



TOWN OF PORT HEDLAND

AUDIT, RISK AND GOVERNANCE COMMITTEE MEETING MINUTES

TUESDAY 8 NOVEMBER 2016 AT 5:30PM

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

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

*Chris Linnell
Acting Chief Executive Officer*

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 ARG 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.
- 3.3 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.

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 six members, four 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 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 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 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 this 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.)

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Item 1 Opening of Meeting

The Presiding Member declared the meeting open at 5:33 pm.

Item 2 Acknowledgement of Traditional Owners

The Presiding Member acknowledged the traditional custodians, the Kariyarra people. And recognised the contribution of Kariyarra elders past, present and future, in working together for the future of Port Hedland.

Item 3 Recording of Attendance

3.1 Attendance

Committee Members:

Mayor Camilo Blanco – Presiding Member

Councillor Louise Newbery

Councillor Richard Whitwell

Community Members:

Ms Nina Pangahas

Mr Ron Attwood – Deputy Presiding Member

Officers:

Kathryn Crothers Acting Director Corporate Services

Grace Waugh Coordinator Governance

Tammy Wombwell Administration Officer Governance/ Minute Taker

Elected Members 1

Public 1

Media 0

ToPH Officers 2

3.2 Apologies

Councillor Troy Melville

3.3 Approved Leave of Absence

Nil

3.4 Disclosure of Interests

Name	Item no.	Interest	Nature
Mr Ron Attwood	12.1.2	Impartiality	Mr Attwood has employed RSM as auditors for his company

Item 4 Response to Previous Questions

4.1 Questions taken on notice from Public at Audit, Risk and Governance Committee Meeting held on Tuesday 4 October 2016

Nil

4.2 Questions taken on notice from Committee Members at Audit, Risk and Governance Committee Meeting held on Tuesday 4 October 2016

Nil

Item 5 Applications for Leave of Absence

Nil

Item 6 Attendance by Telephone/Instantaneous Communications

Nil

Item 7 Public Time

Important note:

'This meeting is being recorded on audio tape as an additional record of the meeting and to assist with minute-taking purposes which may be released upon request to third parties. If you do not give permission for recording your participation please indicate this at the meeting. The public is reminded that in accordance with Section 6.16 of the Town of Port Hedland Local Law on Standing Orders nobody shall use any visual or vocal electronic device or instrument to record the proceedings of any meeting unless that person has been given permission by the presiding member to do so. Members of the public are also reminded that in accordance with section 6.17(4) of the Town of Port Hedland Local Law on Standing Orders mobile telephones must be switched off and not used during the meeting.'

In accordance with section 6.7(3) of the Town of Port Hedland Local Law on Standing Orders, members of the public are required to complete a question form and place the completed form in the tray provided.

The Presiding Member opened Public Question Time at 5:36pm.

7.1 Public Question Time

Nil

The Presiding Member closed Public Question Time at 5:37pm.

The Presiding Member opened Public Statement Time at 5:37pm.

7.2 Public Statement Time

Nil

The Presiding Member closed Public Statement Time at 5:37pm.

7.3 Petitions/Deputations/Presentations/Submissions

Nil

Item 8 Questions from Members without Notice

8.1 Ms Pangahas

On 13 October 2016 at 9:33pm, the Acting Chief Executive Officer (CEO) emailed the Audit, Risk and Governance (ARG) Committee Members, Executive Members of the Town, and the Governance Coordinator the response from Andrew Borrett from the Department of Local Government, regarding the query from the Deputy Mayor about the involvement of members of the ARG Committee.

On 14 October 2016 at 2:31pm, I suggested that the email be forwarded to the remaining Elected Members, given their role in the appointment of ARG Committee Members. The Acting CEO replied at 2:33pm that he was preparing an email to Elected Members at that very moment. The email which I sent to the Acting CEO was as follows:

“Could you please confirm that advice from Mr Borrett has been communicated to the Council? If yes, could you please provide this Committee with a copy? If not, why?”

