



AGENDA

Dear Hon. Fredrick Riebeling AM JP

I respectfully advise that an **AUDIT, RISK AND COMPLIANCE COMMITTEE MEETING** will be held in the **Council Chambers, McGregor St, Port Hedland**, on **Tuesday, 11 August 2020**, commencing at 5:30pm.

MEETING AGENDA ATTACHED

Yours faithfully

A handwritten signature in cursive script, appearing to read "Carl Askew".

Carl Askew
Chief Executive Officer

7 August 2020

DISCLAIMER

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DISCLOSURE OF FINANCIAL/ IMPARTIALITY/ PROXIMITY INTERESTS

Local Government Act 1995 – Section 5.65, 5.70 and 5.71

Local Government (Administration) Regulation 34C

<i>This form is provided to enable members and officers to disclose an Interest in a matter in accordance with the regulations of Section 5.65, 5.70 and 5.71 of the Local Government Act and Local Government (Administration) Regulation 34C</i>			
Name			
Position			
Date of Meeting			
Type of Meeting (Please circle one)	Council Meeting/ Committee Meeting/ Special Council Meeting Workshop/ Public Agenda Briefing/ Confidential Briefing		
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality

Signature: _____

Date: _____

Important Note: Should you declare a **Financial or Proximity Interest**, in accordance with the Act and Regulations noted above, you are required to leave the room while the item is being considered.

For an **Impartiality** Interest, you must state the following prior to the consideration of the item:

“With regard to agenda item (read item number and title), I disclose that I have an impartiality interest because (read your reason for interest). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.”

TERMS OF REFERENCE

1. Purpose of the Terms of Reference

The purpose of the terms of reference is to facilitate the operation of the Audit, Risk and Compliance Committee.

2. Introduction

The Audit, Risk and Compliance Committee has been established in accordance with Part 7 of the *Local Government Act 1995*.

The Audit, Risk and Compliance Committee is an advisory committee formally appointed by the Council and is responsible to the Council. The Audit, Risk and Compliance Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any financial responsibility. The Audit, Risk and Compliance Committee does not have any management functions and is therefore independent of management.

The Audit, Risk and Compliance Committee will primarily focus on relevant matters relating to Audit (internal and external) Risk and Compliance.

The Audit, Risk and Compliance 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 the Town's financial management systems and reporting. The role of the Audit, Risk and Compliance Committee is to report to the Council and provide appropriate advice and recommendations on matters relevant to its terms of reference in order to facilitate decision making by the Council in relation to the discharge of its responsibilities.

3. Objectives

The objectives of the Audit, Risk and Compliance Committee are to oversee:

- 3.1 The integrity of internal and external financial reporting, including accounting policies.
- 3.2 The scope of work, objectivity, performance and independence of the external auditor.
- 3.3 The establishment, effectiveness and maintenance of controls and systems to safeguard the Town's financial and physical resources.
- 3.4 The systems or procedures that are designed to ensure that the Town and its subsidiaries comply with relevant statutory and regulatory requirements.
- 3.5 The process for recognising risks arising from the Town's operations and strategies, and consider the adequacy of measures taken to manage those risks.
- 3.6 The process and systems which protect the Council against fraud and irregularities.
- 3.7 Compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance.

- 3.8 Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits.

The Audit, Risk and Compliance Committee must also add to the credibility of Council by promoting ethical standards through its work.

4. Authority

The Audit, Risk and Compliance Committee has the authority to:

- 4.1 Review and suggest improvements to the internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken.
- 4.2 Monitor and advise the Chief Executive Officer in reviews conducted under regulation 17(1) of the *Local Government (Audit) Regulations 1996* and regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.
- 4.3 Formally meet with the Town's appointed external auditor as necessary.
- 4.4 Seek resolution on any disagreements between management and the external auditors on financial reporting.
- 4.5 Advise Council on any or all of the above as deemed necessary.

5. Composition of Committee Members

- 5.1 The Audit, Risk and Compliance Committee will comprise of three Elected Members.
- 5.2 The Council will appoint Audit, Risk and Compliance Committee members.
- 5.3 The Presiding Member and Deputy Presiding Member will be appointed by the Audit, Risk and Compliance Committee, Members after an Election.
- 5.4 The members, taken collectively, will have a broad range of skills and experience in accounting or related financial management, with an understanding of accounting and auditing standards in a public sector environment.
- 5.5 Members may seek advice from an external independent advisor. The independent advisor will have a Certified Practising Account (CPA), Chartered Accountancy (CA) qualification or relevant discipline or experience in a similar position. The independent advisor must be able to demonstrate expertise and knowledge in at least one of the disciplines of financial risk management, corporate governance, risk management or auditing. The independent advisor will also have demonstrated understanding and/or experience in:
 - Accounting Standards (AASB)
 - Tax Legislation
 - *Local Government Act 1995*
 - Local Government experience and/or Band 1 Council
- 5.6 A quorum will be a minimum of 50% of the membership.

