii is prepared in accordance with the requirements of the Local Government Act 1995 Part 6 (as amended) and Regulations under that Act.

Statutory Compliance

Other than the matters outlined below, I did not, during the course of my audit, become aware of any instance where the Council did not comply with the requirements of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 as they relate to financial statements.

Local Government Act (section 6.5(3)) – requires by 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor –

- (a) the accounts of the local government, balanced up to the last day of the preceding financial year; and
- (b) the annual financial report of the local government for the preceding financial year.





Annual Financial Report & Auditor's Report



Grant Thornton

Neither the requirements of (a) or (b) of section 6.5(3) were received by the due date. The final annual financial report was not received until 19 February 2013.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner – Audit & Assurance

Perth, 22 February 2013



2013

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**Independent Auditor's Report
To the Ratepayers of the Town of Port Hedland**

We have audited the accompanying financial report of the Town of Port Hedland ("the Town"), which comprises the statement of financial position as at 30 June 2013 and the statement of comprehensive income by nature or type, the statement of comprehensive income by program, the statement of changes in equity, the statement of cash flows and the rate setting statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information to the financial report and the statement by the Chief Executive Officer.

Responsibility of Management for the financial report

Management of the Town of Port Hedland is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes such internal controls as the Town determines is necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

Grant Thornton refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL), GTIL, and the member firms are not a worldwide partnership. GTIL, and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term "Grant Thornton" may refer to Grant Thornton Australia Limited ABN 41 127 196 309 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

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In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Town, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's Opinion

In our opinion, the financial report of the Town of Port Hedland:

- i presents fairly, in all material respects, the Town's financial position as at 30 June 2013 and of its performance and cash flows for the year then ended;
- ii complies with Australian Accounting Standards and the relevant legislation; and
- iii is prepared in accordance with the requirements of the Local Government Act 1995 Part 6 (as amended) and the Regulations under the Act.

Statutory Compliance

We note that in Note 21 to the financial report that the Town of Port Hedland has not been able to calculate the Asset Renewal Ratio and Asset Consumption Ratio as required by the Local Government (Financial Management) Regulations 1996. Other than this matter, I did not, during the course of my audit, become aware of any instance where the Council did not comply with the requirements of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 as they relate to the financial statements.

A handwritten signature in black ink, appearing to read "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink, appearing to read "M J Hillgrove".

M J Hillgrove
Partner - Audit & Assurance

Perth, 16 December 2013

2013/14



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**Independent Auditor's Report
To the Ratepayers of Town of Port Hedland**

We have audited the accompanying financial report of Town of Port Hedland ("the Town") which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Chief Executive Officer's statement.

Council's responsibility for the financial report

The Council of the Town is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Local Government Act 1995 Part 6. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Town, as well as evaluating the overall presentation of the financial report.

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We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Local Government Act 1995 Part 6 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Town's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Auditor's opinion

In our opinion, the financial report of the Town of Port Hedland:

- (i) gives a true and fair view of the Town of Port Hedland's financial position as at 30 June 2014 and of its performance for the financial year ended 30 June 2014;
- (ii) complies with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (iii) is prepared in accordance with the requirements of the Local Government Act 1995 Part 6 (as amended) and Regulations under that Act.

Statutory Compliance

I did not, during the course of my audit, become aware of any instance where the Council did not comply with the requirements of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 as they relate to financial statements.

A handwritten signature in cursive script that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in cursive script, appearing to be "M J Hillgrove".

M J Hillgrove
Partner - Audit & Assurance

Perth, 9 October 2014



2016/15

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INDEPENDENT AUDITOR'S REPORT

TO THE RATEPAYERS OF THE TOWN OF PORT HEDLAND

Report on the Financial Report

We have audited the financial report of the Town of Port Hedland (the Council), which comprises the statement of financial position as at 30 June 2015 and the statements of comprehensive income, statement of changes in equity, statement of cash flows and rate setting statement for the year ended on that date and a summary of significant accounting policies and other explanatory notes and the statement by the Chief Executive Officer.

Chief Executive Officer's Responsibility for the Financial Report

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Our audit has been conducted in accordance with Australian Auditing Standards. Those standards require that we comply with the relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chief Executive Officer, as well as evaluating the overall presentation of the financial report.

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Melbourne, Adelaide
and Canberra

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We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Local Government Act 1995* Part 6 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Council's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Auditor's opinion on the Financial Report

In our opinion, the financial report of the Town of Port Hedland:

- (i) gives a true and fair view of the financial position of the Town of Port Hedland as at 30 June 2015 and of its financial performance for the year ended on that date;
- (ii) complies with the *Local Government Act 1995* Part 6 and the Regulations under that Act and Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (iii) in relation to the Asset Consumption Ratio and Asset Renewal Funding Ratios presented in Note 22, we have reviewed the calculations as presented and in our opinion these are based on verifiable information and reasonable assumptions.

Report on Statutory Compliance

We did not during the course of our audit become aware of any instances where the Council did not comply with the requirements of the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996* as they relate to the financial report.

A handwritten signature in cursive script that reads "RSM Bird Cameron".

RSM BIRD CAMERON

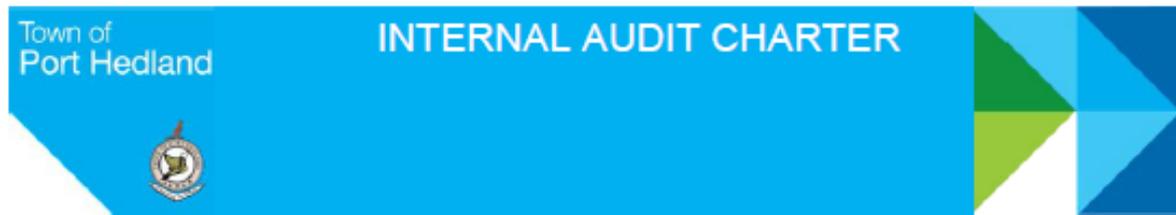
A handwritten signature in cursive script that reads "D J Wall".

D J WALL
Director

Perth, WA
Dated: 19 October 2015

Town of Port Hedland Audit, Risk and Governance Committee Work Program												
ACTIVITY	TIME FRAME											NOTES
	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Ongoing /TBA	
1. Financial Reporting and External Audit												
1.1 Review Annual Budget						X						Prior to public consultation
1.2 Review Long Term Financial Plan						X						Required in accordance with IPRF
1.3 Review Rating Strategy	X											Prior to public consultation
1.4 Quarterly Budget Reviews			X						X			For information and discussion
1.5 Review Annual Financial Statements & meet with external auditor to:- - invite presentation of audit methodology and risk assessments within the audit plan - discuss any qualifications raised in the most recent audit or comments made in the accompanying management letter - assess the appropriateness of the Town's response to matters so raised - invite comment on the financial systems and affairs of the Town having regard to comparable benchmarks									X			
1.6 Consider reappointment/appointment of auditor											X	Current contract expires 30 June 2019
1.7 Consider and review plans, strategies, policies and procedures relating to Asset Management											X	AM plans required in accordance with IPRF
1.8 Other areas of accounting treatment as identified or requested, that have a material impact on reported financial performance e.g. depreciation methodology, overhead calculation methodology, asset accounting policies and procedures etc											X	Ongoing reviews through policy and procedure reviews, asset revaluations etc
2. Risk Management, Internal Controls, Legislative Compliance and Internal Audit												
2.1 Consider and review the Town's risk register and risk management framework		X									X	
2.2 Consider the Local Government Better Practice Review Program report		X										
2.3 Consideration of revised purchasing policy, procurement audit findings, improvement implementation plan and progress report including development of centralised procurement system		X	X				X				X	Regulation 11 of LG (Financial Management) Regulations
2.4 Review of Investment policy to ensure Town funds are invested in accordance with legislation and regulations			X									
2.5 Consider a report on the Financial Management Review				X								Regulation 5(2) of LG (Financial Management) Regulations
2.6 Debt Management Policy review					X							Regulation 5 of LG (Financial Management) Regulations
2.7 Review of bank accounts and their purpose and monthly reporting								X				Regulation 8 of LG (Financial Management) Regulations
2.8 Consider and review formalised Cash Handling procedures									X			Regulation 5 of LG (Financial Management) Regulations
2.9 Audit of Rating Categories										X		To include work being undertaken on unrated TWAs
2.10 Periodic review and consideration of other Town policies and procedures (not listed above)											X	Only those relating to areas stated in the Terms of Reference
2.11 Receive reports on any matters as requested by the Committee relating to the areas stated with the Terms of Reference											X	
2.12 Consider any internal audits completed as directed by the Committee											X	
3. Reporting												
3.1 Committee to report annually to Council:- - outlining outcomes achieved against the Committee's annual work program and the results of self-assessment of performance for the preceding period including any recommended changes to its terms of reference - outlining any identified training needs - advising future work program proposals - invite comment from the Council on the above					X							
4. Other Matters												
4.1 Committee members to undertake training on their roles, functions and expectations											X	
4.2 Review terms of reference					X							
4.3 Review/Adopt work program for the financial year					X							
4.4 Consider any other matters within the terms of reference of the Committee											X	

Note: This page has been left blank intentionally.



