



MINUTES

Audit, Risk and Governance Committee Meeting

Tuesday, 12 November 2019

Date: Tuesday, 12 November 2019

Time: 5.30pm

Location: Civic Centre
McGregor St
Port Hedland

Distribution Date: 15 November 2019

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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 Governance Committee.

2. Introduction

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

The Audit, Risk and Governance Committee is an advisory committee formally appointed by the Council and is responsible to the Council. The Audit, Risk and Governance 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 Governance Committee does not have any management functions and is therefore independent of management.

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

The Audit, Risk and Governance 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 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 Governance Committee are to oversee:

- 3.1 The integrity of external financial reporting, including accounting policies.
- 3.2 The scope of work, objectivity, performance and independence of the external auditor.
- 3.2 The establishment, effectiveness and maintenance of controls and systems to safeguard the Town's financial and physical resources.
- 3.3 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.

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

4. Authority

The Audit, Risk and Governance 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 Formally meet with the Town's appointed external auditor as necessary.
- 4.3 Seek resolution on any disagreements between management and the external auditors on financial reporting.
- 4.4 Advise Council on any or all of the above as deemed necessary.

5. Composition

- 5.1 The Audit, Risk and Governance Committee will comprise of eleven members, nine Elected Members and two independent members.
- 5.2 The Council will appoint Audit, Risk and Governance Committee members.
- 5.3 The Presiding Member and Deputy Presiding Member will be appointed by the Audit, Risk and Governance Committee, biennially by election by all committee members after the Ordinary Local Government Election.
- 5.4 The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Town. At least one member of the committee will have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.
- 5.5 Independent members will be appointed until the next Ordinary Local Government Election.
- 5.6 A quorum will be a minimum of 50% of the membership.
- 5.7 Audit, Risk and Governance Committee members are required by the *Local Government Act 1995* 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.

6. Meetings

- 6.1 Meetings may be called by the Presiding Member of the Audit, Risk and Governance Committee, or at the request of the Mayor or Chief Executive Officer.
- 6.2 The Audit, Risk and Governance 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 Governance Committee meeting.
- 6.4 All Audit, Risk and Governance 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 Governance 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 Governance 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 these 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 Governance 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 Business continuity

- 7.2.1 Determine whether a sound and effective approach has been followed in establishing the Town's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.

7.3 Internal Control

- 7.3.1 Review and suggest improvements to whether management's approach to maintaining an effective internal control framework is sound and effective.
- 7.3.2 Review and suggest improvements to whether management has in place relevant policies and procedures and that they are periodically reviewed and updated.
- 7.3.3 Determine whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with.
- 7.3.4 Review and suggest improvements to whether appropriate policies and supporting procedures are in place for the management and exercise of delegations.
- 7.3.5 Consider how management identifies any required changes to the design or implementation of key internal controls.

7.4 Financial Report

- 7.4.1 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.
- 7.4.2 Review with management and the external auditors the results of the audit, including any difficulties encountered, and suggest improvements if required.

- 7.4.3 Review and suggest improvements to the annual financial report and performance report of the Town of Port Hedland and its subsidiaries, and consider whether it is complete, consistent with information known to Audit, Risk and Governance Committee members, and reflects appropriate accounting principles.
- 7.4.4 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.
- 7.4.5 Review with management and the external auditors all matters required to be communicated to the Audit, Risk and Governance Committee under the Australian Auditing Standards, and suggest improvements if required.
- 7.4.6 Review and suggest improvements to the draft Annual Financial Statements and recommend the adoption of the Annual Financial Statements to Council.
- 7.4.7 Receive the quarterly budget review.

7.5 Compliance

- 7.5.1 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.
- 7.5.2 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.
- 7.5.3 Obtain regular updates from management about compliance matters.
- 7.5.4 Review and suggest improvements to the annual Compliance Audit Return and report to the Council the results of the review.

7.6 Internal Audit

- 7.6.1 Review with management and the internal auditor the terms of reference, activities and resourcing of the internal audit function and suggest improvements if required.
- 7.6.2 Review, suggest improvements to and recommend the annual internal audit plan for approval by the Council and all major changes to the plan.
- 7.6.3 Monitor that the internal auditor's annual plan is linked with and covers the material business risks.