- 5.7 Audit, Risk and Compliance Committee members are required by the Local Government Act and Code of Conduct in observing the requirements of declaring any proximity, financial or impartiality interests that relate to any matter to be considered at each meeting.
- 5.8 New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.
- 5.9 The Chief Executive Officer and employees are not members of the Committee.

6. Meetings

- 6.1 Meetings may be called by the Presiding Member of the Audit, Risk and Compliance Committee, or at the request of the Mayor or Chief Executive Officer.
- 6.2 The Audit, Risk and Compliance Committee meetings are generally open to the public unless the Presiding Member or Chief Executive Officer deem it necessary to proceed behind closed doors pursuant to Section 5.23 of the Local Government Act 1995.
- 6.3 All Elected Members are invited to attend each Audit, Risk and Compliance Committee meeting.
- 6.4 All Audit, Risk and Compliance Committee members are expected to attend each meeting in person.
- 6.5 The Chief Executive Officer will facilitate the meetings of the Audit, Risk and Compliance Committee and invite members of management, internal and external auditors or others to attend meetings as observers and to provide pertinent information, as necessary.
- 6.6 The Audit, Risk and Compliance Committee will develop a forward meeting schedule that includes the dates, location, and proposed work plan for each meeting for the forthcoming year, that cover all the responsibilities outlined in this terms of reference.
- 6.7 Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
- 6.8 Minutes will be taken at each meeting and presented to the subsequent meeting for confirmation.

7. Responsibilities

The Audit, Risk and Compliance Committee will carry out the following responsibilities:

- 7.1 Risk management
 - 7.1.1 Review and suggest improvements to whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of the Town's business and financial risks, including fraud.

- 7.1.2 Determine whether a sound and effective approach has been followed in managing the Town's major risks including those associated with individual projects, program implementation, and activities.
- 7.1.3 Assess the impact of the Town's enterprise risk management framework on its control environment and insurance arrangements.
- 7.1.4 Review and suggest improvements to the process of developing and implementing the Town's fraud control arrangements and satisfy itself the Town has appropriate processes and systems in place to detect, capture and effectively respond to fraud-related information.

7.2 Internal Control and Internal Audit

- 7.2.1 Ensure adequate systems of internal control are in place to mitigate key business risks and promote the effectiveness and efficiency of operations.
- 7.2.2 Approve, review and suggest improvements to the Internal Audit Plan and ensure the Internal Audit function is operating effectively, independently and in accordance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.
- 7.2.3 Receive and review all audit reports and provide advice to the Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.
- 7.2.4 Monitor management's implementation of internal audit recommendations, processes and practices to ensure that the independence of the audit function is maintained.

7.3 Financial Report

- 7.3.1 Review and suggest improvements to significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report.
- 7.3.2 Review with management and the external auditors the results of the audit, including any difficulties encountered, and suggest improvements if required.
- 7.3.3 Review and suggest improvements to the process for the consolidation of financial information of the Town related entities into the financial reports of the Town.
- 7.3.4 Review with management and the external auditors all matters required to be communicated to the Audit, Risk and Compliance Committee under the Australian Auditing Standards, and suggest improvements if required.
- 7.3.5 Review and suggest improvements to the draft Annual Financial Statements and recommend the adoption of the Annual Financial Statements to Council.

7.4 Compliance

- 7.4.1 Review and suggest improvements to the systems and processes to monitor effectiveness of the system for monitoring compliance with legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- 7.4.2 Keep informed of the findings of any examinations by regulatory agencies and any auditor (internal or external) observations and monitor management's response to these findings.
- 7.4.3 Obtain regular updates from management about compliance matters.
- 7.4.4 Review and suggest improvements to the annual Compliance Audit Return and report to the Council the results of the review.

7.5 External Audit

- 7.5.1 Review and suggest improvements to the external auditor's proposed audit scope and approach for financial performance audits, including any reliance on internal auditor activity.
- 7.5.2 Consider the findings and recommendations of relevant Performance Audits undertaken by the external auditor and ensure the Town implements relevant recommendations.
- 7.5.3 Provide an opportunity for the Audit, Risk and Compliance Committee to meet with the external auditors to discuss any matters that the Audit, Risk and Compliance Committee or the external auditors believe should be discussed privately.
- 7.5.4 Annually review and suggest improvements to the performance of external audit including the level of satisfaction with external audit function.
- 7.5.5 Monitor management's implementation of external audit recommendations.

7.6 Reporting Responsibilities

- 7.6.1 Report regularly to the Council Audit, Risk and Compliance Committee activities, issues, and related recommendations through circulation of minutes.
- 7.6.2 Monitor that open communication between the internal auditor, the external auditors, and the Town's management occurs.

8 Other Responsibilities

- 8.1 Perform other activities related to this terms of reference as requested by the Council.
- 8.2 Governance perform a review after an Election, suggest improvements to and assess the adequacy of the Audit, Risk and Compliance Committee terms of

reference, request Council approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.