Shall I proceed with my second question?

The Presiding Member advised that Ms Pangahas had provided a statement, and asked Ms Pangahas for her question.

Could you please confirm that the advice from the Department of Local Government and Communities that was given to the ARG Committee was communicated to the remaining Elected Members?

The Presiding Member advised in the affirmative.

Can a copy of the email be provided to Committee Members?

The Presiding Member advised that he was under the impression that the Committee has received a copy of the communication from the Acting CEO.

I am referring to the communication that was meant to be forwarded by the Acting CEO to Elected Members.

The Presiding Member advised that Elected Members and Community Members of the ARG Committee have received the emails.

The Community Members of the committee have only received the advice from Mr Borrett, and not the emails from the Acting CEO endorsing the advice received from the Local Government to Elected Members.

The Coordinator Governance advised that there is an email from the Acting CEO to Elected Members in regards to the ARG Committee. The email was in regards to legal advice obtained for two separate matters, one being confidential, and the other being in regards to the ARG Committee. This is why it has not been given to the Community Committee members.

Can the Community Committee members be provided with an extract excluding the confidential matter?

The Acting Director Corporate Services advised in the affirmative, and that it would be circulated to Community Committee members by close of business Thursday 9 November 2016.

Will the persons or Officers responsible apologise to the Community Committee members who have been humiliated and offended by the incorrect interpretation of their role in the involvement of this Committee? If yes, when and how? If no, why?

The Presiding Member advised he takes full responsibility for the matter, and that there will not be an apology.

The Presiding Member advised that the Community Committee members have every opportunity to lodge a complaint regarding his conduct to the Standards Panel, or to the CEO.

In reference to the ARG Committee Terms of Reference, section 7.4.7 'Receive the quarterly budget review'. Who decided not to release the quarterly budget review, and when will it be released to this Committee?

The Presiding Member advised that the quarterly budget reviews will not be completed this financial year, and that there will be a half yearly review, in line with the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996*.

Who decided on the change, as it is part of the Terms of Reference of this Committee? The Committee should have been notified that there was a change.

The Acting Director Corporate Services advised that if a review is done, the ARG Committee would receive it. Regarding the ARG Committee Terms of Reference, it does state that the Committee is to receive a quarterly budget review, but that does not mean that a quarterly budget review needs to be completed. As per the *Local Government (Financial Management) Regulations 1996*, only a half yearly review is required.

Will that half yearly review be provided to the ARG Committee?

The Acting Director Corporate Services advised in the affirmative.

8.2 Mr Attwood

I have a question for the auditors. As a Community Member, I missed question time at the last meeting. I have concerns about the tendering process on the quarterly report and I think that the Auditors should be looking into it. Also, there are two overpayments of Elected Members which should also be looked into. Can an explanation be provided on both matters?

The Presiding Member advised that the question would be taken on notice.

Would you like me to put it as a motion and get a seconder?

The Acting Director Corporate Services advised that all questions to the Auditors must be made via the Chief Executive Officer (CEO) as these questions are outside of the scope of the external audit.

Do I need to put it to a motion?

The Presiding Member asked the Coordinator Governance for clarification.

The Coordinator Governance advised that Mr Attwood can request that the Acting CEO ask the question to the Auditors. There does not need to be a motion, it can just be included in the question. For example, Mr Attwood's question could be "Can I request that the Acting CEO ask the Auditors the following questions..."

Do I have the ability to make the request in accordance with the Audit, Risk and Governance (ARG) Committee Terms of Reference section 7.1.4?

The Acting Director Corporate Services advised in the affirmative.

The Presiding Member advised Mr Attwood that a written question is to be provided to Town officers, so that it can be presented to the Auditor.

As there was a workshop on the Audit, will Committee Members be able to question the Audit tonight?

The Acting Director Corporate Services advised in the negative. All questions relating to the Audit should have been asked yesterday as the Auditors are not present tonight.