- 7.6.4 Monitor processes and practices to ensure that the independence of the audit function is maintained.
- 7.6.5 Annually review the performance of the internal audit including the level of satisfaction with internal audit function having consideration of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and suggest improvements if required.
- 7.6.6 Review and suggest improvements to 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.
- 7.6.7 Monitor management's implementation of internal audit recommendations.

7.7 External Audit

- 7.7.1 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.
- 7.7.2 Consider the findings and recommendations of relevant Performance Audits undertaken by the external auditor and ensure the Town implements relevant recommendations.
- 7.7.3 Provide an opportunity for the Audit, Risk and Governance Committee to meet with the external auditors to discuss any matters that the Audit, Risk and Governance Committee or the external auditors believe should be discussed privately.
- 7.7.4 Annually review and suggest improvements to the performance of external audit including the level of satisfaction with external audit function.
- 7.7.5 Monitor management's implementation of external audit recommendations.

7.8 Reporting Responsibilities

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

7.9 Other Responsibilities

- 7.9.1 Perform other activities related to these terms of reference as requested by the Council.

- 7.9.2 Annually review, suggest improvements to and assess the adequacy of the Audit, Risk and Governance 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.)

Order Of Business

| | | |
|---------|---|----|
| Item 1 | Opening of Meeting | 12 |
| Item 2 | Acknowledgement of Traditional Owners and Dignitaries | 12 |
| Item 3 | Recording of Attendance | 12 |
| 3.1 | Attendance | 12 |
| 3.2 | Attendance by Telephone / Instantaneous Communications | 12 |
| 3.3 | Apologies | 12 |
| 3.4 | Approved Leave of Absence | 12 |
| 3.5 | Disclosure of Interests..... | 12 |
| Item 4 | Applications for Leave of Absence..... | 13 |
| Item 5 | Response to Previous Questions | 13 |
| Item 6 | Public Time | 13 |
| 6.1 | Public Question Time | 13 |
| 6.2 | Public Statement Time..... | 13 |
| 6.3 | Petitions/Deputations/Presentations/Submissions..... | 14 |
| Item 7 | Questions from Members without Notice | 14 |
| Item 8 | Announcements by Presiding Member without Discussion..... | 15 |
| Item 9 | Declarations of All Members to Have Given Due Consideration to All Matters Contained in the Business Paper before the Meeting | 15 |
| Item 10 | Confirmation of Minutes of Previous Meeting | 15 |
| Item 11 | Reports of Officers..... | 16 |
| 11.1 | Corporate Services | 16 |
| 11.1.1 | Adoption of the 2019/20 Budget First Quarter Review..... | 16 |
| 11.2 | Community Services..... | 22 |
| 11.3 | Regulatory Services | 22 |
| 11.4 | Infrastructure Services | 22 |
| Item 12 | Motions of Which Previous Notice Has Been Given | 22 |
| Item 13 | New Business of an Urgent Nature (Late items)..... | 22 |
| 13.1 | Financial Statements FY19..... | 23 |
| Item 14 | Matters for Which Meeting May Be Closed (Confidential Matters)..... | 28 |
| Item 15 | Closure | 28 |
| 15.1 | Date of Next Meeting | 28 |
| 15.2 | Closure..... | 28 |

Item 1 Opening of Meeting

The Commissioner declared the meeting open at 5.30pm.

Item 2 Acknowledgement of Traditional Owners and Dignitaries

The Commissioner acknowledged the Kariyarra people, on whose lands we are meeting, and paid his respects to Elders past, present and emerging.

Item 3 Recording of Attendance

3.1 Attendance

| | | |
|-----------------------|--|---|
| Present: | Commissioner Fredrick Riebeling Arnold Carter | Presiding Member Community Member |
| In Attendance: | David Pentz Anthea Bird Craig Watts Peter Chandler Josephine Bianchi Kate McLeod Rebecca Somerford | Chief Executive Officer Director Corporate Services Director Regulatory Services Acting Director Infrastructure Services Director Community Services Manager Financial Services Acting Manager Governance |

3.2 Attendance by Telephone / Instantaneous Communications

Nil

3.3 Apologies

Nil

3.4 Approved Leave of Absence

Nil

3.5 Disclosure of Interests

Nil

Item 4 Applications for Leave of Absence

Nil

Item 5 Response to Previous Questions

5.1 Response to questions taken on notice from Public at the Audit, Risk and Governance Committee Meeting held on Tuesday 13 August 2019

Nil

5.2 Response to questions taken on notice from Committee Members at the Audit, Risk and Governance Committee Meeting held on Tuesday 13 August 2019

What is the total cost to date of the repairs to the Gratwick Aquatic Centre?

