

# minutes

## Audit Committee

MEETING HELD ON **MONDAY 9 MARCH 2015**

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## CITY OF JOONDALUP

### MINUTES OF THE AUDIT COMMITTEE MEETING HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON MONDAY 9 MARCH 2015.

#### ATTENDANCE

##### Committee Members

Cr Tom McLean, JP	<i>Presiding Member</i>
Mayor Troy Pickard	
Cr Geoff Amphlett, JP	
Cr John Chester	<i>(deputising for Cr Brian Corr)</i>
Cr Mike Norman	
Cr Teresa Ritchie, JP	<i>Deputy Presiding Member</i>
Cr Sam Thomas	<i>(deputising for Cr Philippa Taylor)</i>
Vacant (External Member)	

##### Officers

Mr Garry Hunt	Chief Executive Officer	
Mr Mike Tidy	Director Corporate Services	
Mr Jamie Parry	Director Governance and Strategy	<i>Absent from 7.22pm to 7.24pm to 8.11pm</i>
Mr Nico Claassen	Director Infrastructure Services	<i>to 8.36pm</i>
Mr Brad Sillence	Manager Governance	
Ms Christine Robinson	Manager Executive and Risk Services	
Mr Peter McGuckin	Internal Auditor	
Mr John Byrne	Governance Coordinator	
Mrs Rose Garlick	Governance Officer	

#### DECLARATION OF OPENING

The Presiding Member declared the meeting open at 7.21pm.

#### DECLARATIONS OF INTEREST

##### Disclosures of Financial / Proximity Interest

Nil.

##### Disclosures of interest affecting impartiality

Elected Members (in accordance with Regulation 11 of the *Local Government [Rules of Conduct] Regulations 2007*) and employees (in accordance with the Code of Conduct) are required to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making process. The Elected Member/employee is also encouraged to disclose the nature of the interest.

<b>Name/Position</b>	<b>Mr Garry Hunt, Chief Executive Officer.</b>
<b>Item No./Subject</b>	Item 9 - Confidential - Chief Executive Officer's Credit Card Expenditure for the Quarter Ended 30 September 2014.
<b>Nature of interest</b>	Interest that may affect impartiality.
<b>Extent of Interest</b>	The Chief Executive Officer is the card holder.

<b>Name/Position</b>	<b>Mr Garry Hunt, Chief Executive Officer.</b>
<b>Item No./Subject</b>	Item 10 - Confidential - Chief Executive Officer's Credit Card Expenditure for the Quarter Ended 31 December 2014.
<b>Nature of interest</b>	Interest that may affect impartiality.
<b>Extent of Interest</b>	The Chief Executive Officer is the card holder.

*The Director Governance and Strategy left the meeting at 7.22pm.*

## **APOLOGIES/LEAVE OF ABSENCE**

### **Apology:**

Cr Philippa Taylor  
Cr Brian Corr

### **Leave of Absence previously approved:**

Cr Sam Thomas	23 February to 9 March 2015 inclusive;
Cr Liam Gobbert	14 March to 22 March 2015 inclusive;
Cr Mike Norman	21 March to 28 March 2015 inclusive;
Cr Geoff Amphlett, JP	2 May to 10 May 2015 inclusive;
Cr Brian Corr	26 May to 26 June 2015 inclusive.

## **CONFIRMATION OF MINUTES**

### **MINUTES OF THE AUDIT COMMITTEE HELD 13 OCTOBER 2014**

**MOVED** Cr Amphlett, **SECONDED** Mayor Pickard that the minutes of the meeting of the Audit Committee held on 13 October 2014 be confirmed as a true and correct record.

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

## **ANNOUNCEMENTS BY THE PRESIDING MEMBER WITHOUT DISCUSSION**

Nil.

**IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC**

In accordance with Clause 5.2 of the City's *Meeting Procedures Local Law 2013*, this meeting was not open to the public.

**PETITIONS AND DEPUTATIONS**

Nil.

**REPORTS****ITEM 1                      2014 COMPLIANCE AUDIT RETURN**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Garry Hunt Office of the CEO
<b>FILE NUMBER</b>	09492, 32481, 101515
<b>ATTACHMENT</b>	Attachment 1            2014 Compliance Audit Return
<b>AUTHORITY / DISCRETION</b>	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.

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**PURPOSE**

For Council to adopt the City's 2014 Compliance Audit Return (the Return) prior to it being submitted to the Department of Local Government and Communities (DLGC).

**EXECUTIVE SUMMARY**

The DLGC Compliance Audit Return for the period 1 January 2014 to 31 December 2014 has been completed and is required to be adopted by Council before being submitted to the DLGC by 31 March 2015.

*It is therefore recommended that Council:*

- 1        ADOPTS the completed 2014 Local Government Compliance Audit Return for the period 1 January 2014 to 31 December 2014 forming Attachment 1 to this Report;*
- 2        in accordance with Regulation 15 of the Local Government (Audit) Regulations 1996, SUBMITS the completed Compliance Audit Return as detailed in Part 1 above, to the Department of Local Government and Communities.*

**BACKGROUND**

The 2014 Return was made available to local governments by the DLGC on its website for online completion.

The structure of the return is the same as the previous year and focuses on areas of compliance considered high risk. This incorporates all the statutory requirements prescribed in Regulation 13 of the *Local Government (Audit) Regulations 1996*.

Regulations 14 and 15 of the *Local Government (Audit) Regulations 1996* prescribe the requirements for local governments when carrying out the compliance audit, reporting to the Audit Committee and Council, and certification and submission of the return to the DLGC.

## DETAILS

The Return contains the compliance categories of:

- commercial enterprises by local governments
- delegation of power / duty
- disclosure of interest
- disposal of property
- elections
- finance
- local government employees
- official conduct
- tenders for providing goods and services.

The Return reveals a high level of compliance with legislation by the City. However under Disclosure of Interest one response indicates non-compliance. This relates to one employee who was overseas on long service leave during the period for completion and submission of annual returns. The employee's annual return was completed and submitted on their return to work.

## Legislation / Strategic Community Plan / policy implications

<b>Legislation</b>	Regulations 14 and 15 of the <i>Local Government (Audit) Regulations 1996</i> .
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### Strategic Community Plan

<b>Key theme</b>	Governance and Leadership.
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<b>Objective</b>	Corporate capacity.
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<b>Strategic initiative</b>	Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.
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## Risk management considerations

The risk associated with Council failing to adopt the return would result in non-compliance with the legislative requirements of the *Local Government (Audit) Regulations 1996*.

## Financial/budget implications

Not applicable.