On page 19 of the agenda for this meeting, there is a reflection of \$166,874,000, yet on page 88 of Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016, there is a figure of \$166,869,000.

The Acting Director Corporate Services advised that the figure on page 19 of the agenda has been amended in the minutes of this meeting.

The Presiding Member asked Mr Attwood what he was requiring to be done.

Why are the figures different?

The Presiding Member advised that if the Auditors figures are correct, then all that is required is to amend the officer's report.

The Acting Director Corporate Services advised that the amount in the officers report, is the amount being transferred to the municipal bank account on the sale date compared to page 88 of Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016, being the Disposal Group "held for sale" and Discontinuing Operations and assets held for sale. The figures are of two different items, which are related, but one figure is from an accounting disclosure point of view, and the other from the cash received on the day.

The Presiding Member asked Mr Attwood if he needed any further clarification on the matter.

Can the explanation be provided in writing in the minutes?

The Acting Director Corporate Services advised that further clarification can be circulated to the ARG Committee.

In reference to page 34 Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016 - Note 3 'Cash on hand - municipal: unrestricted', the Auditor advised there is a cheque book with \$4,667. What is this cheque book used for?

The Presiding Member advised that it is his understanding that the municipal account at that time has that amount in it.

What is the cheque book?

The Acting Director Corporate Services clarified that it is not a cheque book.

The Auditor said it was a cheque book.

The Acting Director Corporate Services advised that it is unrestricted cash balance that is not restricted by any reserve. Restricted cash is restricted for the purpose of a reserve. It is not a cheque book balance, and all bank accounts have all been verified by the Auditors. The Town has to provide bank confirmations from all of the banks it holds cash in, and these are all verified by the Auditors.

Why is there such a big difference between the 2015 Actual being \$1,648 and the 2016 Actual being \$4,667?

The Presiding Member advised Mr Attwood that the figures are in the million. Municipal unrestricted is what the Town can pay the bills out of without coming back to Council or using the reserve accounts which are restricted.

Is there a budget figure on the municipal unrestricted account for 2016/17?

The Acting Director Corporate Services advised that there is an estimated budget in the net current assets.

What was the budget for the municipal unrestricted account for 2015/16?

The Presiding Member advised that all of the Town's money moves through the municipal account. As money becomes unrestricted because the Town has finished projects, it moves into the municipal account, and the funds go out to be paid. The budget amount going through the municipal account in that year was approximately \$58 million.

Can an update be provided on the lots at the Kingsford Smith Business Park (KSBP) on whether they are going to be either industrial or commercial?

The Presiding Member advised that it was his understanding that the lots at KSBP were to be light industrial.

There were separate lease numbers put up yesterday.

The Presiding Member advised that there are couple of different variations in KSBP and this was discussed throughout the period of the lease negotiations. It is his understanding that they are to be light industrial lots.

The Acting Director Corporate Services advised that the classification of the lots does not have any impact on the financial statements. They are at market value or carrying value, whichever is the lesser.

If the lots are classified as industrial, there are restrictions on the B-train trucks going into the KSBP. Are the purchasers of the lots aware of these restrictions?

The Presiding Member advised that the question is not relevant to the Committee or what is being discussed tonight. The matter is to do with planning.

8.3 Councillor Newbery

On page 30 of the Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016, it shows that the Town has received \$365,000 from Fortescue Metals Group (FMG). Wasn't that figure supposed to be \$500,000 per year?

The Acting Director Corporate Services advised that this particular note outlines if there is any unspent amount of a grant and not the full grant.

Was the \$500,000 per year from FMG towards the use of the stadium, the Matt Dann Theatre etc. a payment and not a grant?

The Presiding Member asked the Acting Director Corporate Service where in the Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016 it shows the full payment.

The Acting Director Corporate Services advised that the question would be taken on notice and that the Town may have invoiced the \$500,000 and only received \$375,000, as this note uses the cash accounting method, rather than an accrual method.