The Manager Financial Services advised that the costs charged to Gratwick Aquatic Centre - Remedial Works from financial year 16/17 to 5 September 2019 is \$1,265,686.44.

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

Nil

6.2 Public Statement Time

Nil

6.3 Petitions/Deputations/Presentations/Submissions

Nil

Item 7 Questions from Members without Notice

7.1 Mr Arnold Carter

What is the present cost of the Gratwick swimming pool and when will it be open to the public? Is there a problem with the children's swimming pool, what delay will this cause to the official opening of the pool in the future and what are the estimated costs for the additional work on the children's pool?

The Presiding Member advised that item 5.2 of this agenda included a partial answer to that question.

I would like a cost to date.

The Chief Executive Officer advised that as soon as the pool works have been completed a full assessment of costs will be undertaken.

Can you not give me the costs incurred to the present moment?

The Presiding Member advised that the costs to 5 September 2019 are listed under item 5.2 of this agenda. The costs incurred between that date and the opening date of the pool are unknown at present, and will be provided when works are completed.

What is the position with the children's pool?

The Chief Executive Officer advised that the delay in the opening of the pool is due to the tiles being replaced in the children's pool and cracks appearing in the pool following the recent earthquake. The Chief Executive Officer also advised that these repairs have been completed and the pool is being filled and tested and that once those tests are complete, the pool will be opened. The Chief Executive Officer advised that the re-opening is planned for November 2019.

Was there an additional cost for the additional children's pool works?

The Chief Executive Officer advised the costs were included in the existing tender.

What is the present position for the relocation of the library for Port Hedland residents?

The Chief Executive Officer advised that the question would be taken on notice.

Item 8 Announcements by Presiding Member without Discussion

Nil

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

The following Committee members declared that they had given due consideration to all matters contained in the agenda:

- Commissioner Hon Fredrick Riebeling Presiding Member
- Mr Arnold Carter Community Member

Item 10 Confirmation of Minutes of Previous Meeting

Disclaimer

Members of the public are cautioned against taking any action on Council decisions, on items on this evening'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.

ARG201920/095 OFFICER'S RECOMMENDATION / COMMITTEE DECISION

**MOVED: COMMISSIONER RIEBELING
CARTER**

SECONDED: MR

That Council confirm that the Minutes of the Audit, Risk and Governance Committee Meeting held on Tuesday 13 August 2019 are a true and correct record.

CARRIED 2/0

Item 11 Reports of Officers

11.1 Corporate Services**11.1.1 ADOPTION OF THE 2019/20 BUDGET FIRST QUARTER REVIEW**

Author: Management Accountant
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.

ARG201920/096 OFFICER'S RECOMMENDATION / COMMITTEE DECISION**MOVED: MR CARTER****SECONDED: COMMISSIONER RIEBELING**

That the Committee endorse the 2019/2020 Budget First Quarter Review for the period ended 30 September 2019 for adoption by Council, resulting in a projected closing municipal surplus of \$393,980 as at 30 June 2020.

*CARRIED 2/0***PURPOSE**

The purpose of this report is for the Audit, Risk and Governance Committee (Committee) to consider and endorse the 2019/2020 budget first quarter review for adoption by Council. The terms of reference for the Committee provide for quarterly budget reviews.

DETAIL

This budget review has been prepared to include information required by the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

The budget review is an opportunity to evaluate and update the current budget which may have been impacted by various factors since the original 2019/2020 was adopted on by Council on 26 June 2019. The projected closing municipal surplus of \$393,980 is a reduction from the original budget surplus of \$875,802. This is mainly attributable to an increase in capital works programmes.

Council adopted the reporting of the following material variances to be used in the statements of financial activity and the annual budget review.

1. With regards to expenditure classified as capital projects, a variance of 10% or \$10,000, whichever is greater, of the year to date budget, with individual project as the level that requires explanation
2. With regards to all other items excluding capital projects identified above, a variance of 10% or \$50,000, whichever is greater, of the year to date budget, with Nature and Type as the level that requires explanation.