(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 22 June 2016.

Amended by Council at its Ordinary Meeting held on 24 May 2017.

Re-Adopted by Council at its Ordinary Meeting held on 1 November 2017.

Amended by Council at its Ordinary Meeting held on 19 December 2019.)

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Item 1 Opening of Meeting

The Commissioner is to declare the meeting open at [Enter Time](#).

Item 2 Acknowledgement of Traditional Owners and Dignitaries

The Commissioner acknowledges the Kariyarra people as the Traditional Custodians of this land, on whose land we are meeting, and recognises their strength and resilience, and pays his respects to Elders past, present and emerging.

Item 3 Recording of Attendance

3.1 Attendance

Scheduled Present: Hon. Fredrick Riebeling AM JP
Scheduled for Attendance: Carl Askew (Chief Executive Officer)
Anthea Bird (Director Corporate Services)
Craig Watts (Director Regulatory Services)
Lee Furness (Director Infrastructure Services)
Josephine Bianchi (Director Community Services)
Leith Hoffensetz (Governance Manager)
Angelique Cook (Senior Governance Advisor)
Nicki Thomas (Governance Officer)
Naomi Murcott (Corporate Services Support Officer /
Minute Taker)

3.2 Attendance by Telephone / Instantaneous Communications

3.3 Apologies

3.4 Approved Leave of Absence

3.5 Disclosure of Interests

Item 4 Applications for Leave of Absence

Item 5 Response to Previous Questions

5.1 Response to questions taken on notice from Public at the Audit, Risk and Compliance Committee Meeting held on 10 March 2020

Nil.

5.2 Response to questions taken on notice from Committee Members at the Audit, Risk and Governance Committee Meeting held on 10 March 2020

Nil.

Item 6 Public Time

Important note:

This meeting is being recorded on audio tape. If you do not give permission for recording your participation please indicate this at the meeting. In accordance with the Town's Standing Orders nobody shall record the proceedings of any meeting unless that person has been given permission by the chairperson to do so and mobile telephones must be switched off.

Unless the Presiding Member determines otherwise, a person may ask up to three questions at a meeting. The time to be allocated for the asking of and responding to questions raised by members of the public is up to 15 minutes but the Presiding member may extend question time for up to 60 minutes after the end of the minimum time for questions. Members of the public are required to complete a question form and place the completed form in the tray provided.

In accordance with the Town's Standing Orders, if the Presiding Member determines that questions and statements are out of order due to the use of an offensive or objectionable expression, or are defamatory, they will not be recorded or responded to.

6.1 Public Question Time

6.2 Public Statement Time

6.3 Petitions/Deputations/Presentations/Submissions

Item 7 Questions from Members without Notice

Item 8 Announcements by Presiding Member without Discussion

Item 9 Declarations of All Members to Have Given Due Consideration to All Matters Contained in the Business Paper before the Meeting

The Commissioner declares that he had given due consideration to all matters contained in the agenda.

Item 10 Confirmation of Minutes from Previous Meeting

OFFICER'S RECOMMENDATION

That the Committee confirm that the Minutes of the Audit, Risk and Compliance Committee Meeting held on Tuesday 10 March 2020 are a true and correct record.

SIMPLE MAJORITY VOTE REQUIRED

Item 11 Reports of Officers

11.1 Corporate Services**11.1.1 INTERIM AUDIT REPORT 2019/20**

Author: Manager Financial Services
Authorising Officer: Director Corporate Services
Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That the Committee receive and endorse to Council the Interim Audit Report relating to the interim audit conducted in May 2020 for the financial year ended 30 June 2020.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The Audit, Risk and Compliance Committee (Committee) is to report to Council and provide appropriate advice and recommendations on matters relevant to the Committee's terms of reference. One of the Committee's principal duties is to make recommendations to Council regarding external audit reporting.

This report presents to the Committee the interim audit findings from the Town's external auditors, Office of the Auditor General (OAG) outsourced to RSM Australia Pty Ltd (RSM), for the interim audit conducted in May 2020 for the financial year ended 30 June 2020. It should be noted that this is the first audit at the Town conducted under this arrangement.

RSM have presented one finding in their interim audit report.

DETAIL

Council's Audit, Risk and Governance Committee has delegated authority to liaise with the external auditor, and receive and examine the auditor's report and any information arising from the conduct of the audit.

RSM has identified one item for consideration to be addressed by Management being the evidence of monthly bank reconciliations review and have deemed this a moderate finding. Please refer to confidential Attachment 1 for final findings identified during the interim audit.

This item has been closed out and resolved through the end of financial year process. For the 2020/21 financial year, the bank reconciliations have been set up to operate electronically in order to mitigate this finding in future.

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of minor significance as it does not impact the financial position of the Town for the financial year ended 30 June 2020 and reflects performance against the Strategic Community Plan and

Corporate Business Plan in existence at the time. Risks associated with the audit findings are set out in this report under the heading 'Risk Management Considerations'.