The Town was supposed to receive \$500,000 per year from FMG, and that the Town is down \$125,000 on what FMG's commitment was supposed to be.

The Acting Director Corporate Services advised confirmation of the amount invoiced would be circulated to the ARG committee.

8.4 Councillor Whitwell

Can I please get clarification on the item 'Other' on page 66 of the Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016, Note 31?

The Acting Director Corporate Services advised that the 'Other' is a budgeted figure, and some further clarification can be provided to Councillor Whitwell by the end of the week.

On page 3 of the Town of Port Hedland General Purpose Financial Statements for the year ended 30 June 2016, it shows depreciation and amortisation as \$12,739,000. Last year it was \$11,331,000. At the bottom of the page it shows no impairment of non-current assets for 2015 however this year we have impaired the full amount. This will affect one of the Town's financial ratios. Can I please have further clarification?

The Acting Director Corporate Services advised that the impairment for the assets does not have an effect on depreciation for the 15/16 financial year because it was at 30 June 2016 and will be reflected in the following financial year. In addition there was an increase in depreciation due to revaluations completed in previous years. Offsetting that, is the removal of the depreciation of the Airport due to the discontinued operations. The original budget was \$14 million which included the Airport. The \$12 million you refer to is excluding the Airport depreciation.

In regards to the Operating Result on the same page, it shows a deficit of \$13,837,000. The Town is in a situation now where it is not fulfilling its operational requirements effectively, is that correct?

The Acting Director Corporate Services advised that the removal of the Airport has reduced the income in the continued operations. It was anticipated that there would be around an \$8 million differential when the Airport was leased. The observations by Councillor Whitwell are correct that the Town is not meeting its operational requirements in funding depreciation. However, the net current assets note shows the municipal surplus has been maintained from the previous financial year.

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:

- Mayor Camilo Blanco
- Councillor Louise Newbery
- Councillor Richard Whitwell
- Ms Nina Pangahas
- Mr Ron Attwood

Item 10 Confirmation of Minutes of Previous Meeting

10.1 Confirmation of previous Minutes of the Audit, Risk and Governance Committee Meeting**OFFICER RECOMMENDATION**

That the Audit, Risk and Governance Committee confirm that the Minutes of the Audit, Risk and Governance Committee Meeting held on Tuesday 6 September 2016 and Tuesday 4 October 2016 are a true and correct record.

ARG201617/012 COMMITTEE DECISION**MOVED: MR ATTWOOD****SECONDED: CR WHITWELL**

That the Audit, Risk and Governance Committee confirm that the Minutes of the Audit, Risk and Governance Committee Meeting held on Tuesday 6 September 2016 are a true and correct record with the following amendments:

1. Item 2 – Page 10 – Insert the following wording:

“Councillor Newbery called for point of order asking the presiding member who gave him the right to change the status from Traditional Owners to Custodians”.

“The Presiding Member responding that he was the chair of the meeting and that he would run the meeting how he wanted to”.

“Councillor Newbery advised that she had recently attended a meeting where mining companies had recognised Kariyarra people as the Traditional Owners”.

“Mr Attwood and Ms Pangahas both raised their hands to ask questions in respect to this issue and the chair gave directions to them that they could not ask any questions until Public Question Time as they are Community Members. In accordance with Standing Orders they are only permitted to ask questions during Public Question Time”.

2. Item 7.1.3 - Page 14 - Insert the following wording:

“Mr Attwood asked if he had to ask all of his questions while at the podium and the Presiding Member advised in the affirmative. After discussion with the CEO, he replied no. Mr Attwood then asked to confirm whether it was yes or no. The Presiding Member confirmed it was no”.

CARRIED 5/0

ARG201617/013 COMMITTEE DECISION**MOVED: MS PANGAHAS****SECONDED: MR ATTWOOD**

That the Audit, Risk and Governance Committee confirm that the Minutes of the Audit, Risk and Governance Committee Meeting held on Tuesday 4 October 2016 are a true and correct record with the following amendments:

1. **Item 7.1.1 – Page 11 - Insert the following wording:**

“Ms Pangahas asked if she was a member of the public. The Presiding Member said yes”.