Features of the Q1 budget review include:

| Operational Program Amendments - Revenue | |
|---|---------------|
| Increase in budgeted revenue for waste collection to agree with charges on rates. | \$333,230 |
| Increase in reimbursed income for the Airport Master Plan review – funds have been received but were not included in original budget. | \$31,720 |
| Reduction in budgeted income from Pound fees | (\$33,500) |
| Operational Program Amendments - Expenses | |
| Reduction in the budget for expected payments for materials and parts expenses for the operation of the Retirement Village. | \$35,000 |
| Increase in the budget for Landfill Management Consultants – this will be funded by the reduction in the Fire Suppression capital project budget of \$80K. | (\$80,000) |
| Reduction in budgeted allowances for Members of Council due to the suspension of elected members. | \$60,000 |
| Increase in the budgeted lease expense to allow for the annual expensing of prepaid TAG fees not included in the original budget. | (\$31,611) |
| Increase in the expected expenses for software licences | (\$30,000) |
| Increase in budget for executive recruitment – recruitment of 3 directors. | (\$75,000) |
| Reduction for foreshore coast works planning and design stage 2 – delayed due to TC Veronica. | \$100,000 |
| Reduction in consulting costs for Depot Master Plan with initial work completed in-house. | \$200,000 |
| Operational Program New Initiatives - Expenses | |
| Increase in Town Planning & Development for the Port Hedland Urban Development Area Planning. To be funded from the Financial Risk Reserve resulting in a nil impact to the Municipal surplus. Adopted at Council on 23 October 2019. | (\$335,000) |
| Increase in the budget for mandatory building audits conducted on staff housing. To be funded from the Financial Risk Reserve. | (\$100,000) |
| Shredding of green waste at the landfill avoiding a potential fire hazard. To be funded from the Waste Reserve. | (\$200,000) |
| Capital Programme Amendments | |
| Reduction in the budget for the Child Care Strategy Implementation, to align with tender adopted at Council on 23 October 2019. | \$721,530 |
| Increase to the budget for staff housing for the construction of new dwellings to replace old and costly housing stock. Funded from PHIA long term lease proceeds reserve. | (\$1,500,000) |
| Increase in the costs for staff housing renewal and upgrade program. | (\$180,000) |
| Budget reduction for Sustainable Landscaping not going ahead. | \$80,000 |
| Increase in the budget for the Spoilbank Marina Landside Buildings. Budget increase due to increased scope including additional project management fees, indigenous engagement and heritage surveys. To be funded from the Spoilbank Reserve resulting in nil impact to the Municipal surplus. | (\$250,000) |

| Capital Programme Amendments | |
|--|-------------|
| Increase in the budget for the Community Facilities Renewal program. Budget increase due to increased scope for the GAC Gym Expansion, McGregor Street Change rooms and the South Hedland Library. | (\$450,000) |
| Reduction in the budget for the Yakira ablutions due to tender submissions. | \$50,000 |
| Reduction in the budget for the YMCA transition. | \$100,000 |
| Increase in the budget for the Depot Works implementation plan – transfer of Records Shed which is to be included as part of the plan. | (\$150,000) |
| Reduction in the budget for the Records Shed at Depot – to be included in the Depot Works Implementation plan. | \$150,000 |
| Reduction in the budget for the Fire Suppression Project. | \$80,000 |
| Increase for Waste - Public place bin enclosures renewal project to include installation costs. | (\$41,435) |
| Reduction in the Traffic Calming Program due to FY20 programming. | \$100,000 |
| Preliminary Works, Road Safety Audit and Compliance improvement to be reduced to \$20k for this year due to reduced programme. | \$130,000 |
| South Hedland Main street - Throssell Road Verge Upgrade – additional costs to complete project. | (\$50,000) |
| CCTV JD Hardie internal cameras – works completed under Safe Communities Grant. | \$50,000 |
| CCTV - Marquee Park federation into Town's CCTV network – works completed under Safe Communities Grant. | \$60,000 |
| Gym renovation at Gratwick Aquatic Centre reduced as project will be completed under Commercial Renewal Budget. | \$100,000 |
| Reduction in the budget for the South Hedland Aquatic Centre Security program as the project did not receive Federal Government funding approval. | \$297,000 |
| Telecommunications renewal & upgrade project – budget increased and funded by the reduction in budget of other projects. | (\$110,000) |
| Capital Programme New Initiatives | |
| Budget for Light Vehicles required - 2 x Manager, 1 x Director and 1 x Ranger vehicle to be funded by the Plant Reserve resulting in a nil impact to the Municipal surplus. | (\$200,000) |
| Kevin Scott Oval - new ablution facility at the park. Partly funded by a reduction in the budget of the Yakira ablution project. | (\$150,000) |
| Wilson Street shared path project – community has been vocal regarding the construction of a path to link Port and South. Partly funded by a \$30K grant from Main Roads. | (\$60,000) |
| Infocouncil – This project was included in the budget for FY19. Additional costs incurred to finalise project. | (\$30,000) |
| Port Hedland Baseball Association - re-establishment of dugouts and scorers box. This project was budgeted for in the 18/19 Capital but was not completed, nor transferred to unfinished works reserve for FY19/20. | (\$130,000) |
| Blackspot - The Town was successful in its Black Spot Grant application for North Circular Road of which the Town is required to make a 1/3 contribution. The project is to be funded by the Town with a 2/3 recoup at completion. | (\$195,000) |
| Colin Matheson Tank – this budget request is to carry out emergency work identified after the failure of the existing tank in September 2019. | (\$130,000) |