1/022 INTERNAL AUDIT CHARTER

Policy Objective:

The internal audit provides an independent and objective review and advisory service to:

- Provide assurance to Council and the Chief Executive Officer that the Town's financial and operational controls designed to manage the organisation's risks and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- Assist management in improving and monitoring the Town's risk management, internal control and legislative compliance functions.

Policy Content:

Scope of internal audit

Internal audits may cover any programs and activities of the Town and encompass the review of all financial and non-financial policies and operations.

Independence

- Independence is essential to the effectiveness of the internal audit function.
- Internal audits will be performed by either using a dedicated internal audit resource reporting to the Office of the Chief Executive Officer or independent external contractors.
- Internal auditors report functionally to Council through the Audit, Risk and Governance Committee and are accountable to the Chief Executive Officer for the efficient and effective operation of the internal audit function.

Authority and confidentiality

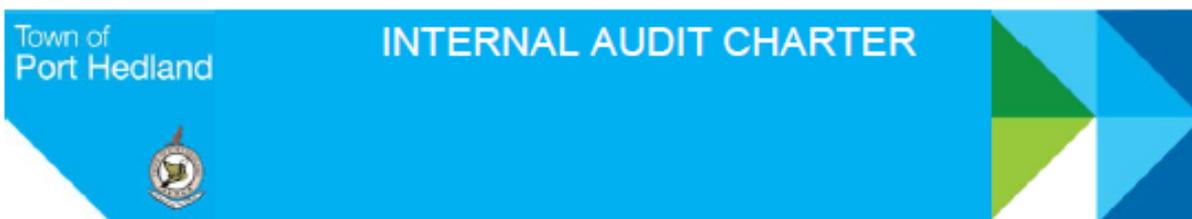
Internal auditors are authorised to:

- Have full free and unrestricted access to any and all of the Town's records and other documentation, premises and Town employees; and
- Obtain assistance as required from Town employees.

Internal auditors are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Roles and responsibilities

The internal audit activity encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Town's governance, risk management and internal controls as well as the quality of performance in carrying



out assigned responsibilities to achieve the Town’s strategic objectives. This may include:

- Evaluating risk exposure relating to achievement of the Towns strategic objectives;
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and – as appropriate – verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the Towns risk management processes;
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit;
- Providing advice related to governance, risk management and internal control as appropriate;
- Reporting significant risk exposures and internal control issues, including fraud risks and governance issues; and
- Evaluating specific operations at the request of Council and the Chief Executive Officer.

Relationship with external audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Council adoption date and resolution no.	
Date of adoption of amendment and resolution number do not delete the previous dates	
Relevant legislation	Local Government (Audit) Regulations
Delegated authority	Executive Officer
Business unit	Office of Chief Executive Officer
Directorate	Office of Chief Executive Officer
Review frequency	Bi-annually

11.1.2 Procurement Probity Review and Improvement Opportunities Recommendations

Author: Peter Keane, Risk Analyst
Authorising Officer: Peter Kocian, Executive Officer
File No. 14/01/0003

DISCLOSURE OF INTEREST BY OFFICER

Nil

RECOMMENDATION

That the Audit, Risk and Governance Committee:

- 1. Receive the Procurement Probity Review and Improvement Opportunities Recommendations Report;**
- 2. Endorse the Procurement Probity Review and Improvement Opportunities Recommendations Report for presentation to Council.**

201516/029 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR BLANCO

SECONDED: MS PANGAHAS

That the Audit, Risk and Governance Committee:

- 1. Receive the Procurement Probity Review and Improvement Opportunities Recommendations Report;**
- 2. Workshop and review the full Procurement Probity Review and Improvement Opportunities Recommendations Report and put forward its recommendation for presentation to Council.**

CARRIED 4/0

EXECUTIVE SUMMARY

In April and December 2015, the Town of Port Hedland Executive initiated two external and independent audit/reviews in relation to Procurement & Disposal Events and Risk Management, Legislative Requirements and Internal Control.

In February 2015, a Corruption and Crime Commission (CCC) report was tabled by the Minister for Local Government in WA State Parliament, calling for greater oversight of procurement by WA local governments in order to combat “systemic weaknesses” identified in the sector. A copy of the CCCs media statement is provided as attachment 1 to this report.

Based upon improvements identified in the two internal initiated independent audits/reviews, a risk analyst was engaged to initiate a probity review of all

procurement activities within the Town of Port Hedland for all individual vendors with spend greater than \$50,000 in the years 14-15 and 15-16.

DETAILED REPORT

A probity review has been undertaken on all expenditure to any single vendor of greater than \$50,000 for the financial years 14-15 and 15-16. Based upon this probity review and associated findings, a number of improvement opportunities have been identified and recommendations prepared to realise these opportunities. These are contained in attachment 2 to this report and are captured in the Executive Summary and Key Findings.

FINANCIAL AND RISK IMPLICATIONS

A result of the “Recommended Next Steps” within the Executive Summary in attachment 2, there would be either a zero impact or decrease in the budget, as a result of both efficiencies in internal processes and savings associated with improved procurement practices and implementation of supplier panels in key procurement categories.

The risk implications associated with the recommended next steps would be to significantly reduce the current procurement and contractual risk profile associated with current Town of Port Hedland policies and procedures.

STATUTORY AND POLICY IMPLICATIONS

Local Government (Function and General) Regulations 1996 – Part 4 & 4A, which is applicable in the areas of Purchasing Goods and Services, Tendering and Regional Price Preference requirements.

2/007 Procurement Policy, 2/011 Tender Policy and 2/016 Regional Price Preference have a bearing on the matter under consideration.

ATTACHMENTS

1. Corruption and Crime Commission Media Statement
2. Probity Review and Improvement Opportunities Recommendations Report – Executive Summary and Findings (Confidential – Under Separate Cover)

25 February 2016



MEDIA STATEMENT

Changes Urged to Tackle Corruption Risks in Local Government

26 February 2015

A Corruption and Crime Commission report, tabled by the Minister for Local Government in State Parliament today, calls for greater external oversight of procurement by Western Australian local governments in order to combat “systemic weaknesses” identified across that sector. Those weaknesses currently leave the sector vulnerable to fraud, corruption and misconduct.

The Minister described the Commission’s report as a “wake-up call”.

The report references case studies of Commission investigations relating to procurement that “demonstrate how the processes of local governments can be exploited by employees, suppliers and contractors, to obtain benefits dishonestly”.

It also relies on an independent external audit by RSM Bird Cameron on the risk management of five of Western Australia’s largest metropolitan local governments. The audit found that all five councils had procurement policies and internal audits but had not identified their key fraud and misconduct risks.

The audit identified specific weaknesses in financial governance related to procurement in some Cities but not others.

In its analysis the Commission said a whole-of-sector approach with a focus on prevention was needed.