CONSULTATION

Internal

- Director Corporate Services;
- Financial Services Team; and
- Governance Team.

External Agencies

- RSM Australia Pty Ltd; and
- Office of Auditor General.

Community

- Nil.

LEGISLATION AND POLICY CONSIDERATIONS

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* details the requirements for audit.

The Department of Local Government and Communities has also prepared Operational Guideline Number 9 to provide guidelines for the ARC relating to Audit in Local Government.

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* details the CEO's duties in regards to financial management.

FINANCIAL AND RESOURCES IMPLICATIONS

The costs associated with conducting the interim audit and end of financial year audit are included in the 2019/20 budget and financial statements.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following sections of the Council's Strategic Community Plan 2018-2028 are applicable in the consideration of this item:

- 4.b.1 Sound long-term financial planning is implemented
- 4.b.2 Transparent and regular financial reporting and communication to the community is undertaken
- 4.b.3 Transparent and regular governance reporting and communication to the community is undertaken

Corporate Business Plan

The following actions of the Town's Corporate Business Plan 2018-2022 apply in relation to this item:

- 4.b.2.1 – Ensure the Town's finances are managed efficiently and effectively in line with legislated requirements.
- 4.b.3.1 – Ensure governance information provided to the community is in line with legislated requirements.

There are no significant identifiable environmental, social or economic impacts relating to this item.

RISK MANAGEMENT CONSIDERATIONS

As per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Low (4), with risk managed by adequate controls, managed by specific procedures and subject to regular monitoring.

RSM identified one matter for consideration to be addressed by Management. The Finance team have actioned and closed out the matter internally within the specified timeframe. In order to mitigate this finding in future, the electronic bank reconciliation module has been activated for use in the 2020/21 financial year.

OPTIONS

Option 1 – Adopt officer's recommendation

Option 2 – Amend officer's recommendation

Option 3 – Do not adopt officer's recommendation

CONCLUSION

The letter of audit findings is attached for the ARC Committee's review as Attachment 1. The Town is continuously working towards improvements in the financial management area and in alignment to this undertaking has created an electronic bank reconciliation to reinforce internal controls. Methods of more efficient financial management will be continuously investigated in order to mitigate the risk of audit findings.

ATTACHMENTS

1. Attachment 1 - Interim Audit Results (Confidential, under separate cover)

11.1.2 AUDIT LOG PROGRESS UPDATE

Author: Senior Governance Advisor
Authorising Officer: Director Corporate Services
Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That the Committee:

1. Note that all outcomes of audits and reviews the Town has been involved in since 2015 have been consolidated; and
2. Receive the progress report on improvements the Town is making in relation to all consolidated audit recommendations.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The purpose of this report is for the Audit, Risk and Compliance (ARC) Committee to note the improvements undertaken by the Town's administration to address all consolidated audit recommendations and/or findings raised since 2015.

DETAIL*Background*

As reported to the ARC Committee in September 2018, the Town has been involved in a number of programs and audits that have highlighted areas within which the Town needs to make improvements. The recommendations from all the audits conducted had been consolidated into one document and the first progress report was presented to the ARC Committee on 4 September 2018 (Audit Recommendations Reconciliation).

To ensure that outcomes and recommendations are addressed and/or implemented effectively, quarterly progress reports are to be presented to the ARC. However, due to resourcing constraints and prioritisation of other tasks, no quarterly progress reports were presented to the ARC since September 2018.

The Town of Port Hedland (Town) will now recommence these quarterly reviews (Audit Log) and provide the ARC Committee with a quarterly progress update, commencing 2020/21 first quarter (this report).

Audit Log

The table below highlights the current status of all consolidated audit recommendations and/or findings raised since 2015:

Total actions raised (recommendation and/or findings)	Completed (implemented/closed)	Work In Progress	Yet to commence (outstanding)
229	123	82	24

Below is a high level summary of the actions that have been implemented and/or work in progress (WIP) in relation to the Audit Log:

- The Town was to establish an internal audit function to assist in adherence to documented policies and procedures, as well as identification of internal control weaknesses. Following this recommendation, the Town engaged William Buck Consulting (WA) Pty Ltd in February 2020 for a three-year programme, as an internal audit function.
- The Town adopted a compliant Asset Management and a Long Term Financial Plan, in June 2019 (Strategic Resource Plan).
- The Town implements Policies, Internal Operating Procedures (IOP) and Standard Operating Procedures (SOP), which address key functions and statutory requirements. These documents are constantly monitored for adherence and to ensure they are effective and in line with the Town's current practices.
- The Town implemented a Corporate Business Plan 2018-2022, in October 2018.
- The Town is in the process of reviewing the ICT Strategic Plan, identifying and documenting key ICT risks along with treatments to reduce the risks to an acceptable level. The reviewed ICT Strategic Plan is scheduled to be presented to Council at the September 2020 Ordinary Council Meeting.
- The Town will complete a review of its Risk Management Framework in FY20/21, which will include business continuity, risk register, internal control and compliance.
- The Town has not presented a Workforce Plan to Council since 2012 and due to the content of the plan being out of date, it was deemed non-compliant in accordance with regulation 19DA(3) of the *Local Government (Administration) Regulations 1996*. The amended Workforce Plan is scheduled to be presented to Council at the September 2020 Ordinary Council Meeting.
- In 2016, a special inquiry at the Wanangkura Stadium (Stadium) was conducted to review the Stadium's configuration and design and examine the causes for flooding, to determine whether these can be rectified. The Town undertook detailed design project in 2018, to re-design the drainage directly surrounding the Stadium. Works were completed in conjunction with contractors GHD to determine appropriate remedial actions. The report has now been utilised to commence Stage 1 works to be undertaken, as part of the South Hedland sports precinct upgrades.