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance, because budget reviews are vital to ensure the Town is forecasting expected expenditure and revenue in line with current conditions and commitments. Budget reviews are used as a tool for decision making for current and future activities and they are a key component of prudential financial management practices in order to mitigate financial risk exposure to Council.

CONSULTATION

Internal

The 2019/20 current budget has been reviewed by all Managers and the Executive Leadership Team. They have collectively considered the impact of the budget amendments presented, to benefit the community as a whole and keep within the budget guidelines of a balanced budget.

External Agencies

Nil

Community

Nil

LEGISLATION AND POLICY CONSIDERATIONS

A local government is required to carry out a budget review between the 1 January and 31 March of each financial year in accordance with regulation 33A (1) of the *Local Government (Financial Management) Regulations 1996*. The review must consider the financial performance between 1 July to 31 December, the financial position at the date of the review, and review the outcomes for the end of financial year forecast as stipulated in regulation 33A(2A).

Although there is no statutory requirement to present the review to the Committee, the Committee's terms of reference under 7.4.7 require the Committee to receive quarterly budget reviews. It is the Committee's role to provide comment and feedback on the review in terms of the overall aspects of the review. This review was prepared as at 30 September 2019 to provide the Committee and Council with overview and insight to expenditure against the budget, and amendments identified throughout the financial year.

Any budget review must be submitted to Council within 30 days of completion, with Council to determine whether or not to adopt the review by absolute majority as required by regulation 33A (2) and (3). The budget review will be presented to Council for adoption at the Ordinary Council Meeting scheduled for 27 November 2019.

FINANCIAL AND RESOURCES IMPLICATIONS

The 2019/2020 Budget First Quarter Review for the period ended 30 September 2019 has identified increased operating revenue of \$392,190 and increased operating expenditure of \$1,060,866, resulting in a net increase to the operating deficit of \$668,676. Capital programmes have increased by \$1,707,905 to a total estimated \$41,998,520.

To fund the additional operating deficit and capital programme, it is proposed that reserves be drawn down by an additional \$3,215,649.

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

Economic

There are significant benefits to the local economy including investment in local infrastructure and the utilisation of local trades and businesses where possible, practical and available.

Social

Significant social impacts will be achieved including the investment into community infrastructure and programs and the promotion of the Town as a great place to live and work.

RISK MANAGEMENT CONSIDERATIONS

As per the risk matrix contained in policy 1/022 'Risk Management', there is a risk rating of medium (6) assigned to the risk that the review not be submitted to Council within 30 days after the review has been finalised. This risk has an unlikely (2) possibility and a moderate (3) impact in relation to compliance with significant regulatory requirements imposed.

There is a risk rating of medium (9) assigned to the risk that the Council do not adopt the 2019/2020 Budget First Quarter Review for the period ended 30 September 2019, resulting in the delay or inability to perform specific capital works which are essential but do not currently have an approved budget item line. This risk is possible (3) with a moderate (3) impact in relation to compliance with significant regulatory requirements imposed.