The Commission recommended that the jurisdiction of the Auditor General be extended to specifically include local government, thus bringing Western Australia into line with Queensland, South Australia, Tasmania and Victoria. The proposed change echoes previous recommendations made by the Public Accounts Committee in 2006.

The power of external auditing is demonstrated by the results of the independent audit obtained by the Commission.

The Commission also recommends that the Department of Local Government and Community actively oversee internal risk management reviews prepared by local governments to ensure they include effective assessment of misconduct risks arising from procurement, and clearly identify mechanisms to reduce those risks.

The proposed new measures would complement recent improvements to internal risk management that local government CEOs are required to undertake – and combat

CORRUPTION AND CRIME COMMISSION

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PO Box 7667, Cloisters Square
PERTH WA 6850

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Fax: +61 8 9215 4884
info@ccc.wa.gov.au
www.ccc.wa.gov.au

the risk posed if the CEO is the person engaging in misconduct, as has occurred in the past.

The report details case studies of local government misconduct in procurement as follows.

- A Building Coordinator operating in “an environment of unqualified trust” who colluded with building contractors to fraudulently obtain financial benefits for himself in excess of \$600,000 including work on an extension to his home, two vehicles, three tractors, a bobcat and overseas travel.
- A Maintenance Officer who owned a private company to which a Town unknowingly paid more than \$46,000 for work that was either not done, carried out by another contractor, or was performed by the Officer himself during work hours. There was no independent verification that the work was done.
- A former CEO who fraudulently obtained more than \$41,000 worth of goods, services and money over a two-year period by using his corporate credit card for private expenditure including veterinary bills, clothes and airfares; making “payments” to a fictitious business while directing the funds to his personal account; and creating and paying false invoices.
- State and local government employees who acted outside procurement policies and arrangements in spending at least \$620,000 over a three-year period purchasing toner cartridges with a group of related companies. The companies provided many of the employees with gifts and used unethical sales techniques. The same toner would have cost \$415,000 less if procurement policies had been applied.
- A former CEO who spent more than \$1 million on software from a company, despite having authorisation to spend only \$200,000, and who received a range of gifts and benefits from the software company including a business class flight to London to attend a conference (where he delivered a paper) and tickets to cricket at Lords in London.
- An employee awarded work valued at more than \$56,000 to a favoured contractor without obtaining quotes, and another who provided information about competing quotes to businesses owned by his personal associates so they could quote slightly less.

These case studies demonstrate the risk of corruption in a local government sector that employs more than 9,000 full-time equivalent employees and controls community assets worth more than \$10 billion.

A copy of the report is available on the Commission Website <http://www.ccc.wa.gov.au/Publications/Reports/Pages/default.aspx>.

Media Contact: Marie Mills: (08) 9421 3600 or 0418 918 202.

11.2 Corporate Services

7:15pm Mr Ron Attwood declared an impartiality in item 11.2.1 '2015 Compliance Audit Return' as he has previously employed RSM Bird Cameron as an auditor.

Mr Attwood remained in attendance as permitted by the Local Government Act 1995 and Administration Regulations.

11.2.1 2015 Compliance Audit Return

Author: Josephine Bianchi, Coordinator Governance
Authorising Officer: Sid Jain, Director Corporate Services
File No. 14/06/0001

DISCLOSURE OF INTEREST BY OFFICER

Nil

RECOMMENDATION

MOVED: CR WHITWELL

SECONDED: MS PANGAHAS

That the Audit, Risk & Governance Committee

- 1. Note the outcomes of the 2015 Compliance Audit Return; and**
- 2. Recommend that Council adopt the 2015 Compliance Audit Return.**

LOST 3/2 ON THE PRESIDING MEMBER'S CASTING VOTE

201516/030 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR BLANCO

SECONDED: MR ATTWOOD

That a workshop be held with the ARG committee to discuss the Compliance Audit Return in further detail.

CARRIED 3/1

<i>For</i>	<i>Against</i>
Councillor Blanco	Councillor Whitwell
Mr Attwood	
Ms Pangahas	

EXECUTIVE SUMMARY

Regulation 14(3A) of the Local Government (Audit) Regulations 1996 requires the local government's audit committee to review the Compliance Audit Return (CAR) and to report to the Council the results of that review, before these are presented to the Minister for Local Government by the end of March 2016.

The CAR was presented to the 9 February 2016 ARG Committee meeting, however the Officer's Recommendation was lost on a 2/3 vote.

No indication was provided to the administration in terms of specific reasoning behind the outcome of the vote, so as to guide officers towards review(s) of any specific areas of concerns.

In view of this the CAR is being represented to the ARG for consideration, on the understanding that a meaningful recommendation is to be submitted to the Council.

The one update that has been included since this item was presented to the February ARG is in the area of 'Inviting Tenders', as more detailed information has been received as part of the Probity Review which is also being presented to this March ARG meeting.

DETAILED REPORT

Each year all Western Australian Local Government Authorities are required to undertake a compliance audit and forward the results to the Department of Local Government (the Department) by 30 March. The CAR is a self-assessment of a local government referring to its levels of compliance with the Local Government Act and associated regulations.

The Compliance Audit is one of the tools utilised by the Department of Local Government to monitor how the local government functioned throughout the previous calendar year from a compliance perspective. It identifies areas of non-compliance that provide guidance to officers as to where processes may be reviewed to ensure improved compliance.

A total of 87 items were audited in the 2015 Compliance Audit process and four areas of non-compliance were identified.

These being:

Delegation of Power/Duty

A review of the 2015 tender register revealed one instance where the Chief Executive Officer (CEO) advised the Council of his decision to reject a tender by way of an agenda item, following an investigation into the process which also included a report by a third party. All tenderers were advised in writing of the decision to reject the tender in question. However a written record of CEO exercising his delegation to reject tenders, as per section 19 of the Local Government (Administration) Regulations 1996, could not be located at the time of this report being generated.

To ensure that in future accurate records of delegated powers and duties in relation to tenders are kept, the current tender request form will be amended to include a section to be compiled by the CEO or Acting CEO whenever a tender is rejected, and to be accompanied by a memo outlining reasons for the decision.

Disclosure of Interest

One new designated employee failed to lodge a primary return within 3 months in accordance with section 5.75(1) of the Act. The officer in question had attended a session in relation to the lodgement of Primary returns, however failed to submit the document on time. The importance of respecting statutory deadlines has been raised with this officer to ensure compliance occurs in the future.

Local Government Employees

Advertisements of senior employees were not consistent with provisions outlined in section 18A of the Local Government (Administration) Regulations 1996, which state that advertisements have to contain:

- (a) *the details of the remuneration and benefits offered; and*
- (b) *details of the place where applications for the position are to be submitted; and*
- ...
- (d) *the duration of the proposed contract; and*
- (e) *contact details for a person who can provide further information about the position.*

These details were included in the website postings, so relevant officers have been reminded of these requirements, and have been asked to create a standard template to be utilized for all senior roles.

Tenders for Providing Goods and Services

Inviting Tenders

The Town did not invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations.

The findings included in the Probity Report undertaken by the Risk Analyst and presented to the ARG as part of this March meeting illustrate two instances where the Town engaged consultancies to undertake contract labour which exceeded the original \$100,000 threshold. Conversations with the Western Australian Local Government Association have indicated that to rectify these issues now and in future all contract labour contracts are to be established or transitioned to a WALGA preferred supplier arrangement.

Advertising of Tenders

In one instance the Town's advertising documentation did not comply with the section 15 of the Functions & General Regulations as a State Wide public notice was only issued for 13 days, one day short of the statutory 14 days. The notice however was advertised locally for 17 days.

To ensure that in future all advertising complies with Regulations it has been suggested to officers that all notices are to be placed in local and statewide papers on the same day, in order to avoid confusion with required statutory timeframes.
Notice to tenderers

In one instance tenderers were not sent written notice Regulations in a timely manner advising particulars of the successful tender as per section 19 of the Functions & General. Although all parties had been informally advised of the tenders outcomes, relevant officers have been contacted and reminded of these important statutory requirements, to ensure they are complied with in future, and that best practice would be to contact all tenderers within a maximum of 30 days following the tender award or rejection.