“Ms Pangahas left the table and introduced herself as a member of the public”.

“Ms Pangahas read the acknowledgement as modified by the presiding member on 6 September 2016”.

“Ms Pangahas read the acknowledgement as presented in the agenda papers of 4 October meeting, the statements in that acknowledgement were the original statements prior to the meeting of the 6 September 2016”.

CARRIED 5/0

Item 11 Announcements by Presiding Member without Discussion

Nil

Disclaimer

Members of the public are cautioned against taking any action on Committee 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.

Item 12 Reports of Officers

12.1 Corporate Services**12.1.1 Monthly Audit, Risk and Governance Committee Reports**

File No: 12/14/0002
Applicant/ Proponent: N/A
Subject Land/ Locality: N/A
Date: 25/10/2016
Author: Grace Waugh, Coordinator Governance
Authorising Officer: Kathryn Crothers, Acting Director Corporate Services
Disclosure of Interest from Author: Nil
Authority/Discretion: Information Purposes - includes items provided to Council for information purposes only, that do not require a decision of Council (i.e. - for 'noting').

Attachments:

1. Monthly Status of Audit, Risk and Governance Committee Decisions (Under Separate Cover)
2. Monthly Audit, Risk and Governance Committee Decision Completion Report (Under Separate Cover)
3. Monthly Risk Register Report (Under Separate Cover)

ARG201617/014 OFFICER RECOMMENDATION /COMMITTEE DECISION**MOVED: CR WHITWELL****SECONDED: MAYOR BLANCO****That the Audit, Risk and Governance Committee receive the following reports:**

1. **Monthly Status of Audit, Risk and Governance Committee Decisions, as at 31 October 2016;**
2. **Monthly Audit, Risk and Governance Committee Decision Completion Report, as at 31 October 2016; and**
3. **Monthly Risk Register Report as at 31 October 2016.**

CARRIED 3/2

For: Mayor Blanco, Cr Newbery, Cr Whitwell
Against: Mr Attwood, Ms Pangahas

EXECUTIVE SUMMARY

The purpose of this report is to provide the Audit Risk and Governance (ARG) Committee with the monthly status of all outstanding ARG Committee decisions, all completed ARG Committee decisions and the current Risk Register within the stated period.

BACKGROUND

To ensure accountability and transparency, an update of all previous ARG decisions are to be provided to the ARG Committee for review. Committee Members have requested that these be provided monthly.

The Risk Register is being used to manage all risks identified with a risk rating of 10 and higher. Currently 5 items of an ongoing nature are listed on the register and are being monitored on a monthly basis.

CONSULTATION

Internal

- Director Corporate Services

LEGISLATIVE IMPLICATIONS

As this report is for information purposes only, there are no legislative implications associated with receiving the attached reports.

POLICY IMPLICATIONS

As this report is for information purposes only, there are no policy implications associated with receiving the attached reports.

FINANCIAL IMPLICATIONS

As this report is for information purposes only, there are no financial implications associated with receiving the attached reports.

STRATEGIC IMPLICATIONS

Section 4.1 'Strategic and best practice local government administration' of the Strategic Community Plan applies as monitoring previous committee decisions assists with delivering high quality corporate governance accountability.

SUSTAINABILITY IMPLICATIONS

Environmental

There are no significant identifiable environmental impacts arising from adoption of the officer's recommendation.

Economic

There are no significant identifiable economic impacts arising from adoption of the officer's recommendation.

Social

There are no significant identifiable social impacts arising from adoption of the officer's recommendation.

Risk

As the attached reports are for information purposes only, the risk assessment table has been removed.

A risk assessment for each item contained in the monthly status update, would have been completed as part of the original agenda item, and can be found in the minutes of the relevant meeting of which it was first tabled.