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 a summary of the 2019/2020 Budget First Quarter Review for the period ended 30 September 2019. A number of variations are proposed as part of this review to meet community and organisational requirements.

The outcome of the review presents an estimated municipal surplus of \$393,980 as at 30 June 2020.

ATTACHMENTS

1. Statement of Financial Activity by Programme Q1 Budget Review
2. Statement of Financial Activity by Nature & Type Q1 Budget Review
3. Operational Projects Q1 Budget Review
4. Capital Projects Q1 Budget Review
5. Reserves Q1 Budget Review

11.2 Community Services

Nil

11.3 Regulatory Services

Nil

11.4 Infrastructure Services

Nil

Item 12 Motions of Which Previous Notice Has Been Given

Nil

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

ARG201920/097 OFFICER'S RECOMMENDATION / COMMITTEE DECISION

MOVED: MR CARTER

SECONDED: COMMISSIONER RIEBELING

That the Committee consider late item 13.1 Financial Statements FY19.

CARRIED 2/0

13.1 FINANCIAL STATEMENTS FY19

Author: Director Corporate 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.

ARG201920/098 OFFICER'S RECOMMENDATION / COMMITTEE DECISION**MOVED: MR CARTER****SECONDED: COMMISSIONER RIEBELING**

That the Committee receive and endorse to Council the Audited Annual Financial Report, Independent Auditor's Report, Closing Report and Management Letter of Audit Findings for the financial year ended 30 June 2019.

*CARRIED 2/0***PURPOSE**

The purpose of this report is for the Audit, Risk and Governance Committee (Committee) to consider the Audited Annual Financial Report, Independent Auditor's Report, Closing Report and Management Letter of Audit Findings for the financial year ended 30 June 2019, and to endorse all reports to Council.

The 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.

RSM Australia Pty Ltd, the Town's auditors (Auditors) have advised that they will be issuing an unqualified audit opinion for the financial year ended 30 June 2019.

DETAIL

This report presents to the Committee the audited Annual Financial Report (AFR), Closing Report and Management Letter of Audit Findings from the Town's Auditors, RSM Australia Pty Ltd, for the year ended 30 June 2019. The Independent Auditor's Report for attachment to the financial statements will be available on 13 November 2019 per standard audit process.

RSM Australia Pty Ltd issued the Town with an unqualified audit opinion with respect to the financial statements, meaning that the Town of Port Hedland financial records and statements are fairly and appropriately presented, and in accordance with General Accepted Accounting Principles (GAAP).

The Auditors have presented four matters for consideration as identified in confidential attachment 2 being.

Each year, the Town is required to prepare general purpose financial reports and refer them to the Auditors as soon as practicable, no later than 30 September following the end of the financial year (Section 6.4 of the *Local Government Act 1995*). The draft annual financial report for the year-ended 30 June 2019 was submitted to the Auditors on 27 September 2019.

The Annual Financial Report is prepared in accordance with *Australian Accounting Standards*; the *Local Government Act 1995*; and the *Local Government (Financial Management) Regulations 1996*. Management's responsibility is to prepare it in accordance with the Standards, Act and Regulations and to ensure that the reports fairly present the financial performance and position of the Town.

The Town's Auditors, RSM Australia, conducted the end of year audit onsite from 14-20 October 2019. The role of the Auditor is to provide an opinion based on their audit as to whether Management has fulfilled these obligations. The Auditors also prepare a separate, more detailed report for Management, identifying any issues arising from the conduct of the audit, and recommending any corrective actions. An unqualified opinion was issued with respect to the financial statements, meaning that the Town's financial records and statements are fairly and appropriately presented, and in accordance with General Accepted Accounting Principles (GAAP).

Under section 5.54 of the *Local Government Act 1995*, the annual financial statements and audit report must be accepted by 31 December, provided the auditor's report is available. If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

The financial statements are expected to be signed off by the auditors on 13 November 2019, with the Committee meeting with the Auditors on 12 November 2019. Council's Audit, Risk and Governance Committee has delegated authority to liaise with the Auditor, and receive and examine the Auditor's report and any Management Letters arising from the conduct of the audit

SUMMARY OF FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

Continuing Operations

A municipal surplus occurs where an opening balance carried forward plus revenue exceeds expenditure in a particular financial year. The Town has recognised a closing municipal surplus of \$2.5M from 2018/19 to be carried forward to the 2019/20 financial year (refer to page 8 of the financial statements). The surplus was realised mainly due to unfinished capital projects which have been re-budgeted in 2019/20 for completion, and an increase in rates revenue from previously unrated properties.