Solutions to non-compliance

The analysis of the various instances of non-compliance have revealed a number of areas of concern that require prompt addressing by the Town's administration. These can be widely summarized as being due to high turnover of staff and consequential lack of knowledge retention, lack of staff education and training in general statutory requirements, lack of staff expertise in areas of procurement and tendering in particular, and lack of staff awareness of breaches impact on the organization.

It has to be noted that the Town has undertaken and has participated in a number of audits in 2015, which have been referred to in further detail in the Local Government Audit Framework item also included in the agenda for this meeting. These audits have all highlighted similar issues which the Town is in the process of addressing via a combination of different strategies.

In relation to staff training, the Western Australian Local Government Association undertook a Procurement and Tendering workshop in early February for officers that frequently issue and manage tenders. It is believed that this training, together with the creation of new tender forms and templates and an appropriate and user friendly workflow, will assist in raising awareness amongst officers in discharging all statutory duties. This training will be coupled with mandatory procurement sessions for designated officers upon commencement and regular internal refreshers and follow ups for current staff.

In relation to monitoring procurement and addressing any potential risks in a timely manner, a dedicated internal procurement function is also being investigated by the Town. Different models are currently being looked into with the view of rolling out a more robust framework in the new financial year.

The ARG Committee will be kept informed of the Town's progress in all of the above areas to ensure openness and transparency with all of its processes.

Consultation

- Executive Leadership Team
- All Managers
- Risk analyst

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with the lodgement of the 2015 Compliance Audit Return.

STATUTORY AND POLICY IMPLICATIONS

Statutory

Section 7.13(1)(i) of the Local Government Act 1995 require local governments to carry out an audit of compliance with such statutory requirements. Section 14 of the Local Government (Audit) Regulations 1996 outlines the period of time, the form and the process on the compliance audit. The compliance audit is required to be reviewed by the Audit Committee and report to Council.

Sections 16 and 17 of the Audit Regulations outline the new requirements of all WA Chief Executive Officers to provide their Audit Committees with a 2 yearly report on risk management, internal control and legislative compliance.

Strategic

Sections 4.1 'Strategic and best practice local government administration' of the Town's Strategic Plan applies.

Risk

Should the Council endorse an internal audit function for the Town this will include a review of the Compliance Audit Return and ensure that processes to monitor compliance with the Act and associated Regulations are established.

ATTACHMENTS

1. 2015 Compliance Audit Return (with updated under question 1 of Tenders Section on page 7)

1 March 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

Port Hedland - Compliance Audit Return 2015

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a)(b)(c) F&G Reg 7,9	Has the local government prepared a business plan for each major trading undertaking in 2015.	N/A		Malcolm Osborne
2	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2015.	Yes	For the long term lease of the airport as approved on 25 August 2015.	Malcolm Osborne
3	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2015.	Yes	For the long term lease of the airport as approved on 25 August 2015.	Malcolm Osborne
4	s3.59(4)	Has the local government given Statewide public notice of each proposal to commence a major trading undertaking or enter into a major land transaction for 2015.	Yes	Statewide public notices for the long term lease of the airport on 24 April 2015.	Malcolm Osborne
5	s3.59(5)	Did the Council, during 2015, resolve to proceed with each major land transaction or trading undertaking by absolute majority.	Yes	At the 25 August 2015 Council meeting.	Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

Delegation of Power / Duty					
No	Reference	Question	Response	Comments	Respondent
1	s5.16, 5.17, 5.18	Were all delegations to committees resolved by absolute majority.	Yes		Malcolm Osborne
2	s5.16, 5.17, 5.18	Were all delegations to committees in writing.	Yes		Malcolm Osborne
3	s5.16, 5.17, 5.18	Were all delegations to committees within the limits specified in section 5.17.	Yes		Malcolm Osborne
4	s5.16, 5.17, 5.18	Were all delegations to committees recorded in a register of delegations.	Yes		Malcolm Osborne
5	s5.18	Has Council reviewed delegations to its committees in the 2014/2015 financial year.	N/A	Yes for the Audit, Risk and Governance Committee on 27.05.15.	Malcolm Osborne
6	s5.42(1),5.43 Admin Reg 18G	Did the powers and duties of the Council delegated to the CEO exclude those as listed in section 5.43 of the Act.	Yes		Malcolm Osborne
7	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO resolved by an absolute majority.	Yes		Malcolm Osborne
8	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO in writing.	Yes		Malcolm Osborne
9	s5.44(2)	Were all delegations by the CEO to any employee in writing.	Yes		Malcolm Osborne
10	s5.45(1)(b)	Were all decisions by the Council to amend or revoke a delegation made by absolute majority.	Yes		Malcolm Osborne
11	s5.46(1)	Has the CEO kept a register of all delegations made under the Act to him and to other employees.	Yes		Malcolm Osborne
12	s5.46(2)	Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2014/2015 financial year.	Yes	Review of the register as a whole took place at 24 June 2015 Ordinary Council meeting.	Malcolm Osborne
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required.	No	A review of the 2015 tender register revealed one instance of no written record of CEO exercising delegation to reject tenders. Current tender form does not include section for CEO to reject tenders, this is a suggested process improvement.	Malcolm Osborne
Disclosure of Interest					
No	Reference	Question	Response	Comments	Respondent

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

No	Reference	Question	Response	Comments	Respondent
1	s5.67	If a member disclosed an interest, did he/she ensure that they did not remain present to participate in any discussion or decision-making procedure relating to the matter in which the interest was disclosed (not including participation approvals granted under s5.68).	Yes		Malcolm Osborne
2	s5.68(2)	Were all decisions made under section 5.68(1), and the extent of participation allowed, recorded in the minutes of Council and Committee meetings.	N/A	No members participated in discussions when declaring a financial/proximity interest	Malcolm Osborne
3	s5.73	Were disclosures under section 5.65 or 5.70 recorded in the minutes of the meeting at which the disclosure was made.	Yes		Malcolm Osborne
4	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly elected members within three months of their start day.	Yes		Malcolm Osborne
5	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly designated employees within three months of their start day.	No	One new designated employee failed to lodge a primary return within 3 months	Malcolm Osborne
6	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all continuing elected members by 31 August 2015.	Yes		Malcolm Osborne
7	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all designated employees by 31 August 2015.	Yes		Malcolm Osborne
8	s5.77	On receipt of a primary or annual return, did the CEO, (or the Mayor/President in the case of the CEO's return) on all occasions, give written acknowledgment of having received the return.	Yes		Malcolm Osborne
9	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76	Yes		Malcolm Osborne
10	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28.	Yes		Malcolm Osborne
11	s5.88 (3)	Has the CEO removed all returns from the register when a person ceased to be a person required to lodge a return under section 5.75 or 5.76.	Yes		Malcolm Osborne
12	s5.88(4)	Have all returns lodged under section 5.75 or 5.76 and removed from the register, been kept for a period of at least five years, after the person who lodged the return ceased to be a council member or designated employee.	Yes		Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

No	Reference	Question	Response	Comments	Respondent
13	s5.103 Admin Reg 34C & Rules of Conduct Reg 11	Where an elected member or an employee disclosed an interest in a matter discussed at a Council or committee meeting where there was a reasonable belief that the impartiality of the person having the interest would be adversely affected, was it recorded in the minutes.	Yes		Malcolm Osborne
14	s5.70(2)	Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to the Council or a Committee, did that person disclose the nature of that interest when giving the advice or report.	Yes		Malcolm Osborne
15	s5.70(3)	Where an employee disclosed an interest under s5.70(2), did that person also disclose the extent of that interest when required to do so by the Council or a Committee.	Yes		Malcolm Osborne
16	s5.103(3) Admin Reg 34B	Has the CEO kept a register of all notifiable gifts received by Council members and employees.	Yes		Malcolm Osborne

Disposal of Property

No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58(5)).	Yes		Malcolm Osborne
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property.	Yes		Malcolm Osborne