## Regional significance

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The responses to the questions in the return were provided by the relevant Managers to their Director for their review and approval before being forwarded to the Internal Auditor for entry on the DLGC website.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED** Cr Amphlett, **SECONDED** Cr Norman that Council:

- 1**      **ADOPTS** the 2014 Local Government Compliance Audit Return for the period 1 January 2014 to 31 December 2014 forming Attachment 1 to this Report;
- 2**      in accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996*, **SUBMITS** the completed Compliance Audit Return as detailed in Part 1 above to the Department of Local Government and Communities.

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

*The Director Governance and Strategy entered the meeting at 7.24pm.*

*Appendix 1 refers*

*To access this attachment on electronic document, click here: [Attach1AUDIT090315.pdf](#)*



## ITEM 2                      ADOPTION OF MEETING DATES FOR 2015 – AUDIT COMMITTEE

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Jamie Parry Governance and Strategy
<b>FILE NUMBER</b>	50068
<b>ATTACHMENTS</b>	Nil.
<b>AUTHORITY / DISCRETION</b>	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.

### PURPOSE

For the Audit Committee to consider the proposed schedule of Committee meeting dates for 2015.

### EXECUTIVE SUMMARY

In order to assist with forward planning for all Elected Members, management and staff, a schedule of meeting dates has been prepared for the Audit Committee, ensuring synergy between meeting dates and the flow of information and decision-making.

*It is therefore recommended that the Audit Committee adopts the following meeting dates and times for the Audit Committee of the City of Joondalup to be held at the Joondalup Civic Centre, Boas Avenue, Joondalup:*

<i>Audit Committee</i>
<i>To be held in Conference Room 2</i>
<i>7.00pm on Monday 10 August 2015</i>
<i>5.45pm on Tuesday 10 November 2015</i>

### BACKGROUND

The Audit Committee was established at the Ordinary Council Meeting held on 14 March 2000 (CJ042-03/00 refers). The purpose of the committee is to oversee the internal and external audit; risk management; and compliance functions of the City.

At its meeting held on 21 October 2014 (CJ177-10/14 refers), Council adopted the meeting dates for the Strategy and Briefing sessions, and Ordinary Council meetings.

The schedule of Council meeting dates was based on the format used in recent years; a monthly meeting format with Strategy Sessions held on the first Tuesday of each month; Briefing Sessions held on the second Tuesday and Council meetings on the third Tuesday.

This enables committee meetings to be scheduled on the Monday, Tuesday or Wednesday of weeks one, two and three so as to minimise potential conflicts with other Council activities and provide a 'meeting-free' week in the fourth week of each month.

## DETAILS

The proposed meeting dates have been determined to align with statutory audit and compliance reporting dates, as well as align with the existing Council meeting structure.

### Issues and options considered

The Audit Committee can either:

- adopt the meeting dates as proposed in this report or
- amend the meeting dates.

### Legislation / Strategic Community Plan / policy implications

<b>Legislation</b>	<i>Local Government Act 1995.</i> <i>Local Government (Administration) Regulations 1996.</i> <i>City of Joondalup Meeting Procedures Local Law 2013.</i>
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### Strategic Community Plan

<b>Key theme</b>	Governance and Leadership.
<b>Objective</b>	Corporate capacity.
<b>Strategic initiative</b>	Not applicable.
<b>Policy</b>	Not applicable.

### Risk management considerations

Should forward planning of committee meetings not be identified, then there is a risk for meetings to be held on an ad-hoc basis; lacking coordination with other key meetings and corporate planning processes.

### Financial/budget implications

Not applicable.

### Regional significance

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The dates proposed are intended to provide Council, Committee members and staff with an indicative meeting timeline for the Audit Committee. They align with key audit and compliance reporting dates and functions throughout the year and are aligned to the Council meeting structure.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr Norman, SECONDED Cr Ritchie that the Audit Committee ADOPTS the following meeting dates and times for the Audit Committee of the City Of Joondalup to be held at the Joondalup Civic Centre, Boas Avenue, Joondalup:**

<b>Audit Committee</b>
<b>To be held in Conference Room 2</b>
<b>7.00pm on Monday 10 August 2015</b>
<b>5.45pm on Tuesday 10 November 2015</b>

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

### ITEM 3                      **FOUR YEARLY REVIEW OF THE CITY'S FINANCIAL MANAGEMENT SYSTEMS**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Garry Hunt Office of the CEO
<b>FILE NUMBER</b>	17871, 101515
<b>ATTACHMENTS</b>	Attachment 1      Financial Management Systems Audit Report
<b>AUTHORITY / DISCRETION</b>	Information – includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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#### **PURPOSE**

For Council to note the four yearly review of the City's financial management systems and procedures.

#### **EXECUTIVE SUMMARY**

The *Local Government (Financial Management) Regulations 1996* requires the CEO of a local government to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews.

*It is therefore recommended that Council NOTES the results of the review undertaken in 2014 of the City's financial management systems and procedures forming Attachment 1 to this Report.*

#### **BACKGROUND**

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* requires that the Chief Executive Officer of a local government is to “Undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews.”

The last review was undertaken during 2010 and the results reported to Council at its meeting held on 19 October 2010 (CJ179-10/10 refers).

**DETAILS**

The financial management duties of the Chief Executive Officer are provided for in Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996* which states:

*“Efficient systems and procedures are to be established by the Chief Executive Officer of a local government:*

- (a) for the proper collection of money owing to the local government;*
- (b) for the safe custody and security of all money collected or held by the local government;*
- (c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process);*
- (d) to ensure proper accounting for municipal or trust –*
  - (i) revenue received or receivable*
  - (ii) expenses paid or payable; and*
  - (iii) assets and liabilities;**and*
- (e) to ensure proper authorisation for the incurring of liabilities and the making of payments;*
- (f) For the maintenance of payroll, stock control and costing records; and*
- (g) To assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.”*

Deloitte Touche Tohmatsu was engaged by the City to undertake the review which was completed in November 2014 and a draft report issued to the City on 19 December 2014. The City gathered responses and comments from the appropriate managers which will be incorporated into the final report.

**Legislation / Strategic Community Plan / policy implications**

**Legislation** Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

**Strategic Community Plan**

**Key theme** Governance and Leadership.

**Objective** Corporate capacity.

**Strategic initiative** Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.

**Risk management considerations**

The review assists in improving the control environment and reducing the risks associated with the City's financial management systems and procedures. The review also ensures that the City is in compliance with Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

**Financial / budget implications**Current financial year impact

<b>Account no.</b>	1.210.A2301.3265.0000
<b>Budget Item</b>	Consultancy.
<b>Budget amount</b>	\$50,000
<b>Amount spent to date</b>	\$50,697
<b>Proposed cost</b>	\$22,739
<b>Balance</b>	\$0

All amounts quoted in this report are exclusive of GST.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

The City provided access to all relevant personnel, information and records to facilitate the auditors in undertaking the review of its financial management systems and procedures.