CONCLUSION

It is recommended that the Audit, Risk and Governance Committee note the attached reports which provide a status on the ARG Committee Decisions.

12.1.2 Audited Annual Financial Report for the Year Ended 30 June 2016

File No: 12/14/0001
Applicant/ Proponent: Nil
Subject Land/ Locality: Nil
Date: 25/10/2016
Author: Lorraine Muzambwa, Coordinator Financial Planning & Reporting
Authorising Officer: Kathryn Crothers, Acting Director Corporate Services
Disclosure of Interest from Author: Nil
Authority/Discretion: Executive – the substantial direction setting and oversight role of the Council. E.g. adopting plans and reports, accepting tenders, directing the Chief Executive Officer, setting and amending budgets.
 Legislative – includes adopting local laws, town planning schemes and policies. Review when Council reviews decision made by Officers.

Attachments:

1. Audited Annual Financial Report for the Year Ended 30 June 2016 (Under Separate Cover)
2. RSM Bird Cameron Independent Auditor's Report
3. RSM Bird Cameron Closing Report (Under Separate Cover)

OFFICER RECOMMENDATION

That the Audit, Risk and Governance Committee:

1. Receive and endorse the Audited Annual Financial Report, Independent Auditor's Report, Audit Findings and Closing Report for the Year Ended 30 June 2016.

ARG201617/015 COMMITTEE DECISION**MOVED: CR WHITWELL****SECONDED: MS PANGAHAS****That the Audit, Risk and Governance Committee:**

1. **Receive and note the Audited Annual Financial statements, Independent Auditor's Report, Audit Findings and Closing Report for the Year Ended 30 June 2016.**

CARRIED 4/1

For: Mayor Blanco, Cr Newbery, Cr Whitwell, Ms Pangahas
Against: Mr Attwood

EXECUTIVE SUMMARY

The Audit, Risk & Governance Committee is to report to Council and provide appropriate advice and recommendations on matters relevant to the terms of reference. One of the principal duties is to make recommendations to Council regarding the external Audit reporting. This report presents the audited Annual Financial Report (AFR), the Independent Auditors Report, Audit Findings and Closing Report from the Town's Auditors, RSM Bird Cameron for the year ended 30 June 2016. An unqualified opinion was issued, meaning that the Town of Port Hedland financial records and statements are fairly and appropriately presented, and in accordance with Generally Accepted Accounting Principles (GAAP). There were no significant matters for consideration during next year's audit.

BACKGROUND

The Town is required to prepare general purpose financial reports each year and refer them to audit as soon as practicable, no later than 30 September following end of financial year (Section 6.4 of the Local Government Act 1995). The Audit Report is to be received by no later than 31 December (Section 7.9 of the Local Government Act 1995). The annual financial report is prepared in accordance with Australian Accounting Standards; the Local Government (LG) 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 present fairly the financial performance and position of the Town, free from material misstatement, whether due to fraud or error.

The Town's Auditors, RSM Bird Cameron, conducted the end of year audit onsite from 29 August to the 1st of September 2016, with the draft Annual Financial Report submitted to the Auditors on 30 September 2016. Areas of audit emphasis included the following:

- Valuation of Non-Current Assets
- Non-compliance with tendering and quotation requirements
- Port Hedland International Airport
- Restricted Cash Reserves
- Credit Card Purchases
- Revenue Cycle

The attached Closing Report on the audit from RSM Bird Cameron further illustrates the risks, the approach that was used to review effectiveness and the respective conclusion for each risk.

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 audit opinion was issued as the Auditors did not become aware of any instances where the Town did not comply with Australian Accounting Standards, LG Act 1995 and LG (Financial Management) Regulations 1996, as they relate to financial statements.

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 (as attached). The ARG Committee will meet with RSM Auditors on the 7th of November 2016 to discuss audit procedures and findings.