Elections

No	Reference	Question	Response	Comments	Respondent
1	Elect Reg 30G (1)	Did the CEO establish and maintain an electoral gift register and ensure that all 'disclosure of gifts' forms completed by candidates and received by the CEO were placed on the electoral gift register at the time of receipt by the CEO and in a manner that clearly identifies and distinguishes the candidates.	Yes		Malcolm Osborne

Finance

No	Reference	Question	Response	Comments	Respondent
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act.	Yes		Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

No	Reference	Question	Response	Comments	Respondent
2	s7.1B	Where a local government determined to delegate to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority.	Yes		Malcolm Osborne
3	s7.3	Was the person(s) appointed by the local government to be its auditor, a registered company auditor.	Yes		Malcolm Osborne
4	s7.3, 7.6(3)	Was the person or persons appointed by the local government to be its auditor, appointed by an absolute majority decision of Council.	Yes	At the 25 February Ordinary Council Meeting	Malcolm Osborne
5	Audit Reg 10	Was the Auditor's report for the financial year ended 30 June 2015 received by the local government within 30 days of completion of the audit.	Yes		Malcolm Osborne
6	s7.9(1)	Was the Auditor's report for 2014/2015 received by the local government by 31 December 2015.	Yes	At the 28 October 2015 Ordinary Council meeting	Malcolm Osborne
7	S7.12A(3)	Where the local government determined that matters raised in the auditor's report prepared under s7.9 (1) of the Act required action to be taken by the local government, was that action undertaken.	Yes	As per details listed in the audit findings report as part of attachment 2 to agenda item 13.1 which was presented to the 28 October 2015 Ordinary Council meeting	Malcolm Osborne
8	S7.12A (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a report prepared on any actions undertaken.	N/A		Malcolm Osborne
9	S7.12A (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time.	N/A		Malcolm Osborne
10	Audit Reg 7	Did the agreement between the local government and its auditor include the objectives of the audit.	Yes		Malcolm Osborne
11	Audit Reg 7	Did the agreement between the local government and its auditor include the scope of the audit.	Yes		Malcolm Osborne
12	Audit Reg 7	Did the agreement between the local government and its auditor include a plan for the audit.	Yes		Malcolm Osborne
13	Audit Reg 7	Did the agreement between the local government and its auditor include details of the remuneration and expenses to be paid to the auditor.	Yes		Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

No	Reference	Question	Response	Comments	Respondent
14	Audit Reg 7	Did the agreement between the local government and its auditor include the method to be used by the local government to communicate with, and supply information to, the auditor.	Yes		Malcolm Osborne

Local Government Employees

No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve the process to be used for the selection and appointment of the CEO before the position of CEO was advertised.	N/A	No CEO recruitment took place in 2015	Malcolm Osborne
2	s5.36(4) s5.37(3), Admin Reg 18A	Were all vacancies for the position of CEO and other designated senior employees advertised and did the advertising comply with s.5.36(4), 5.37(3) and Admin Reg 18A.	No	Senior Employees advertisements for 2015 did not include all details as specified in the Regs, a standard template to ensure compliance will be created.	Malcolm Osborne
3	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position of CEO under section 5.36(4).	N/A		Malcolm Osborne
4	Admin Regs 18E	Did the local government ensure checks were carried out to confirm that the information in an application for employment was true (applicable to CEO only).	N/A		Malcolm Osborne
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss a designated senior employee.	Yes	Director Works and Services on 25 March 2015. Director Community and Development Services on 24 June 2015. No dismissals of senior employees took place.	Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Where the CEO is not the complaints officer, has the local government designated a senior employee, as defined under s5.37, to be its complaints officer.	N/A	The CEO is the complaints officer.	Malcolm Osborne
2	s5.121(1)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that result in action under s5.110(6)(b) or (c).	Yes		Malcolm Osborne
3	s5.121(2)(a)	Does the complaints register maintained by the complaints officer include provision for recording of the name of the council member about whom the complaint is made.	Yes		Malcolm Osborne
4	s5.121(2)(b)	Does the complaints register maintained by the complaints officer include provision for recording the name of the person who makes the complaint.	Yes		Malcolm Osborne
5	s5.121(2)(c)	Does the complaints register maintained by the complaints officer include provision for recording a description of the minor breach that the standards panel finds has occurred.	Yes		Malcolm Osborne
6	s5.121(2)(d)	Does the complaints register maintained by the complaints officer include the provision to record details of the action taken under s5.110(6)(b) or (c).	Yes		Malcolm Osborne
Tenders for Providing Goods and Services					
No	Reference	Question	Response	Comments	Respondent
1	s3.57 F&G Reg 11	Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)).	No	Two instances where found of consultancies that exceeded the statutory threshold. As a process improvement WALGA preferred supplier panels will be utilised.	Malcolm Osborne
2	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract.	N/A		Malcolm Osborne
3	F&G Reg 14(1) & (3)	Did the local government invite tenders via Statewide public notice.	Yes		Malcolm Osborne
4	F&G Reg 14 & 15	Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16.	No	One tender was only advertised Statewide for 13 days, however it was advertised locally for 17 days.	Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

No	Reference	Question	Response	Comments	Respondent
5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer, notice of the variation.	Yes	This process is managed and recorded via Tenderlink	Malcolm Osborne
6	F&G Reg 16	Did the local government's procedure for receiving and opening tenders comply with the requirements of F&G Reg 16.	Yes		Malcolm Osborne
7	F&G Reg 18(1)	Did the local government reject the tenders that were not submitted at the place, and within the time specified in the invitation to tender.	Yes		Malcolm Osborne
8	F&G Reg 18 (4)	In relation to the tenders that were not rejected, did the local government assess which tender to accept and which tender was most advantageous to the local government to accept, by means of written evaluation criteria.	Yes		Malcolm Osborne
9	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17.	Yes		Malcolm Osborne
10	F&G Reg 19	Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted.	Yes		Malcolm Osborne
11	F&G Reg 21 & 22	Did the local governments's advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22.	Yes		Malcolm Osborne
12	F&G Reg 23(1)	Did the local government reject the expressions of interest that were not submitted at the place and within the time specified in the notice.	Yes		Malcolm Osborne
13	F&G Reg 23(4)	After the local government considered expressions of interest, did the CEO list each person considered capable of satisfactorily supplying goods or services.	Yes		Malcolm Osborne
14	F&G Reg 24	Was each person who submitted an expression of interest, given a notice in writing in accordance with Functions & General Regulation 24.	Yes		Malcolm Osborne
15	F&G Reg 24AD(2)	Did the local government invite applicants for a panel of pre-qualified suppliers via Statewide public notice.	N/A	The Town will undertake this process in 2016 following Council's adoption of a policy on a Panel of Pre-Qualified Suppliers	Malcolm Osborne
16	F&G Reg 24AD(4) & 24AE	Did the local government's advertising and panel documentation comply with F&G Regs 24AD(4) & 24AE.	N/A		Malcolm Osborne

AUDIT, RISK & GOVERNANCE COMMITTEE MEETING MINUTES 8 MARCH 2016

Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia
Department of Local Government and Communities