**COMMENT**

The review of the City's financial management systems and procedures by Deloitte Touche Tohmatsu concluded as follows:

*"In relation to the nine key financial management functions included in the scope of the assignment, the City appears to have consistently maintained relevant protocols, policies, processes and procedures, which are fundamentally the same as those last assessed in 2010, except for the further enhancements noted at Section 3 of this Report."*

The review identifies further opportunities for strengthening the internal control environment and makes a number of recommendations, five of which have already been actioned. Three observations and associated recommendations relating to payroll are still being clarified. Two recommendations relating to the Chief Executive Officer's credit card are of a relatively minor nature, as stated by the auditors, and the City does not consider it necessary to make the amendments that have been recommended.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED** Cr Chester, **SECONDED** Cr Ritchie that Council **NOTES** the results of the review undertaken in 2014 of the City's financial management systems and procedures forming Attachment 1 to this Report.

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

*Appendix 2 refers*

*To access this attachment on electronic document, click here: [Attach2AUDIT090315.pdf](#)*

## **ITEM 4                      STATUS REPORT – COST EFFICIENCY AND SERVICE REVIEWS PROGRAM**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Garry Hunt Office of the CEO
<b>FILE NUMBER</b>	103906, 101515
<b>ATTACHMENTS</b>	Attachment 1    Independent Appraisal of the City of Joondalup's Cost Efficiencies and Services Review Attachment 2    Progress of Cost Efficiency and Service Reviews Program
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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### **PURPOSE**

For Council to note the independent appraisal of the City's approach to cost efficiencies and services reviews, and the progress of the cost efficiency and service reviews program.

### **EXECUTIVE SUMMARY**

Since July 2013 the City has been undertaking reviews of activities in order to identify areas to reduce costs by eliminating and identifying waste and improving efficiency and effectiveness throughout the City's operations.

*It is therefore recommended that Council NOTES the:*

- 1        independent appraisal of the City's approach to cost efficiencies and services reviews forming Attachment 1 to this Report;*
- 2        progress of the cost efficiency and service reviews program forming Attachment 2 to this Report.*

### **BACKGROUND**

The Chief Executive Officer initiated an extensive program of reviews to be undertaken of a number of the City's activities in order to identify opportunities for increasing efficiencies, reducing waste and reducing the costs of the services.



At the Audit Committee meeting held on 4 August 2014 options and alternative mechanisms to review and analyse levels of expenditure of City services and activities were outlined. Deloitte Touche Tohmatsu has subsequently been engaged by the City to undertake an independent appraisal to determine if the City's approach is:

- appropriate and structured
- consistent with relevant standards, guidelines and good practice in the local government sector
- likely to achieve its objectives efficiently and effectively.

At the Audit Committee meeting held on 13 October 2014 the Chief Executive Officer provided an update of the activities relating to the program of cost efficiency and service reviews.

## DETAILS

### Independent Appraisal

Interviews were conducted with the Chief Executive Officer and key staff members to understand the City's approach. The following framing questions were used to inform Deloitte's assessment and recommendations:

- 1 How have services been targeted for review?
- 2 What approach has been taken to identifying improvement opportunities?
- 3 How have improvement opportunities been prioritised for implementation?
- 4 How are the service reviews conducted, managed and delivered?

Deloitte's assessment found:

- The City's approach is appropriate for individual service reviews and broadly in-line with local government guidelines.
- Over the years, the City has embedded a culture and commitment to continuous improvement which is a key enabler to supporting the City's objectives.

Deloitte's recommendations include the following:

- 1 Align organisational resources to effectively manage and deliver business improvement activities across the organisation.
- 2 Adopt a consistent method to be used for subsequent service delivery reviews.
- 3 Strengthen the [City's] existing *Project Management Framework* by establishing appropriate PMO [Project Management Office] processes, tools and templates to effectively deliver and manage multiple service reviews.
- 4 Extend the City's current *Project Management Framework* to include prioritisation of identified opportunities and the capture and management of benefits.

The complete Deloitte report is provided as Attachment 1.

#### Progress of the Cost Efficiency and Service Reviews Program

The fieldwork (collection of data, reviewing documentation and interviewing staff members) undertaken by external consultants William Buck has been completed for the following activities:

- City's Fleet Utilisation and Operating Costs.
- Building Maintenance and Cleaning of City Buildings.
- Utility Consumption of City Buildings.
- Selected Civic Events.

The fieldwork for the review of Selected Cultural Events is continuing.

Attachment 2 to this Report details the Review Scope, Summary of Findings, Recommendations and Management Comments for the review of City's Fleet Utilisation and Operating Costs.

Management comments from the relevant Business Unit Manager and Director on the recommendations of the remaining reviews are currently being gathered.

The reviews undertaken by internal resources are continuing for the following activities:

- Traffic Management Control.
- Plumbing Services Tender.
- Electrical Services Tender.

#### Current Practice

The City currently undertakes reviews of activities as part of normal business practice within all business units. Recent reviews include the following:

- **Leadership Development Program** – one of the program's objectives is to progress the delivery of the City's *Strategic Community Plan* and association program outcomes in an efficient and cost effective way. It has been identified that approximately \$174,000 of savings can be made through continuous improvement practices relating to time wastage and cost savings.
- **Business Unit Manager Budget Presentations** – during February 2015 all Managers were required to present their 2015-16 operating budget to the Executive Leadership Team. Presentations included critical assumptions on which estimates and / or proposals are based; that is customers, volumes, legislative change, significant cost changes. Proposals for any changes to the business (resources, service levels, internal restructuring and process change for example) required details on the impact on the business as usual budget. Managers were also required to include a 2% efficiency saving on materials and contracts.

Savings and additional income of \$108,200 has been identified following a review of utility income and the City's *Property Management Framework* generating new leases.

### Next Steps

During February 2015, the City's Business Performance Analyst commenced and will be responsible to:

- 1 review the report from Deloitte to determine which recommendations should be implemented, identify lead and partner business unit/s and develop timeframes for implementation
- 2 develop a system to monitor and gather benefits from recommendations made from the reviews listed above
- 3 finalise reviews undertaken by internal resources (traffic management control, plumbing services tender and electrical services tender)
- 4 determine process improvements and the associated implementation plans for the following activities which were reviewed during 2014:
  - Christmas Decorations.
  - City Building Rental.
  - Domestic and Recycling Collections.
  - Street Lighting (Decorative and Non-Western Power Assets).
  - Street Tree Maintenance.