The current status for Extreme and High risk ratings for actions listed under '**Work in Progress**' and '**Yet to Commence**' are as follows:

Risk Rating	Work In Progress	Yet to commence (outstanding)
Extreme risk rating	0	0
High risk rating	17	8
Medium risk rating	44	15
Low risk rating	21	1
Total actions raised (recommendation and/or findings)	82	24

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance, due to likely consequences arising from non-compliance, potential to impact the Town's ability to deliver services, impact to the reputation of the Town of Port Hedland and general interest by the community in the compliance capability of the business operations of the Town of Port Hedland.

CONSULTATION

Internal

- Manager Governance;
- Manager Financial Services; and
- Director Corporate Services.

External Agencies

- William Buck Consulting (WA) Pty Ltd.

Community

- Nil.

LEGISLATION AND POLICY CONSIDERATIONS

The *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* determine the audit requirements listed above.

FINANCIAL AND RESOURCES IMPLICATIONS

There are no direct financial and resource implications associated with this agenda item.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following section of the Town's Strategic Community Plan 2018-2028 is applicable in the consideration of this item:

- 4.b.3 Transparent and regular governance reporting and communication to the community is undertaken

There are no significant identifiable environmental, social or economic impacts relating to this item.

Disability Access and Inclusion Plan

The following outcomes of the Town's Disability Access and Inclusion Plan 2017-2022 apply in relation to this item:

- Outcome 3 – Information.
- Outcome 4 – Quality of Service.

Corporate Business Plan

The following actions of the Town's Corporate Business Plan 2018-2022 apply in relation to this item:

- 4.b.3.1 – Ensure governance information provided to the community is in line with legislated requirements.
- 4.b.3.2 – Develop, implement and review a risk management framework.

RISK MANAGEMENT CONSIDERATIONS

There is a reputational risk associated with this item because this report promotes legislative compliance, accountability and transparency of all audits conducted since 2015. If not communicated to the community on a regular basis, the community is unaware of the progress the Town is achieving. The risk rating is considered to be medium (6), which is determined by a likelihood of possible (3) and a consequence of minor (2).

There is a compliance risk associated with this item because there are still outstanding recommendations and or findings that have not been implemented, resulting in some processes and/or procedures currently being outdated and do not meet the new legislative requirements. The risk rating is considered to be high (12), which is determined by a likelihood of likely (4) and a consequence of moderate (3).

There is a service interruption risk associated with this item because there is potential to impact the Town's ability to deliver services. The risk rating is considered to be medium (9), which is determined by a likelihood of possible (3) and a consequence of moderate (3).

These risks will be eliminated by the adoption of the officer's recommendation.

OPTIONS

Option 1 – Adopt officer's recommendation

Option 2 – Amend officer's recommendation

Option 3 – Do not adopt officer's recommendation

CONCLUSION

This report presents the Audit, Risk and Compliance Committee with an overview of the reviewing process of all audit recommendations that has taken place since 2015, and how the Town's administration have and will be addressing all recommendations and/or findings for improvement.

ATTACHMENTS

Nil.

11.1.3 MINOR BREACH IN INVESTMENT POLICY

Author: Manager Financial Services
Authorising Officer: Director Corporate Services
Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That the Committee acknowledge the minor breach of Policy 2/010 'Council Investments' and confirm the proposed course of action to hold the investments until maturity in October 2020.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The purpose of this report is for the Audit, Risk and Governance Committee (Committee) to be advised of a minor breach of policy 2/010 Council Investments. The terms of reference for the Committee provide that the Committee oversee the controls and systems to safeguard the Town's financial and physical resources.

DETAIL

This report advises the Committee that due to a downgrade in ratings for MyState Bank (MyState), term deposits placed with this bank do not comply with the Town of Port Hedland Investment Policy 02/010 (Attachment 1).

After review of all existing investments in June 2020, it was determined that MyState no longer had a minimum BBB S&P rating under the Risk Management guidelines in the investment policy. Upon investigation it was confirmed by Curve Securities (third party advisor) that the current rating is Moody's Short Term P-2 which is equivalent to A-2 by S&P. However, the investment policy is specific to S&P and does not allow for an equivalent rating agency.