SUMMARY OF FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016*Discontinued Operations- Port Hedland International Airport Long Term Lease*

Following a review of the Port Hedland International Airport (PHIA) governance structure to determine a more efficient and economically viable operating model, it was endorsed that a long-term lease was the most beneficial approach. At a Special Council Meeting held on the 25th of August 2015, Council agreed to award Tender 05/15 PHIA Long-Term Lease to AMP Capital Investors Limited and Infrastructure Capital Group Limited (the Consortium) at a lease value of \$205m for a period of 50 years.

The settlement of funds occurred on the 11th of March 2016, with a gross amount of \$166,847M being transferred to the Town Municipal Bank account. On the same day, the principal was invested with Western Australian Treasury Corporation (WATC) as per Council Resolution 2015/026 which stated that the CEO was required to liaise with WATC and “establish an agreement to immediately invest all of the funds into an interest bearing account in accordance with Section 6.14 of the Local Government Act”.

Independent advice regarding the accounting treatment and subsequent disclosures (Note 39 & 42) in the report was received from accounting firm, Moore Stephens. The advice was then reviewed by the Town’s auditors, RSM Bird Cameron, and subsequent amendments were then requested by the RSM technical director. A profit of \$2.6M was made from the discontinued operations, while the profit from the sale of the ongoing operations was \$33.2M.

CONTINUING OPERATIONS

The Town earned a carry forward surplus of \$5.650M, a 12% increase from the 14/15 Financial Year. However, the Town’s revenue streams declined by 16% mainly due to the loss of recurrent revenue streams from the PHIA and Transient Worker Accommodation facilities. The expenses increased by 17% mainly due to the decrement in the revaluation of the airport land, resulting in a deficit of \$13.8M in the operating result from continuing operations; and a negative Operating Surplus Ratio of 15.92%. A carried forward surplus was still achieved due to the unfinished capital projects rebudgeted in the 2016/17 financial year.

The Town had a 24% increase in Cash and Cash Equivalents and a 500% increase in investments, as a result of the PHIA Long Term lease transaction. All the funds are held in various Authorised Deposit Institutions, in line with the Local Government Financial Management Regulations (1995) and the ToPH Investment Policy. The decline in trade receivables is consistent with the state and nation wide economic downturn, resulting in an increase in the number of defaults and bankruptcies.

The ratio analysis of the Town’s financial position showed a general decline from prior years. The asset sustainability ratio reduced from 99.57% to 37.04%, which is below the 90% standard set by the Local Government and Communities. This ratio is an approximation of the extent to which assets managed by the ToPH are being replaced as these reach the end of their useful lives. The negative is a reflection of the loss from the Continuing Operations mainly due to decrement on the valuation of the PHIA Land not attributable to Discontinued Operations.

CONSULTATION

- The Town's Auditors, RSM Bird Cameron
- Moore Stephens
- Financial Services Team
- Acting Manager of Finance
- Acting Director of Corporate Services
- Executive Leadership Group
- CEO

LEGISLATIVE IMPLICATIONS

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 to the Audit, Risk & Governance Committee for Audit in Local Government.

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

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

The costs associated with conducting the Interim Audit and end of Financial Year audit are captured in the 2015/16 budget.

STRATEGIC IMPLICATIONS

The Town has conducted the Interim Audit and end of Financial Year audit as part of its delivery of high quality corporate governance, accountability and compliance. The Town's goals and actions in this regard are set out in the Leading our Community section of the Strategic Community Plan 2014-2024.

SUSTAINABILITY IMPLICATIONS

Environmental

There are no significant identifiable environmental impacts arising from adoption of the officer's recommendation.

Economic

There are no significant identifiable economic impacts arising from adoption of the officer's recommendation.

Social

There are no significant identifiable social impacts arising from adoption of the officer's recommendation.

Risk

There were three audit findings during the Audit and the risk ratings were all classified as medium.