### **Legislation / Strategic Community Plan / policy implications**

**Legislation** *Local Government Act 1995.*  
*Local Government (Audit) Regulations 1996.*

### **Strategic Community Plan**

**Key theme** Governance and Leadership.

**Objective** Corporate capacity.

**Strategic initiative** Continuously strive to improve performance and service delivery across all corporate functions.

### **Risk management considerations**

The review of the City's activities will ensure the effective and efficient allocation of resources and service levels. Cost efficiency targets are essential to ensure the City's 20 Year *Strategic Financial Plan* and *Strategic Community Plan* is achievable.

**Financial / budget implications**Current financial year impact

<b>Account no.</b>	1.210.A2301.3265.0000
<b>Budget Item</b>	Consultancy
<b>Budget amount</b>	\$50,000
<b>Amount spent to date</b>	\$31,630
<b>Proposed cost</b>	\$48,125
<b>Balance</b>	\$16,495

All amounts quoted in this Report are exclusive of GST.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The Chief Executive Officer and Manager Executive and Risk Services have embarked on contacting local government authorities who were involved in the local government reform process to seek details on whether they had identified any opportunities for efficiency gains that may be relevant to the City.

By undertaking this program of cost efficiency and service reviews it is expected that the following outcomes can be achieved:

- Service and activity improvements.
- Assisting longer-term financial sustainability.
- Ensuring value for money and operational efficiency.
- Service level adjustments.
- Considering alternative modes of service delivery.
- Improved utilisation of available resources.

It is also important to note that when introducing, adjusting or increasing service levels or programs, a cost benefit analysis must be undertaken to determine whether the identified return on investment is realised.

## **VOTING REQUIREMENTS**

Simple Majority.

**MOVED** Cr Amphlett, **SECONDED** Cr Norman that Council **NOTES** the:

- 1 independent appraisal of the City's approach to cost efficiencies and services reviews forming Attachment 1 to this Report;**
- 2 progress of the cost efficiency and service reviews program forming Attachment 2 to this Report.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

*Appendix 3 refers*

*To access this attachment on electronic document, click here: [Attach3AUDIT090315.pdf](#)*

## ITEM 5                      REPORT ON MISCONDUCT RISK IN LOCAL GOVERNMENT PROCUREMENT

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	25586, 101515
ATTACHMENTS	Attachment 1      Report on Misconduct Risk in Local Government Procurement
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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### PURPOSE

To provide the Audit Committee with details of the Corruption and Crime Commission's (the Commission) *Report on Misconduct Risk in Local Government Procurement*.

### EXECUTIVE SUMMARY

The City was selected by the Commission as one of five local governments to be involved in an audit of procurement practices. The other local governments chosen to be included in the audit were the Cities of Cockburn, Perth, Swan and Wanneroo. The Commission engaged RSM Bird Cameron to carry out the audit and the City received its final report *Local Government Authority Procurement Audit – City of Joondalup* on 28 August 2013. The report was presented to the Audit Committee at its meeting held on 10 March 2014. The Commission then prepared a *Draft Consolidated Report – Local Government Authority Procurement Audit* which was provided to the City on 11 April 2014. The details of the draft report were presented to the Audit Committee at its meeting held on 4 August 2014 however on the advice of the Commission the draft report was not provided.

The Commission provided their *Report on Misconduct Risk in Local Government Procurement* (the Report) to the Minister for Local Government (the Minister) on 4 February 2015. The Minister tabled the Report to the Parliament of Western Australia (the Parliament) on 26 February 2015.

*It is therefore recommended that the Audit Committee NOTES the details of the Corruption and Crime Commission's Report on Misconduct Risk in Local Government Procurement forming Attachment 1 to this Report.*

## BACKGROUND

Over several years the Commission has conducted a number of investigations into alleged serious misconduct in local governments which has revealed weaknesses in financial governance systems. The Commission decided to undertake an audit of procurement practices at the Cities of Cockburn, Joondalup, Perth, Swan and Wanneroo to ascertain if the weaknesses are systemic across the local government sector. The local governments were chosen because of their size and the scale of their operations.

The Commission engaged independent auditors RSM Bird Cameron to undertake the audit of the procurement practices of the five local governments which was structured around three lines of inquiry:

- 1 Do organisational structures, business processes and systems in procurement prevent / minimise opportunities for misconduct to occur?
- 2 Are there adequate systems and controls in place to alert the organisation to incidences of non-compliance with procurement procedures that may involve suspected misconduct?
- 3 Are identified incidents of suspected misconduct, procedural non-compliance and policy breaches reported and appropriately dealt with?

Following the audit each local government received its individual report from RSM Bird Cameron. The City presented its report to the Audit Committee at its meeting held on 10 March 2014.

Following the completion of the review the Commission compiled a draft Consolidated Report which was issued to all five local governments with the City receiving its copy on 11 April 2014. The Commission extended to the Chief Executive Officer the opportunity to make representations concerning any matters in the report adverse to the City. Sections of the Consolidated Report had been redacted by the Commission as they had no relevance or connection to the City.

The Chief Executive Officer responded by letter dated 10 July 2014 advising the Commission that as the draft Consolidated Report did not indicate any major areas of concern for the City, it was his view that a generic report might suggest that all the issues identified also related to the City of Joondalup.

The Commission's final *Report on Misconduct Risk in Local Government Procurement* was provided to the Minister on 4 February 2015. The Minister tabled the report to the Parliament on 26 February 2015, the same day the report was made available to the Chief Executive Officers of the five participating local governments.

## DETAILS

The Commission made the report to the Minister on 4 February 2015 pursuant to section 89 of the *Corruption and Crime Commission Act 2003* as an alternative to making a Report to Parliament.

The Commission identifies in its report broad concerns that procurement and financial governance processes used by local governments in Western Australia can leave them vulnerable to fraud, corruption and other forms of misconduct which are exacerbated by a lack of risk assessment. The report concludes with two recommendations for improvement, which the City is fully supportive of:

#### *Recommendation One*

*The Commission recommends that the jurisdiction of the Auditor General be extended to include local governments.*

#### *Recommendation Two*

*The Commission recommends that the Department of Local Government and Communities actively oversees risk management reviews prepared by local governments pursuant to the Local Government (Audit) Regulations 1996 to ensure that they include appropriate assessment of misconduct risks arising from procurement, and mechanisms for reducing those risks.*

The report also sets out six case studies relating to the Commission's investigations, a post investigation review of financial governance at the City of Stirling and the findings of the audit of the procurement practices of the five local governments undertaken by RSM Bird Cameron on behalf of the Commission.

#### Commission Investigation Case Studies

The report summarises six investigations by the Commission into procurement related misconduct in local governments which demonstrate a variety of ways in which misconduct in procurement can cause a loss. The Commission's view is that these investigations indicate a systemic weakness across the local government sector and demonstrate the necessity for local governments to have proper systems and procedures to mitigate misconduct risks. None of these investigations related to the City of Joondalup.