After identification of this minor breach, one of the term deposits matured and was invested with a compliant institution. Presently there are still a further two investments of \$4,000,000 and \$4,700,000 due to mature on the 13 October 2020 and 14 October 2020 respectively. It is proposed that these investments be held until maturity and reinvested in institutions compliant with the investment policy at the time.

As soon as the breach was discovered, the Executive Leadership Team were advised and consensus obtained to retain the term deposits until the matter can be taken to the Committee. The Town's external auditors will also be advised of this minor breach of policy.

The investment policy is currently under review and consideration will be given to widening the ratings agencies able to be utilised.

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of minor significance as it does not impact the financial position of the Town and reflects

performance against the Strategic Community Plan and Corporate Business Plan in existence at the time. Risks associated with the investments are set out in this report under the heading 'Risk Management Considerations'.

CONSULTATION

Internal

- Director of Corporate Services; and
- Financial Services Team.

External Agencies

- Curve Securities; and
- Western Australian Treasury Corporation.

Community

- Nil.

LEGISLATION AND POLICY CONSIDERATIONS

Regulation 8 of the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996* details the requirements cash and investments.

Town of Port Hedland Policy 02/010 Council Investments details the requirements for funds invested by the Town.

FINANCIAL AND RESOURCES IMPLICATIONS

There are no financial implications if the term deposits are to remain in place.

If the term deposits are matured early, fees may apply and interest will be foregone as the interest rates have eroded significantly since the deposits were put in place.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following section of the Council's *Strategic Community Plan 2018-2028* is applicable in the consideration of this item:

- 4.b.1 Sound long-term financial planning is implemented
- 4.b.2 Transparent and regular financial reporting and communication to the community is undertaken
- 4.b.3 Transparent and regular governance reporting and communication to the community is undertaken

Corporate Business Plan

The following actions of the Town's Corporate Business Plan 2018-2022 apply in relation to this item:

- 4.b.2.1 – Ensure the Town's finances are managed efficiently and effectively in line with legislated requirements.
- 4.b.3.1 – Ensure governance information provided to the community is in line with legislated requirements.

There are no significant identifiable environmental, social or economic impacts relating to this item.

RISK MANAGEMENT CONSIDERATIONS

As per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Low (4), with risk managed by adequate controls, managed by specific procedures and subject to regular monitoring.

Review of ratings are now completed frequently to ensure all investments comply with the Town investment policy. At the time of writing, there has been no further downgrades.

Regular monitoring of investments occurs monthly by the Manager Financial Services to ensure investments are safeguarded.

OPTIONS

Option 1 – Adopt officer's recommendation

Option 2 – Amend officer's recommendation

Option 3 – Do not adopt officer's recommendation

CONCLUSION

The Town is continuously working towards improvements in the financial management area and in alignment to this undertaking will review ratings on investment banks regularly. The investment policy will also be reviewed and updated appropriately to better align with strategic policies.

The Manager Financial Services also signs off on monthly investment reconciliations and approves all investments prior to depositing funds.

ATTACHMENTS

1. Attachment 1 - Council Investments 02/010 (under separate cover)

11.1.4 INTERNAL AUDIT PROGRAMME

Author: Manager Governance
Authorising Officer: Director Corporate Services
Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That the Committee:

1. Accept and adopt the Strategic 3 Year Rolling and Annual Internal Audit Plan as presented by William Buck , attached as Annexure 1; and
2. Note the Status Report in connection with the Strategic 3 Year Rolling and Annual Internal Audit Plan, attached as Annexure 2.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

William Buck Consulting (WA) Pty Ltd ("William Buck") were engaged by the Town to act as the Town's internal audit function and commenced work in that role effective 24 February 2020. Prior to that, the Town had identified the need for an internal audit function. However, due to resourcing constraints, the Town elected to outsource this function.

The purpose of this report is for Council to consider and adopt the Strategic 3 Year Rolling and Annual Internal Audit Plan and to note the current status of the work undertaken pursuant to that plan.

DETAIL

Following the engagement in February 2020, William Buck was requested to prepare the Strategic 3 Year Rolling and Annual Internal Audit Plan.

Until now, the Town has not had an internal audit function. The Moore Stephens audit conducted in December 2017 recommended the implementation of an internal audit function. Due to the technical nature of internal audit, the Town decided to outsource the services to William Buck via a request for tender, which tender was advertised State wide. As part of the external outsourcing, the Town has requested the auditor to prepare associated internal documentation which will support the role for the ensuing three (3) year period.

The proposed plan has been reviewed by the Executive Leadership of the Town. The plan has been based on previously identified audit issues, regular high risk areas, and Office of Auditor General areas of concern.

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance, because the Town is aware of the recommendation from the earlier audit report of Moore Stephens.

CONSULTATION

Internal

- Manager Financial Services;
- Manager Planning and Analysis;
- Director Corporate Services; and
- Executive Leadership Team.