Risk	That the failure to properly reconcile the amounts in the General Ledger to the amounts allocated and disclosed in the Statement of Comprehensive Income increases the risk of non-compliance with Financial Management Regulations and inaccurate disclosure of program costs
Risk Likelihood (based on history and with existing controls)	Possible (3)
Risk Impact / Consequence	Moderate (3)
Risk Rating (Prior to Treatment or Control)	Medium (5-9)
Principal Risk Theme	Financial Impact - 3 Moderate - \$30,001 - \$300,000
Risk Action Plan (Controls or Treatment proposed)	Manage by initiating a monthly reconciliation of labour overheads and including the task on the monthly checklist of the Financial Services team

Risk	That non-compliance with the Town's Sub Delegation Register Policy could result in a breach of the Local Government Act 1995 and increases the risk of unauthorised or inappropriate transactions
Risk Likelihood (based on history and with existing controls)	Likely (4)
Risk Impact / Consequence	Minor (2)
Risk Rating (Prior to Treatment or Control)	Medium (5-9)
Principal Risk Theme	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed
Risk Action Plan (Controls or Treatment proposed)	Control through the implementation of electronic centre-led procurement and purchasing system, which will be established by December 2016. Paper/hardcopy authorisation will be abolished and replaced with electronic authorisation of payments with sub-delegations controlled by the ERP system parameters. The system will store sub-delegations and be updated only when authorisation by CEO is obtained. This will prevent authorisation without sub-delegations being authorised

Risk	That excessive annual leave balances accrued increases the risk of an adverse impact through excessive financial liabilities and may also indicate over-reliance on key individuals
Risk Likelihood (based on history and with existing controls)	Likely (4)
Risk Impact / Consequence	Minor (2)
Risk Rating (Prior to Treatment or Control)	Medium (5-9)
Principal Risk Theme	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed
Risk Action Plan (Controls or Treatment proposed)	Manage by regular monitoring of leave balances by Managers and Directors and leave balances over 350 hours will be managed through reporting to the Executive Leadership Team

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating has been determined for each of these items. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

CONCLUSION

The Management Letter and Factual Findings Report are attached for the Audit, Risk & Governance Committees review. It is clear to see that the Town has made significant improvements since the 2014/15 Final audit review and continues to implement improvements. Management strives to continue to build stronger internal controls within financial management and in accordance with the Town’s values of Unity, Quality and Integrity.

ATTACHMENT 2 TO ITEM 12.1.2



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**INDEPENDENT AUDITOR'S REPORT
TO THE RATEPAYERS OF
TOWN OF PORT HEDLAND**

Report on the financial report

We have audited the financial report of Town of Port Hedland, which comprises the statement of financial position as at 30 June 2016 and the statements of comprehensive income, statement of changes in equity, statement of cash flows and rate setting statement for the year ended on that date, the summary of significant accounting policies and other explanatory notes and the statement by the Chief Executive Officer.

Chief Executive Officer's responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion on the financial report

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

- (i) Gives a true and fair view of the financial position of Town of Port Hedland as at 30 June 2016 and of its financial performance for the year ended on that date;
- (ii) Complies with the *Local Government Act 1995* Part 6 and the Regulations under that Act and Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (iii) In relation to the Supplementary Ratio Information presented in the financial report, we have reviewed the calculations as presented and in our opinion these are based on verifiable information and reasonable assumptions.

Report on statutory compliance

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

A handwritten signature in black ink, appearing to read 'D J Wall'.

RSM AUSTRALIA PTY LTD

A handwritten signature in black ink, appearing to read 'D J Wall'.

D J WALL
Director

Perth, WA
Dated: 4 November 2016

Item 13 Motions of Which Previous Notice Has Been Given

Nil

Item 14 New Business of an Urgent Nature

Nil

Item 15 Matters for Which Meeting May Be Closed (Confidential Matters)

Nil

Item 16 Closure

16.1 Date of Next Meeting

The next Audit, Risk and Governance Committee Meeting will be held on Tuesday 6 December 2016, commencing at 5:30pm.

16.2 Closure

There being no further business, the Presiding Member declared the meeting closed at 6.34pm.