#### Post Investigation Review of City of Stirling

The Commission's review of the City of Stirling found that since the original investigation in 2010 the City has addressed the financial governance weaknesses that had allowed serious fraud and corruption to occur. It had also taken steps to build its misconduct resistance across the whole organisation.

#### Audit of Procurement Practices of Five Local Governments

The report noted some positive findings but also identified some areas of non-compliance and control weaknesses. A key observation from the RSM Bird Cameron audit was that the Cities have not undertaken a formal fraud and misconduct risk assessment to determine specific risks related to procurement; however the Commission accepts the fact that this does not mean that misconduct was occurring.

Paragraph 65 of the report identifies six main areas of weaknesses as:

- internal audit procedures relevant to misconduct risk
- lack of separation of duties



- tendering and quotation procedures
- adherence to procedures, particularly in relation to authorisation to make decisions and justification of those decisions
- education and training about misconduct
- Dealing with conflicts of interest.

The only weakness from Paragraph 65 identified for the City related to bullet point three where it was observed that a number of internal recommendation forms for quotations and sole suppliers were not always completed. Appropriate quotations were obtained and the purchases were subject to other controls within the financial system including authorisation of the purchase orders and invoices by delegated officers. However processes were improved to ensure that the City's Purchasing Protocols are complied with.

The report recognises that all five local governments have conducted, or are in the process of conducting, assessments of their misconduct risks. The City engaged the services of independent consultants KPMG in June 2014 to undertake a fraud and misconduct risk assessment of the City's procurement processes. As part of the assessment, KPMG have been provided with relevant City documents such as the *Code of Conduct*, *Purchasing Policy*, *Purchasing Protocols* and *Short Guide to Gifts* and undertook a workshop with key City staff on 25 November 2014. The completion of this assessment will guide the next phase of work in relation to fraud, corruption and misconduct prevention.

### **Legislation / Strategic Community Plan / policy implications**

**Legislation** *Corruption and Crime Commission Act 2003.*

### **Strategic Community Plan**

**Key theme** Governance and Leadership.

**Objective** Corporate capacity.

**Strategic initiative** Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.

**Policy** Not applicable.

### **Risk management considerations**

Conducting a fraud and misconduct risk assessment of the City's procurement practices will identify any gaps in the current controls for which mechanisms will be implemented to further reduce risks in this area.

### **Financial / budget implications**

#### Current financial year impact

<b>Account no.</b>	1.210.A2101.3265.0000
<b>Budget Item</b>	Consultancy
<b>Budget amount</b>	\$50,000
<b>Amount spent to date</b>	\$0
<b>Proposed cost</b>	\$15,000

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

As stated by the Commission in the report, while it is difficult to prevent a determined person from committing fraud, the opportunities and temptations can be greatly reduced through an appropriate control framework.

The City has an extensive internal audit function which is strengthened by:

- The Executive and Risk Services Business Unit which is responsible for assisting the Chief Executive Officer to comply with section 17 of the *Local Government (Audit) Regulations 1996* – review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and legislative compliance.
- A risk based internal audit plan that independently and objectively reviews systems and procedures across the entire organisation to ensure the effectiveness of risk management and internal control processes and that compliance and regulatory requirements are met.
- *Risk Management Policy* (adopted by Council on 24 September 2013 – CJ190-09/13 refers) – City's commitment and approach to managing risks that may impact on its day-to-day operations and threaten the achievement of its objectives.
- *Risk Management Framework* (endorsed by Council on 24 September 2013 – CJ190-09/13 refers) – to facilitate the development and implementation of risk management principles and practices.
- *Corporate Risk Register* (endorsed by Council on 18 March 2014 – CJ044-03/14 refers) – to help identify, assess and mitigate risks that may impact on the achievement of the City's objectives.
- Internal Risk Management Taskforce chaired by the Chief Executive Officer.

The City also has an extensive review system for expenditure and any associated processes, including the following:

- Continuously reviewing its Business Model.

- Ensuring external auditors are engaged to undertake such reviews as:
  - four yearly review of financial management systems as required by the *Local Government (Financial Management) Regulations 1996*
  - non-compliance in purchasing practices.
- Internal Financial Review Taskforce chaired by the Director Corporate Services which has a clear focus on best practice financial management and the future financial sustainability of the City. Its scope of work includes, but is not limited to, a thorough examination and management of the financial performance of the organisation and to provide appropriate recommendations to the Strategic Financial Management Committee and Council on the economic allocation of assets held, realisation of best value for money and financial strategies for the future.

The City also has many systems and controls to prevent, detect and report on incidences of fraud and misconduct including:

- a formalised and documented strategic approach
- financial controls
- recruitment / employment policies and procedures
- *Governance Framework*
- *Code of Conduct*
- conflict of interest declarations; disclosure of gifts register
- Primary and Annual Returns.

## VOTING REQUIREMENTS

Simple Majority.

**MOVED Cr Amphlett, SECONDED Cr Thomas that the Audit Committee NOTES the details of the Corruption and Crime Commission's Report on Misconduct Risk in Local Government Procurement forming Attachment 1 to this Report.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

*The Director Governance and Strategy left the meeting at 8.11pm.*

*Appendix 4 refers*

*To access this attachment on electronic document, click here: [Attach4AUDIT090315.pdf](#)*

## ITEM 6                      DEPRECIATION AND IMPLEMENTATION OF 'FAIR VALUE'

<b>WARD</b>	All	
<b>RESPONSIBLE DIRECTOR</b>	Mr Mike Tidy Corporate Services	
<b>FILE NUMBER</b>	102400	
<b>ATTACHMENTS</b>	Attachment 1	A Basic Guide to depreciation
	Attachment 2	Comparison to the Cities of Stirling, Wanneroo, Gosnells, Melville and Swan
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').	

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### PURPOSE

For the Audit Committee to note the review of depreciation and implementation of 'fair value' for City assets.