External Agencies

- William Buck Consulting (WA) Pty Ltd.

Community

- N/A.

LEGISLATION AND POLICY CONSIDERATIONS

Part 7 – *Local Government Act 1995*; and
Local Government (Audit) Regulations 1996.

FINANCIAL AND RESOURCES IMPLICATIONS

The value of works for the first year, as contracted with William Buck and identified in the Strategic 3 Year Rolling and Annual Internal Audit Plan, is for the value of \$53,200.

In addition to the above, there has been approval for William Buck to conduct the first year's Audit Log review (to be undertaken twice per year), for the overall cost of \$8,400.

The adopted FY2020/21 Budget includes sufficient funding for the internal audit costs.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following sections of the Town's Strategic Community Plan 2018-2028 are applicable in the consideration of this item:

- 2.b.4 Business approval processes are transparent and pathways streamlined
- 2.c.1 Business and government agencies and other relevant stakeholders are engaged to:
- 4.b.1 Sound long-term financial planning is implemented
- 4.b.3 Transparent and regular governance reporting and communication to the community is undertaken

Corporate Business Plan

The following action of the Town's Corporate Business Plan 2018-2022 apply in relation to this:

- Develop, implement and review an internal audit function; and
- Ensure all governance statutory requirements are met.

RISK MANAGEMENT CONSIDERATIONS

There is a compliance risk associated with this item because the Town must ensure that it has adequate audit and risk procedures in place to preserve and protect its systems, procedures,

assets and its reputation. The risk rating is considered to be high (12), which is determined by a likelihood of likely (4) and a consequence of moderate (3).

OPTIONS

Option 1 – Adopt officer’s recommendation

Option 2 – Do not adopt officer’s recommendation

CONCLUSION

For the Committee to adopt the officer’s recommendation

ATTACHMENTS

1. Strategic 3 Year Rolling and Annual Internal Audit Plan (under separate cover)
2. Internal Audit Status Report 6 Aug 2020 (under separate cover)

11.2 Community Services

Nil.

11.3 Regulatory Services

Nil.

11.4 Infrastructure Services

11.4.1 NOTICE OF DEPARTURE FROM PROCUREMENT POLICY

Author: Director Infrastructure Services
Authorising Officer: Chief Executive Officer
Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That the Committee:

1. Note the circumstances around the procurement of the Chiller at the JD Hardie Youth Centre being a non-compliance with the Town's 2/007 Policy Purchasing; and
2. Note that the non-compliance will be included in the next Compliance Audit Return submitted for the year ended 31 December 2020.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The purpose of this report is for the Audit, Risk and Compliance Committee to note the circumstances surrounding the procurement of a chiller for the JD Hardie Youth Centre project, thus causing a departure of the Town's 2/007 Policy Purchasing.

DETAIL

The JD Hardie Project is being undertaken and consists of internal redesign, changes and replacement of the HVAC system and the roof. As part of the procurement of goods for the project, it was noted that there would be a 12-14 week lead time needed for the delivery of the chiller unit. This was communicated to the Town's Executive Leadership Team (ELT) with an explanation of how staff would move forward on the chiller issue. It was recognised that the Chiller unit would need to be immediately purchased to enable the timetable of the project to be met.

The works for this project were awarded at the Council meeting held on 27 May 2020, to MJW Building Pty Ltd for a value of \$6,687,757. Works commenced in early June, with an expected practicable completion date of 31 October 2020, to ensure that the project is completed prior to the onset of the next cyclone season. The value of the chiller component for the project is \$149,500 (ex GST).

Issues

Norda Architects were engaged and inter alia were contracted to provide a mechanical services design for the building. As part of this process Norda Architects sought competitive quotes for the Chiller Unit (at least five) and recommended that a Trane Chiller Unit be purchased. Norda sought a letter of guarantee for the procurement of the chiller. It was at this stage that the Town's Procurement team advised the Project Manager that the letter constituted a purchase and the purchase departed from the Town's 2/007 Policy Purchasing. 2/007 Policy Purchasing

requires that quotation requests between the value of \$5,000 and \$250,000 are to be obtained utilising the Town's online procurement portal, from:

- An existing Panel of Pre-Qualified Suppliers administered by the Town; or
- A pre-qualified supplier on the WALGA Preferred Supply Programme; or
- The open market.

By asking the Architect to source quotes for the chiller unit Town staff did not comply with 2/007 Policy Purchasing.

Advice was sought from the Western Australia Local Government Association (WALGA), who agreed that the letter constituted a purchase and also advised that specifying any particular brand for a component within a tender was not appropriate. However, the Town determined to request the Architect to proceed with naming the specific brand for the component as part of its request for quote process.