No	Reference	Question	Response	Comments	Respondent
17	F&G Reg 24AF	Did the local government's procedure for receiving and opening applications to join a panel of pre-qualified suppliers comply with the requirements of F&G Reg 16 as if the reference in that regulation to a tender were a reference to a panel application.	N/A		Malcolm Osborne
18	F&G Reg 24AD(6)	If the local government sought to vary the information supplied to the panel, was every reasonable step taken to give each person who sought detailed information about the proposed panel or each person who submitted an application, notice of the variation.	N/A		Malcolm Osborne
19	F&G Reg 24AH(1)	Did the local government reject the applications to join a panel of pre-qualified suppliers that were not submitted at the place, and within the time specified in the invitation for applications.	N/A		Malcolm Osborne
20	F&G Reg 24AH(3)	In relation to the applications that were not rejected, did the local government assess which application(s) to accept and which application(s) were most advantageous to the local government to accept, by means of written evaluation criteria.	N/A		Malcolm Osborne
21	F&G Reg 24AG	Did the information recorded in the local government's tender register about panels of pre-qualified suppliers, comply with the requirements of F&G Reg 24AG.	N/A		Malcolm Osborne
22	F&G Reg 24AI	Did the local government send each person who submitted an application, written notice advising if the person's application was accepted and they are to be part of a panel of pre-qualified suppliers, or, that the application was not accepted.	N/A		Malcolm Osborne
23	F&G Reg 24E	Where the local government gave a regional price preference in relation to a tender process, did the local government comply with the requirements of F&G Reg 24E in relation to the preparation of a regional price preference policy (only if a policy had not been previously adopted by Council).	N/A	The Town has a RPP policy	Malcolm Osborne
24	F&G Reg 24F	Did the local government comply with the requirements of F&G Reg 24F in relation to an adopted regional price preference policy.	N/A	The Town's RPP Policy was adopted on 28 August 2013	Malcolm Osborne
25	F&G Reg 11A	Does the local government have a current purchasing policy in relation to contracts for other persons to supply goods or services where the consideration under the contract is, or is expected to be, \$150,000 or less.	Yes	The Town's Procurement policy is under review to reflect the changes in Regulations, as it currently still refers to contracts under \$100,000	Malcolm Osborne

**ITEM 12 LATE ITEMS AS PERMITTED BY PRESIDING MEMBER/
COMMITTEE**

Distribution Date: Thursday 3 March 2016

12.1 Adopt Policies 2/018 'Borrowings' and 2/019 'Financial Reserves'

Author: Laura Delaney, Coordinator Financial Services
Authorising Officer: Sid Jain, Director Corporate Services
File No. 04/03/0001

DISCLOSURE OF INTEREST BY OFFICER

Nil

201516/031 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MR ATTWOOD

SECONDED: CR BLANCO

That the Audit, Risk and Governance Committee suspend sections 9.4, 9.5 and 9.9 of the Standing Orders Local Law 2014 in accordance with section 18.2 'Suspension of Standing Orders' to clarify the alternative motion for item 12.1 'Adopt Policies 2/018 'Borrowings' and 2/019 'Financial Reserves'.

CARRIED 4/0

7:45pm Presiding Member advised that sections 9.4, 9.5 and 9.9 of the Standing Orders local Law are suspended.

201516/032 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: MR ATTWOOD

SECONDED: MS PANGAHAS

That the Audit, Risk and Governance Committee resume sections 9.4, 9.5 and 9.9 of the Standing Orders Local Law 2014.

CARRIED 4/0

8:08pm Presiding Member advised that sections 9.4, 9.5 and 9.9 of the Standing Orders Local Law 2014 are resumed.

201516/033 RECOMMENDATION/ AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

MOVED: CR WHITWELL

SECONDED: CR BLANCO

That the Audit, Risk and Governance Committee recommend that Council:

- 1. Adopt Policy 2/018 'Borrowings'.**
- 2. Adopt Policy 2/019 'Financial Reserves'.**

CARRIED 3/2 ON THE PRESIDING MEMBER'S CASTING VOTE

<i>For</i>	<i>Against</i>
Councillor Whitwell	Ms Pangahas
Councillor Blanco	Mr Attwood

EXECUTIVE SUMMARY

Town officers are proposing that the Council adopt two new Policies:

- Borrowings Policy
- Reserves Policy

DETAILED REPORT

Policies are adopted by Council and establish guidelines or provide direction for the Town's activities and actions. Policies are defined as the principles and intent behind the programs that a local government implements. A policy can also be a general plan or approach to a specific need, problem or issue.

Borrowings Policy

The Borrowings policy is to provide a framework for future borrowings, so that there is a controlled and disciplined approach to the borrowing of funds for the purpose of funding new infrastructure or the renewal or upgrade of existing infrastructure.

The Town currently has approximately \$26M in borrowings with an additional \$5.1M in new borrowings budgeted for in 2015/16. The policy will ensure that all transactions are in accordance with legislative requirements, whilst minimising the cost of debt. The policy will also safeguard the Town's ability to meet its liabilities and budgetary obligations, and also increase awareness of issues concerning debt management. The policy also sets some targets for the management of debt and what level of debt the Town is comfortable with.

Financial Reserves Policy

The Financial Reserves Policy is to provide a framework for the establishment and ongoing management of Financial Reserves.

The Policy provides direction on what reserves should exist and for what purpose, how they should be managed, how new reserves are set up, how interest earned is applied and any associated minimum balances (or targets) for these reserves. While setting of targets for reserve balances may be considered financially responsible it should be noted that they should be considered hand in hand with the Town's Long Term Financial Plan, income strategies and operating and capital expenditure, all of which affect the Town's long term financial position. Funds should not be put in reserves at the cost of urgently required asset renewal needs. There is a strong focus on asset management and the Town's focus on bridging the asset renewal gap through the use of Reserves.

The policy has also provided the opportunity to review the existing Reserves and recommend consolidation of some Reserves which have similar purposes. This

would formally be recommended to Council as part of consideration of the policy at the March OCM.

Consultation

The draft policies have had input and feedback from the following:

- Manager Financial Services
- Director Corporate Services
- Executive Officer
- Elected Members at the pre-Budget workshop in late January 2016 and budget workshop on Wednesday, 2 March 2016

FINANCIAL AND RISK IMPLICATIONS

Financial Implications

There is no impact on the 2015/16 budget.

Risk Implications

The risk of not adopting these policies is that there will be no formal guidelines and/or direction provided by Council for the Town's activities and actions in regard to Borrowings and Reserves.

The principles and intent of these policies not only guide and direct financial operations but also inform and provide certainty to the Long Term Financial Plan, associated scenario modelling and the Annual Budget. Adopting these Policies will provide a clear direction for the Town in identifying targets that should be achieved.

STATUTORY AND POLICY IMPLICATIONS

Section 4.1 'Strategic and best practice local government administration' of the Strategic Community Plan 2014 – 2024 applies as updating the policy manual assists with delivering high quality corporate governance accountability and compliance.

Local government Borrowings are dealt with in accordance with sections 6.20 – 6.24 (Part 6, Division 5, Subdivision 3) of the Local Government Act 1995 and in accordance with the Local Government (Financial Management) Regulations 1996.

Local government Reserves are dealt with in accordance with section 6.11 (Part 6, Division 4) of the Local Government Act 1995 and in accordance with the Local Government (Financial Management) Regulations 1996.

ATTACHMENTS

1. Borrowings Policy
2. Financial Reserves Policy

1 March 2016



2/018 BORROWINGS

Objective

The policy has been drafted to provide a framework for Town of Port Hedland Council borrowings, so that there is a controlled and disciplined approach to the borrowing of funds for the purpose of:

- Funding new infrastructure
- Renewal or upgrading of existing infrastructure

The policy will ensure that all transactions are in accordance with legislative requirements, whilst minimising the cost of debt. The policy will also safeguard the Town's ability to meet its liabilities and budgetary obligations, and also increase awareness of issues concerning debt management.

Legislative requirements

- Australian Accounting Standards
- Local Government Act 1995
- Local Government Financial Management Regulations 1996

Delegation of Authority

Authority for implementation of the Borrowings Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1995*. The Chief Executive Officer may sub-delegate the implementation of the Borrowings Policy to other Town Officers.

Prudent person standard

All loan borrowings will be managed with care, diligence and skill that a prudent person would exercise. As trustees of borrowed monies, officers are to safeguard the loan portfolio in accordance with legislative requirements.

Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with proper execution and management of the Council's loan portfolio. The Department of Local Government and Communities Guideline No 1 "Disclosure of Interest Affecting Impartiality" provide guidance for recognising and disclosing any conflict of interest.

Principle

The following principles will reinforce the measure of control for the Town with reference to borrowings:

- Under no circumstance will operating expenditure be funded by borrowings.
- Replacement or renewal of existing assets that are expected to occur on an annual (or similar) basis (i.e. recurrent capital works such as road resealing, plant replacement etc) will generally not be funded by loan borrowings.