### EXECUTIVE SUMMARY

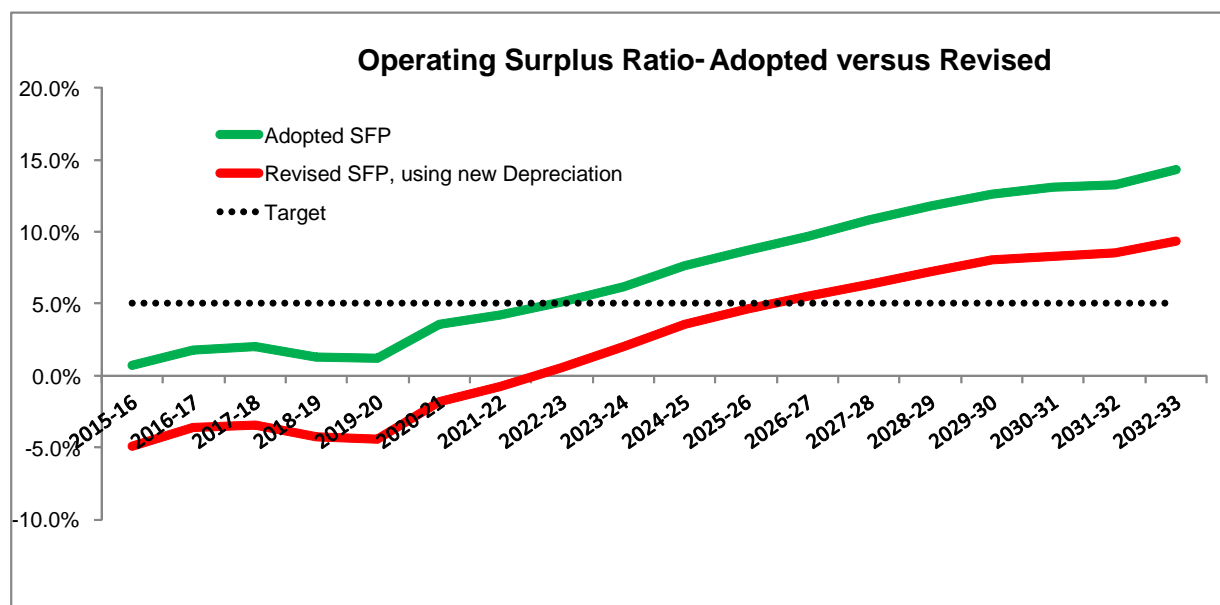
The purpose of this report is to explain how the City has implemented the requirement for assets to be shown at 'fair value', the changes in depreciation and the impacts of these changes. The requirements for assets to be shown at fair value stem from *Australian Accounting Standard AASB 13 – Fair Value Measurement*, with the requirement for all assets to be shown at fair value by the end of the 2014-15 financial year.

'Fair value' requires market evidence to value assets, where such evidence exists. Where it does not, the fair value is calculated by either an income or a cost approach. The term 'fair value' is a generic term that refers to implementation of one of the three approaches. Five of the asset classes (buildings, drainage, transport, fleet and land) are now reflected in the audited accounts at 'fair value' and represent 96% of the total value of the City's assets. The revaluations during 2013-14 were the transport and drainage assets, where the City conducted its own internal valuation which was then peer-reviewed by an external consultant. This approach was subject to positive comment by the auditors as part of the review of the 2013-14 accounts. The treatment applied by the Cities of Stirling, Wanneroo, Gosnells, Swan and Melville have been reviewed as part of this Report. A similar approach has been taken (for example internal valuations), but the City of Joondalup appears to be unique by then obtaining a peer review.

The implementation of 'fair value' has resulted in a large increase in the 'fair value' of assets and a large increase in depreciation (budget for 2014-15 is \$19 million, whereas the final accounts for 2013-14 recorded \$27 million). The *20 Year Strategic Financial Plan* (SFP) model has been reviewed with the higher depreciation, and revised projections have been calculated.

The implications are as follows:

- Operating surplus ratio only climbs to the benchmark of 5% by 2026-27, four years after it was projected to do so within the adopted SFP (see graph below).
- Asset Sustainability Ratio. The adopted SFP projected that the ratio would be achieved in the last eight years, with a minimum 90% achieved. The revised SFP now projects achievement in just the last five years. For those years where the 90% threshold is not achieved, an additional \$133 million would be required in asset renewal expenditure to achieve the 90% ratio.
- Financial sustainability score. The Department of Local Government and Communities published a Financial Sustainability score for each metropolitan local government in October 2014, as part of the Metropolitan Local Government Reform update. The methodology developed was based on the seven statutory ratios (operating surplus ratio, own source revenue coverage, debt service coverage ratio, current ratio, asset consumption, asset renewal and asset sustainability) and scored them using three criteria. The City of Joondalup scored 69 out of 100 for the financial sustainability Score 2010 to 2017. This is one point less than the classification of Average (70+) and 11 points less than a Good score of 80+. The majority of the 31 points lost were due to the operating surplus ratio (23 points), which includes depreciation within its calculation. If a financial sustainability score was recalculated from the years 2014 to 2021 based on the updated depreciation projections, the score for the City would be 57 and would be significantly below average.



The ratios may indicate that assets would not be renewed in line with expectations, which could ultimately lead to reduced levels of service. The City will need to assess the funding requirements for long-term asset renewal plans.

The long-term implications of the higher depreciation will be considered in more detail as part of the current update of the SFP.

The Cities of Stirling, Wanneroo, Swan, Gosnells and Melville now have the vast majority of their asset values now shown at 'fair value'. While the Cities of Stirling and Wanneroo also had a very large increase in the 'fair value' of infrastructure assets between 2013-14 and 2014-15, this has not yet resulted in a large change in depreciation. This is likely to be only a temporary issue due to the accounting treatment applied for 2013-14. It would be expected that the 2014-15 results for the Cities of Stirling and Wanneroo (and their long term financial plans) will see large increases in depreciation compared to previous plans.

A comparison of the statutory ratios to other local governments shows significant variations and brings into doubt whether local governments are consistently applying the same calculations for the ratios. Suffice to say that the issue of 'fair value' and asset ratios are still new concepts and has some way to go before they settle down in the industry.

Indeed the CPA is updating their "*Guide to depreciation and Fair Value*" in 2015, and the City will review the updated guide and review the approaches. This may impact on future depreciation calculations.

*It is therefore recommended that the Audit Committee NOTES the review of depreciation and implementation of 'Fair Value'.*

## **BACKGROUND**

This report reviews the following:

- Implementation of 'Fair Value'.
- *20 Year Strategic Financial Plan (SFP)* – implications of revaluations on depreciation and Ratios.
- Depreciation for planned major projects (for example Joondalup Performing Arts and Cultural Facility).
- Comparison to the Cities of Stirling, Wanneroo, Gosnells, Melville and Swan; as well as Main Roads.

### What is Fair Value?

'Fair value' is the rational estimate of the potential market price of an asset. 'Fair value' reflects the current market value of an asset, rather than its actual historical cost. Where there is no market data available to determine the current asset value (as with the majority of local government assets), there are other rational approaches that may be taken to determine the fair value.