The Town was in a difficult position, due to the fact that if the chiller was not purchased, the project will have to be delayed for nine (9) months to 1 year. This is because any construction would only be able to commence after the cyclone season which concludes annually in April. An assessment was made by ELT under the Town's PR001 Procurement IOP Section 4 which outlines the value for money considerations including the cost and consequences of potential delays in delivery. ELT on balance, decided to continue with the purchase. There were a number of considerations worthy of attention. These included:

- The facility is the main welfare centre for South Hedland and had a poorly operating HVAC system, which is unable to provide a satisfactory level of comfort to users. The system is an evaporative system, which is not suited for this type of facility.
- The current roof leaks during rain and cyclonic weather. This makes it very uncomfortable for the public community and Town staff, as the JD Hardie is utilised as a welfare centre. A leaking roof has also caused problems of mould and is a health & safety risk, with buckets having to be placed on the floor to catch the water during rain events.
- The Architect conducted a tender process for the chiller unit and provided a report to the Town's Project team recommending the Trane Unit. A procurement process was undertaken, albeit not by Town staff.
- There is an ongoing need for a welfare centre and a further delay would mean continuing with a sub-optimal venue for the housing of public during a cyclone event.
- The value of the chiller is approximately \$149,500 (excl GST) being less than 5% of the project's total cost.

The Town wrote to Veolia guaranteeing procurement of the chiller, so that Trane could begin the manufacture of the unit, to ensure the unit would be delivered by the specified date. Veolia's quote was provided as part of the tender documentation and a provisional sum was allowed for within the price schedule to the value of the quote.

The Town has novated the payment of the chiller to the contractor, MJW Building Pty Ltd ("MJW"). MJW will be responsible for accepting the equipment, transporting the unit to site, full installation and co-ordinating Veolia personnel for commissioning and maintenance.

Learnings

There were a number of learnings which the Town has taken on board, to ensure that this issue does not arise again.

These include:

1. Improvement in project planning by Infrastructure team to appropriately inform decision making.
2. Early engagement of the Town's Procurement staff at project kick off meetings, to discuss any requirements for early procurement of materials or goods and services.
3. Ensuring that allowances for early procurement are incorporated into design Requests For Tender (RFT), as required.
4. Appropriate allowances are made in project timelines for early procurement procedures.
5. Town staff to be more aware of the Town's Procurement Internal Operating Procedure PR001 and the Council Policy 2/007 Purchasing Policy by way of additional training.
6. External training through staff undertaking Certificate IV in Procurement and Contract Administration.

All of the above actions have been implemented.

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of low significance, therefore does not require community consultation.

CONSULTATION

Internal

- ELT;
- Manager Infrastructure Projects and Assets;
- Principal Project Manager;
- Senior Procurement Advisor;
- Legal Advisor;
- Manager Governance;
- Director Corporate Services; and
- Manager Financial Services.

External Agencies

- WALGA;
- Norda Architects; and
- MJW Building Pty Ltd.

Community

- N/A.

LEGISLATION AND POLICY CONSIDERATIONS

- Regulation 21A of the *Local Government (Functions & General) Regulations 1996*;
- Regulation 14 of the *Local Government (Audit) Regulations 1996*;
- The Town's 2/007 Purchasing Policy; and
- PRO 001 Procurement IOP.

FINANCIAL AND RESOURCES IMPLICATIONS

The chiller unit has been budgeted as part of the JD Hardie Roof, HVAC and Internal Modifications Project and is funded as part of the Capital Works Budgets in FY2019/20 and FY2020/21.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following sections of the Town's Strategic Community Plan 2018-2028 are applicable in the consideration of this item:

- 4.b.1 Sound long-term financial planning is implemented
- 4.b.2 Transparent and regular financial reporting and communication to the community is undertaken
- 4.b.3 Transparent and regular governance reporting and communication to the community is undertaken

There are no significant identifiable environmental, social or economic impacts relating to this item.

RISK MANAGEMENT CONSIDERATIONS

There is a compliance risk associated with this item, as the procurement of the chiller was a departure from the Town's Procurement Internal Operating Procedure PR001. This will result in a need to report the departure in the Town's Compliance Audit Return for the year ended 31 December 2020. The risk rating is considered to be low (2), which is determined by a likelihood of rare (1) and a consequence of minor (2).

The Town must accept this risk as it is unable to be mitigated.

OPTIONS

Option 1 – Adopt officer's recommendation

Option 2 – Do not adopt officer's recommendation

CONCLUSION

The Audit, Risk and Compliance Committee is recommended to note the report and recommendations.

ATTACHMENTS

Nil.

11.5 Executive Services

Nil.

Item 12 Motions of which Previous Notice has been given

Nil.

Item 13 New Business of an Urgent Nature (Late items)

Nil.

Item 14 Matters for Which Meeting May Be Closed (Confidential Matters)

Nil.

Item 15 Closure

15.1 Date of Next Meeting

The next Audit, Risk and Compliance Committee Meeting will be held on Tuesday 10 November 2020 commencing at 5:30pm.

15.2 Closure

There being no further business, the Commissioner declared the meeting closed at [enter time](#)