The Town has realised a net operating surplus of \$16.2M from continuing operations (excludes capital expenditure) and an operating surplus ratio of 0.23%.

The Town's operating revenue streams increased overall by 61%, mainly due to an increase in rates revenue from previously non-rated properties.

The Town's operating expenses increased by 16% due to higher material and contracts costs and other expenditure. However the Town was under budget for operating expenses overall due mainly to materials and contracts costs attributed to unfinished projects.

The Town is non-compliant with the debt service cover ratio and asset sustainability ratio, as determined by the Department of Local Government, Sport and Cultural Industries. The debt service cover ratio is irrelevant with all debt repaid by the Town in June 2019. The asset sustainability ratio was 0.61, against a target of 0.9. The asset renewal programme for FY2019 was under budget, with works scheduled for quarter four disrupted by TC Veronica.

Throughout the 2018/19 financial year, interest earned on investments was re-invested where possible to continue to maximise revenue generating opportunities. All investment funds are held in authorised deposit institutions, in line with the *Local Government Financial Management Regulations (1995)* and the Town's Investment Policy.

Management Letter Audit Findings

RSM has identified four matters for consideration to be addressed by Management. Please refer to confidential attachment 2 for findings and management response/action plan.

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance as it summarises the financial position of the Town for the financial year ended 30 June 2019 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

The AFR and audit was completed with the input and assistance of the Executive Leadership Team, the Financial Services team and the Governance team.

External Agencies

- The Town's Auditors, RSM Australia
- Moore Stephens for assistance with technical accounting matters
- AssetVal Pty Ltd for valuation of investment property

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, Sport and Cultural Industries has also prepared Operational Guideline Number 9 to provide guidelines for the Committee 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.

Under section 5.54 of the *Local Government Act 1995*, the annual financial statements and audit report must be accepted by 31 December, provided the auditor's report is available. If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

FINANCIAL AND RESOURCES IMPLICATIONS

The costs associated with conducting the interim audit and end of financial year audit are included in the 2018/19 budget and financial statements.

Completion of the Annual Financial Report will present a confirmed closing municipal surplus of \$2.5M from 2018/19 to be carried forward to the 2019/20 financial year. This will be included as part of the mid-year budget review.

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.

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.

RISK MANAGEMENT CONSIDERATIONS

Per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (9), with risk managed by adequate controls, managed by specific procedures and subject to regular monitoring.

RSM has identified four matters for consideration to be addressed by Management. A summarised table of the findings and management response/action plan in confidential attachment 2.

The Audit Report is to be accepted by Council no later than 31 December 2019 to comply with section 5.54 of the *Local Government Act 1995*. Not accepting the report by this time will be a breach of the Act. As per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (9).

OPTIONS

Option 1 – Adopt officer's recommendation

Option 2 – Do not adopt officer's recommendation

CONCLUSION

The 2018/19 Annual Financial Report, Closing Report and Management Letter of Audit Findings are attached for the Committee's review. The Independent Auditor's Report for attachment to the Financial Statements will be available on 13 November 2019.

The Town is continuously working towards improvements in the financial management area and there will be a focus on creating stronger internal controls within financial management and processes in accordance with the Town's values and long-term sustainability.

ATTACHMENTS

1. Annual Financial Report 2019 with Audit Report (under separate cover)
2. Management Letter of Audit Findings (Confidential, under separate cover)
3. Management Letter to Auditors (Confidential, under separate cover)

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

Nil

Item 15 Closure

15.1 Date of Next Meeting

The 2020 Audit, Risk and Governance Committee Meeting schedule will be presented to Council for adoption at the 27 November 2019 Ordinary Council Meeting.

15.2 Closure

There being no further business, the Commissioner declared the meeting closed at 5.42pm.

DECLARATION OF CONFIRMATION OF MINUTES

I certify that these Minutes were confirmed by the Audit, Risk and Compliance Committee at its Committee Meeting of 10 March 2020

CONFIRMATION:



A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right, positioned above a horizontal line.

COMMISSIONER

18.3.2020

DATE