### Fair Value Implementation

The requirements for assets to be shown at 'fair value' stem from *Australian Accounting Standard AASB 13 – Fair Value Measurement*. AASB 13 applies for accounting periods from 1 January 2013 and codifies existing principles in other standards. The local government regulations require all assets to be at 'Fair Value' by 2014-15. Each asset class must be revalued at least every three years thereafter.

### Why is 'Fair Value' of assets and depreciation important?

Recognising the 'fair value' of an asset, rather than its historical cost, is important so that the value (in today's dollars) of the asset is recognised and more importantly that the level of the consumption (depreciation) of the asset is reflected in the accounts. All other figures in the accounts (rates income, employment expenses, materials / contracts) are all of course in today's dollars and it is therefore vital that the depreciation costs are in today's dollars, rather than based on a historical cost.

Depreciation is important for a number of reasons:

- Cost - it is a very large cost to the City (\$27.5 million in 2013-14 approx 20% of operating expenditure).
- Statutory financial ratios - depreciation also features in three of the seven ratios (operating surplus ratio, asset sustainability and asset consumption) and has a major impact in those three ratios.
- Financial sustainability score - The Department of Local Government and Communities published a financial sustainability score for each metropolitan local government in October 2014, as part of the Metropolitan Local Government Reform update. The methodology developed was based on the seven statutory ratios (operating surplus ratio, own source revenue coverage, debt service coverage ratio, current ratio, asset consumption, asset renewal and asset sustainability) and scored them using three criteria. The City of Joondalup scored 69 out of 100 for the Financial Sustainability Score 2010 to 2017. This is one point less than the classification of Average (70+) and 11 points less than a Good score of 80+. The majority of the 31 points lost were due to the operating surplus ratio (23 points), which includes depreciation within its calculation.
- Renewal expenditure – depreciation is an indicator of how much the City should be spending on capital renewals, to ensure that renewal matches consumption.
- Asset intensive – City is an asset intensive business and depreciation/asset planning should be uppermost in financial management and all long term planning.

Attachment 1 provides a basic guide to depreciation.

### **DETAILS**

#### Basis: Market Approach versus Income Approach versus Cost Approach

'Fair Value' requires market evidence to value assets, where such evidence exists. Where it doesn't, the fair value is calculated by either income or a cost approach. The key aspects of each approach are:

- 1 Market – the preferred approach uses reliable information to consider the value of an asset if it was sold into the market, at arm's length (for example fleet resale guides). Where there is no market for asset then either an income or cost approach is applied.
- 2 Income – if the asset earns income then it may be possible to show the 'fair value' as the discounted value (today's value) of future income streams. There is a risk with this approach for local government assets in that many assets may earn income, but it is far lower than the cost of replacing the asset.

- 3 Cost – will be used for the majority of local governments, to calculate the replacement cost of the asset. This can be done with reference to costing data held internally by the City for other similar assets, for example roads were recently revalued based on other recent projects by the City. Alternatively external advice on replacement costs may be sought from third parties, for example with bridges and buildings the replacement costs are based on having to reconstruct the asset from scratch using quantity surveyor data.

The term 'fair value' is a generic term that refers to implementation of one of the three approaches.

#### Fair Value Implementation by Asset Class

The table below summarises the implementation of fair value by asset class. Five of the asset classes (buildings, drainage, transport, fleet and land) are now reflected in the audited accounts at 'fair value'. These represent 96% of the total value of the City's assets. The revaluations during 2013-14 were the drainage and transport assets, where the City conducted its own internal valuation which was then peer-reviewed by an external consultant.

Asset Class #1	Fair Value Implemented	Approach	#2 Value June 2014	Comments / Source
1 Buildings	June 2013	Cost	\$164.4m	External valuation by Landgate.
2 Drainage	June 2014 (excluding Sumps)	Cost	\$264.7m	Internal valuation, peer reviewed.
3 Transport (Footpaths, Roads, Car Parks, Bridges)	June 2014	Cost	\$552.6m	Footpaths, Roads and Car Parks - Internal valuation, peer reviewed. Bridges – External valuation by BG&E.
4 Parks and Public Open Spaces (Reserves and Other)	June 2015	-	\$ 44.2m	To be revalued.
5 Fleet (Fleet, Plant and Equipment)	June 2013	Market	\$ 11.7m	Redbook market value guide.
6 Freehold Land	June 2013	Market	\$ 99.5m	
7 Artworks	Not applicable.	-	\$ 0.7m	Not applicable.
8 Furniture, Computer Equipment and Software	Not Applied	-	\$ 1.0m	Asset values retained at cost.
9 Traffic Signals & Lighting	June 2015	-	\$ 0.4m	(not COJ assets).
<b>Total</b>			<b>\$1,139.3m</b>	

- #1 Asset Classes are based on revised descriptions that will form the basis of updated Asset Management Plans (the descriptions in brackets relates to the descriptions within the published accounts).



#2 *Value at June 2014 – this is the Depreciated Renewal Cost (otherwise referred to as 'Written Down Value', 'Fair Value' or 'Carrying Amount'). The values are derived from the published accounts for 2013-14.*

### Infrastructure Assets Valuation 2014 – Internal Valuation and then Peer Review

As mentioned above, the revaluations during 2013-14 were for the majority of transport related infrastructure assets. The valuation methodology, including supporting details/spreadsheets, was then peer reviewed by an external consultant. This approach received positive comment by the auditors as part of the review of the 2013-14 accounts. Five other local governments have been reviewed as part of this Report with similar processes (for example internal valuations) in the approach, but the City appears to be unique by then obtaining a peer review.

### Future Changes in Approach

There will be continuous review of the approaches used for individual asset groups, ensuring that the implementation of 'fair value' continues to comply with accounting standards, while ensuring that the values held are meaningful for strategic asset management.

### **Issues and options considered**

*The Local Government (Financial Management) Regulations 1996* require the City to revalue asset classes at least every three years. However the CPA advice is that the public sector should carry out an 'interim annual desktop revaluation', just using indices, not a full detailed revaluation. This has the benefit of avoiding large surprises every three years. Main Roads undertake interim annual desktop revaluations with reference to indexes. The City may consider undertaking interim annual desktop revaluations, but is under no obligation to do so.

### **Legislation / Strategic Community Plan / policy implications**

<b>Legislation</b>	<i>Local Government Act 1995.</i> <i>Local Government (Financial Management) Regulations 1996.</i>
<b>Strategic Community Plan</b>	
<b>Key theme</b>	Financial Sustainability.
<b>Objective</b>	Effective management.
<b>Strategic initiative</b>	Manage liabilities and assets through a planned, long-term approach. Balance service levels for assets against long-term funding capacity.
<b>Policy</b>	Not applicable.