- The economic life of the asset being funded should be greater than the agreed term of the loan. Generally, loans will be paid over a term no longer than 20 years to maintain inter-generational equity so as not to over burden the present ratepayers with the majority of the debt. Any loans less than \$1 million will have a term of no longer than 5 years, with loans greater than \$1 million but equal to or less than \$5 million having a term of no longer than 10 years.
- The nature of any borrowings and the interest rate if applicable, will take into account the purpose of the borrowings and seek to minimise interest rate exposure.
- All borrowings will be considered in line with Council's Long Term Financial Plan and forward program of capital works; and should be in the current adopted Budget. Any variations will be presented to Council for consideration.
- Any unspent loans will be declared in the Annual Financial Statements of that particular Financial Year as part of statutory obligations. If the project being financed has reached completion stage, the unspent portion will be used to pay back the lender, leading to refinancing of the loan or allocated to other projects at the discretion of Council.
- In the event that capital expenditure is deferred from one Financial Year to the next, the timing of the drawdown of the approved loan will be reviewed in order to minimise interest expense.

Lenders and Interest Rates

The Town will undertake a Request for Quotation process to get the best rate and terms possible when intending to borrow funds. The RFQ process will be limited to the major banks and WATC.

Refinancing of Loans

It is generally known that market interest rates are volatile and the cost of borrowing periodically fluctuates. Therefore, if these changes bring a distinct economic advantage to the Town of Port Hedland; whereby the cost of borrowing significantly declines, the Town will reserve the right to refinance the loan portfolio. Council will make the final decision on any change to the loan portfolio or refinancing options.

According to Section 6.20(2)(a) of the Local Government Act

A local government is not required to give local public notice of a proposal to exercise a power to borrow when the power is to be exercised to re-finance a loan or to continue other financial accommodation (whether with the same or another bank or financial institution) except where the re-financing or continuation is a major variation.

major variation means a variation in the terms of a loan or other financial accommodation which is —

(a) a capitalisation of interest accruals; or

(b) an increase in the term of the loan or other financial accommodation;

re-finance in relation to a loan or other financial accommodation (the existing loan), means to borrow an amount (the new loan)

which is, at the date of the new loan —



*(a) equal to the principal amount owing on the existing loan; or
 (b) not more than \$5 000 more or less than the principal amount owing on the existing loan, for the principal purpose of paying out the existing loan or preserving the credit originally provided by the existing loan.*

Paying off debt

Any loan can be paid off in full where it can be demonstrated that there is a significant benefit to the Town. Any retirement of debt will not occur without approval from Council. The final payment will include the principal outstanding, interest accrual to date and the premium cost for breaking the loan contract. The decision to pay off a loan will be based on economic viability and will be analysed on a case to case basis.

Financial Controls and Sustainability Indicators

The Town will manage its debt within the minimum and maximum targets set for the two ratios listed below.

1. Debt Service Cover Ratio

This ratio is the measurement of a local government’s ability to repay its debt including lease payments. The higher the ratio is, the easier it is for a local government to obtain a loan.

The DSCR is calculated as follows:-

$$\rightarrow \text{DSCR} = \frac{\text{Annual Operating Surplus BEFORE Interest \& Depreciation}}{\text{Principal \& Interest}}$$

The Town will maintain a Debt Service Cover Ratio (DSCR) of 200% as a basic standard, as stated in the Department of Local Government Operational Guidelines 18. An advanced standard is achieved if the ratio is greater than 500%.

2. Net Debt to Revenue Ratio

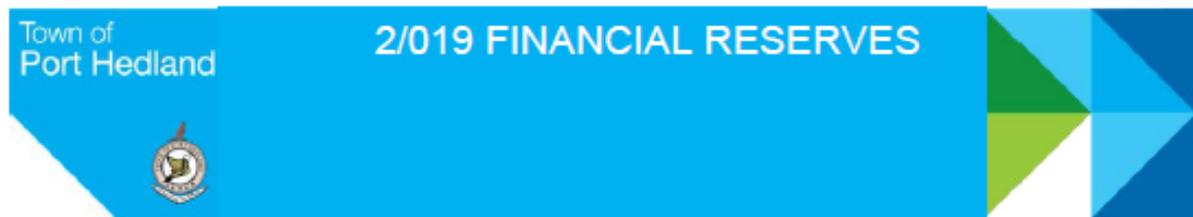
The Net Debt to Revenue ratio measures a Local Government’s overall debt situation by netting the value of a Council’s liabilities and debts with its cash and other similar liquid assets. The Net Debt Ratio is calculated as follows:-

$$\rightarrow \text{Net Debt Ratio} = \frac{\text{Net Debt}}{\text{Operating Revenue}}$$

The Department of Local Government recommends a maximum of 50%. The Town’s maximum target (debt ceiling) for this ratio will be 50%.



Council adoption date and resolution no.	
Date of adoption of amendment and resolution number do not delete the previous dates	
Relevant legislation	Local Government Act 1995 Part 6 Division 5 Subdivision 3 – Borrowings s. 6.20 – 6.24.
Delegated authority	
Business unit	Finance
Directorate	Corporate Services
Review frequency	As required



2/019 FINANCIAL RESERVES

Policy Objective

The objective of the Financial Reserves Policy is to provide a framework for the establishment and ongoing management of Financial Reserves.

Policy Content

The Town has established a number of Reserves for the purpose of setting aside funds for specific purposes with clear linkages to the adopted strategies and plans of the Town.

Reserves may be utilised only for the purpose for which they were created. As part of the ongoing management of the Financial Reserves, each Reserve will be reviewed on an annual basis as part of Budget preparation to ensure that the purpose of the Reserve is still current and maintains clear linkages with the adopted strategies and plans of the Town. The Local Government Act and Regulations prescribe the necessary steps should the Town seek to change the purpose of a Reserve or expend Reserve funds for an alternative purpose.

Reserves may be externally restricted (external funding requirement to restrict funds in a Reserve) or internally restricted (Town funds). As a general rule, interest earnings from investments will only be applied to externally restricted funds. All other interest will be applied to general purpose Municipal revenue.

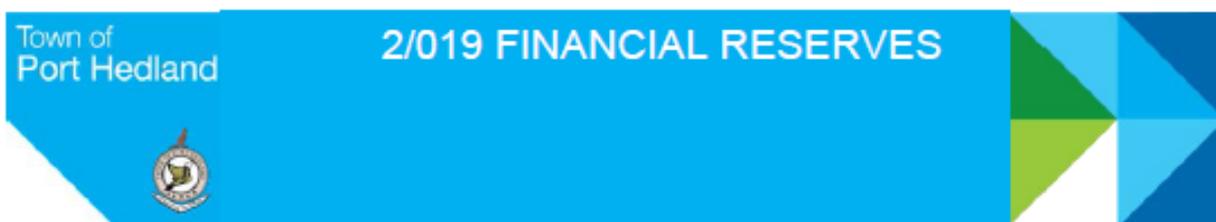
Prior to the creation of a Reserve, Council shall adopt operating parameters in relation to the Reserve which are to set out:

- The purpose of the Reserve;
- The basis of calculation for any transfer to and from the Reserve; and
- The proposed allocation of any unexpended balance remaining in the Reserve following completion of the project.

Reserve funds may only be expended by an absolute majority resolution of Council, typically encompassed by the adoption of the Budget or subsequent Quarterly Budget Reviews.

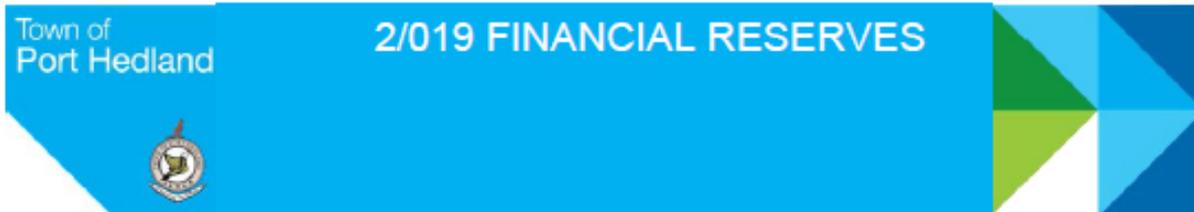
Each month the financial report presented to Council is to include a schedule of Reserves, showing:

- Opening Balance at 1 July;
- Budgeted Transfer to Reserves;
- Budgeted Transfer from Reserves;
- Estimated Closing Balance at 30 June; and
- Current Balance.

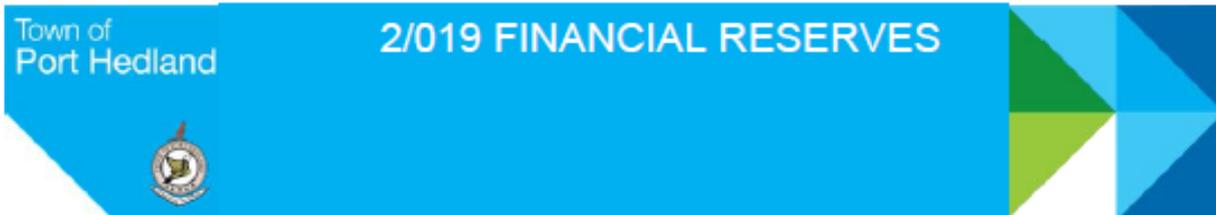


Authorised Reserves of Town of Port Hedland

Reserve Name	Purpose	Calculation Basis	Target Balance
Employee Leave	To ensure that adequate funds are available to finance employee leave entitlements such as annual leave, long service leave, sick leave and redundancies.	Transfers to and from the Reserve will be based upon projected end of year non-current liabilities relating to employee leave entitlements.	100% of non-current employee leave liabilities as reported in Town of Port Hedland's Annual Financial Statements (Provisions Note).
Spoilbank	To fund the Port Hedland Spoilbank development.	Transfer to and from the Reserve are based on the contributions to and the expenditure associated with the Spoilbank development.	The Reserve will be depleted as the Spoilbank development is completed.
Asset Management (AM) – Infrastructure	To fund the ongoing maintenance, refurbishment, renewal, replacement and development of Council owned infrastructure assets within the Town of Port Hedland.	<p>Transfers to the Reserve are dependent upon the level of rate revenue generated, contributions received, savings identified, additional income achieved and the interest earned on the Spoilbank Reserve. In addition any funded renewal projects identified as part of the Capital Works Program which cannot be delivered in the budgeted Financial Year due to capacity to deliver will be restricted into the AM Reserve to ensure that the Town is on average meeting its Asset Renewal requirements.</p> <p>Transfers from the Reserve are based upon meeting the annual renewal requirements for the year in line with Council's Asset Management Plans (excluding Plant).</p>	<p>Sufficient to ensure adequate funding of annual renewal requirements set out in Council's Asset Management Plans.</p> <p>Target: To facilitate, on average, the attainment of a 110% Asset Sustainability Ratio every year.</p>
Asset Management (AM) – Community Facilities	<p>To fund the ongoing maintenance, refurbishment, renewal, replacement and upgrade of community facilities within the Town of Port Hedland, specifically (but not limited to):</p> <ul style="list-style-type: none"> • Wanangkura Stadium • South Hedland Aquatic Centre • Gratwick Aquatic Centre • Marquee Park • JD Hardie Centre 	<p>Transfers to the Reserve are dependent upon the level of rate revenue generated, contributions received, savings identified and additional income achieved. Any funded renewal projects identified as part of the Capital Works Program which cannot be delivered in the budgeted Financial Year due to capacity to deliver will be restricted into the Reserve to ensure that the Town is on average meeting its Asset Renewal requirements.</p> <p>Transfers from the Reserve are based upon meeting the annual renewal requirements for the year in line with Council's Asset Management Plans (excluding Plant).</p>	<p>Sufficient to ensure adequate funding of annual renewal requirements set out in Council's Asset Management Plans.</p> <p>Target: To facilitate, on average, the attainment of a 110% Asset Sustainability Ratio every year.</p> <p>3.5% of replacement value less renewal expenditure to be set aside each year.</p>



Waste Management	To fund the development, operation, maintenance and capital expenditure for the Council's waste management facilities including the landfill and waste collection operations and any associated repayments of borrowings and employee entitlements.	Transfer to and from the Reserve will represent any surplus or deficit generated from the Council's waste management facilities including landfill and waste collection operations and a return to the Municipal Fund for the return on investment. A minimum of 7.48% of replacement value of landfill assets will be returned to the Municipal Fund as an annual return on investment.	A 28 year cash flow model has been drafted for the Waste Management business unit that specifies major capital investments for the closure / rehabilitation of the current site and development of a new landfill. The Reserve balance should be modelled in accordance with this cash flow model to ensure sufficient funds are available in Reserve to meet future capital expenditure requirements.
Plant	To fund the Plant Replacement Program.	Where there are sufficient funds available, transfer an amount up to the annual plant depreciation to the Reserve. This should be adequate to meet future plant replacement funding requirements. Transfers from the Reserve will replenish the Municipal Fund for purchases as per the approved Plant Replacement Program.	No more than the annual depreciation of the Town's major and minor plant.
Unfinished Works & Committed Works	To transfer unspent Municipal funded expenditure on specific projects to enable identification of carryover expenditure into the next financial year.	Transfers to and from the Reserve will be based upon the unspent Municipal funded expenditure on specific projects identified at year end to enable the identification of carryover expenditure into the next financial year.	N/A
Strategic	To fund strategic projects (excluding renewal and replacement) as included in the Town's Strategic Community Plan and Corporate Business Plan.	Transfers to the Reserve are dependent upon the level of rate revenue generated, contributions received, savings identified, additional income achieved. Transfers from the Reserve will occur to fund strategic projects as included in the Town's Strategic Community Plan and Corporate Business Plan and identified in the Long Term Financial Plan and the annual budget.	N/A
Unspent Grants, Loans & Contributions	To restrict unspent grants, loans and contributions at the end of the financial year.	Transfers to and from the Reserve will be based on the identification of unspent grants, loans and contributions at year end and the associated expenditure in the following financial year.	N/A
Port Hedland International Airport Long Term Lease Proceeds	To account for the lease proceeds from the long term lease of the Port Hedland International Airport and	In accordance with the Wealth Management Framework.	



	disburse funds as per the Wealth Management Framework.		
Airport	To fund the future Port Hedland International Airport Capital Works commitments.	Transfer to or from the Reserve will represent any surplus or deficit generated from the Port Hedland International Airport Capital Works Program being completed.	The reserve balance will diminish as capital works are completed, with any remaining balance to be transferred to the Asset Management Reserve.
Developer Contributions – Car Parking	To hold contributions which arise from conditions applied to a Development Application for car parking.	Transfers to and from the Reserve will be based upon the receipt of developer contributions for car parking and the associated expenditure.	
Developer Contributions – Public Open Space	To hold contributions which arise from conditions applied to a Development Application for public open space.	Transfers to and from the Reserve will be based upon the receipt of developer contributions for public open space and the associated expenditure.	

Council adoption date and resolution no.	
Date of adoption of amendment and resolution number do not delete the previous dates	
Relevant legislation	Local Government Act 1995 Part 6 Division 4 s. 6.11 Reserve Accounts
Delegated authority	
Business unit	Finance
Directorate	Corporate Services
Review frequency	As required

ITEM 13 MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

ITEM 14 CONFIDENTIAL ITEMS

Nil

**ITEM 15 APPLICATIONS FOR LEAVE OF ABSENCE FOR THE NEXT
AUDIT, RISK AND GOVERNANCE COMMITTEE MEETING**

Nil

**ITEM 16 ATTENDANCE BY TELEPHONE/ INSTANTANEOUS
COMMUNICATIONS**

Nil

ITEM 17 CLOSURE

17.1 Date of Next Meeting

The next Audit, Risk and Governance Committee Meeting of Council will be held at 12 April 2016 at 5.30pm

17.2 Closure

There being no further business, the Presiding Member declared the meeting closed at 8.14pm.