### **Risk management considerations**

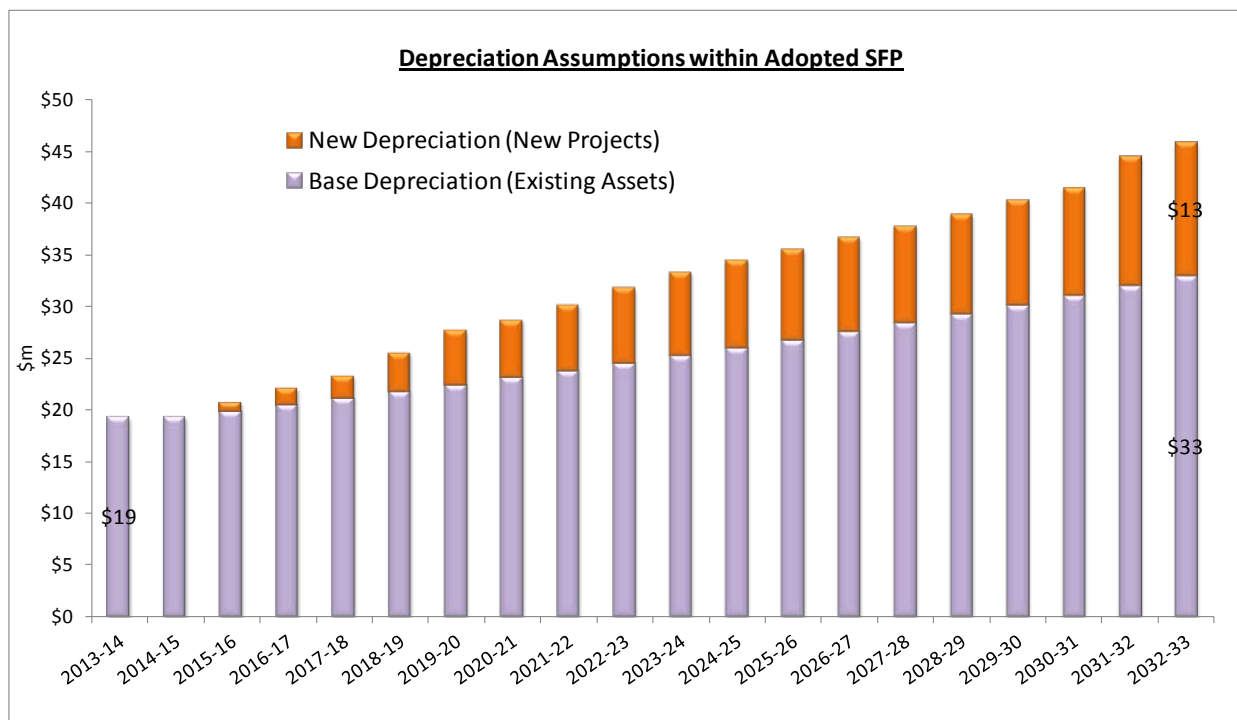
The impacts of the revaluation within the SFP have been assessed, and are explained in detail within the next section, this indicates that the statutory ratios have worsened as a result of the implementation of 'Fair Value'. This has a wide range of impacts which will be evaluated as part of the forthcoming update of the SFP.

## Financial / budget implications

### Assumptions within adopted SFP (June 2014)

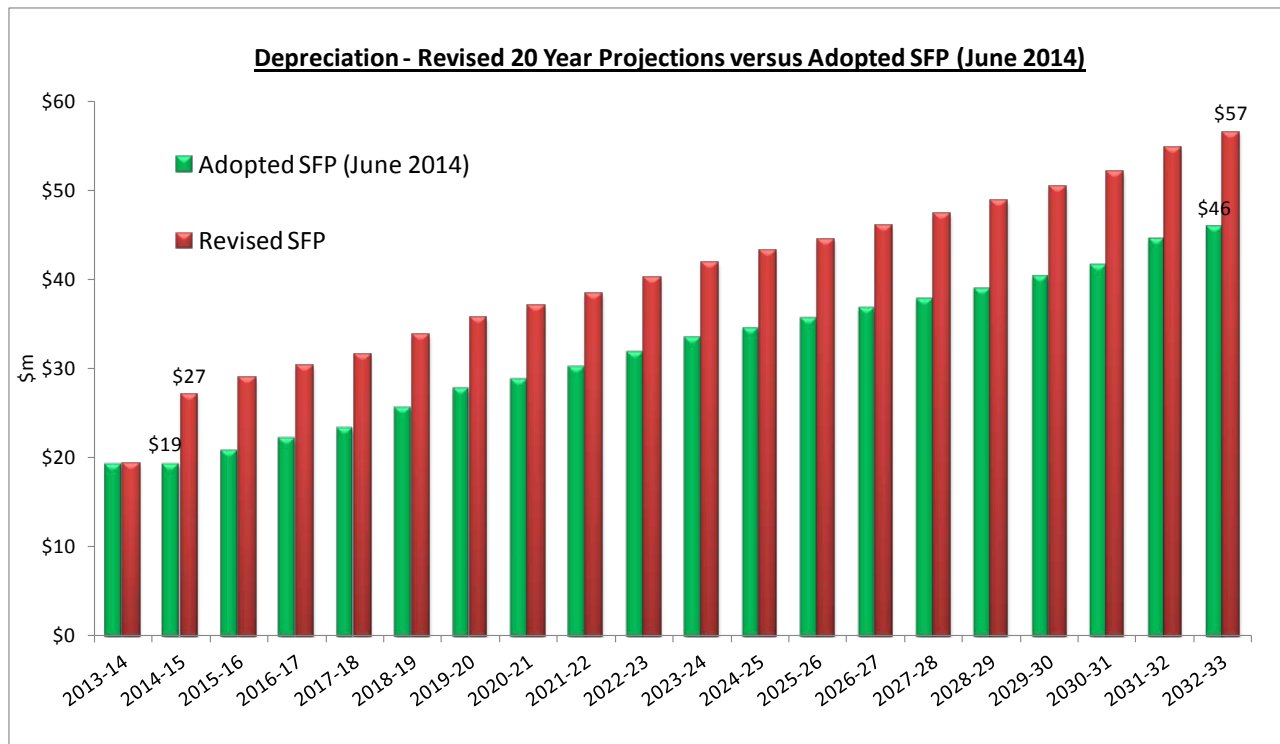
Depreciation was included in the adopted SFP using the 2014-15 Budget of \$19 million as the baseline. By 2032-33 depreciation was projected to increase to \$46 million (as illustrated in the graph below) based on the following:

- Base depreciation increases from \$19 million to \$33 million, based on 3% CPI escalation.
- New depreciation is calculated for each upgrades/new projects and by 2032-33 was estimated to be \$13 million.



### Revised depreciation Forecast based on Revaluations

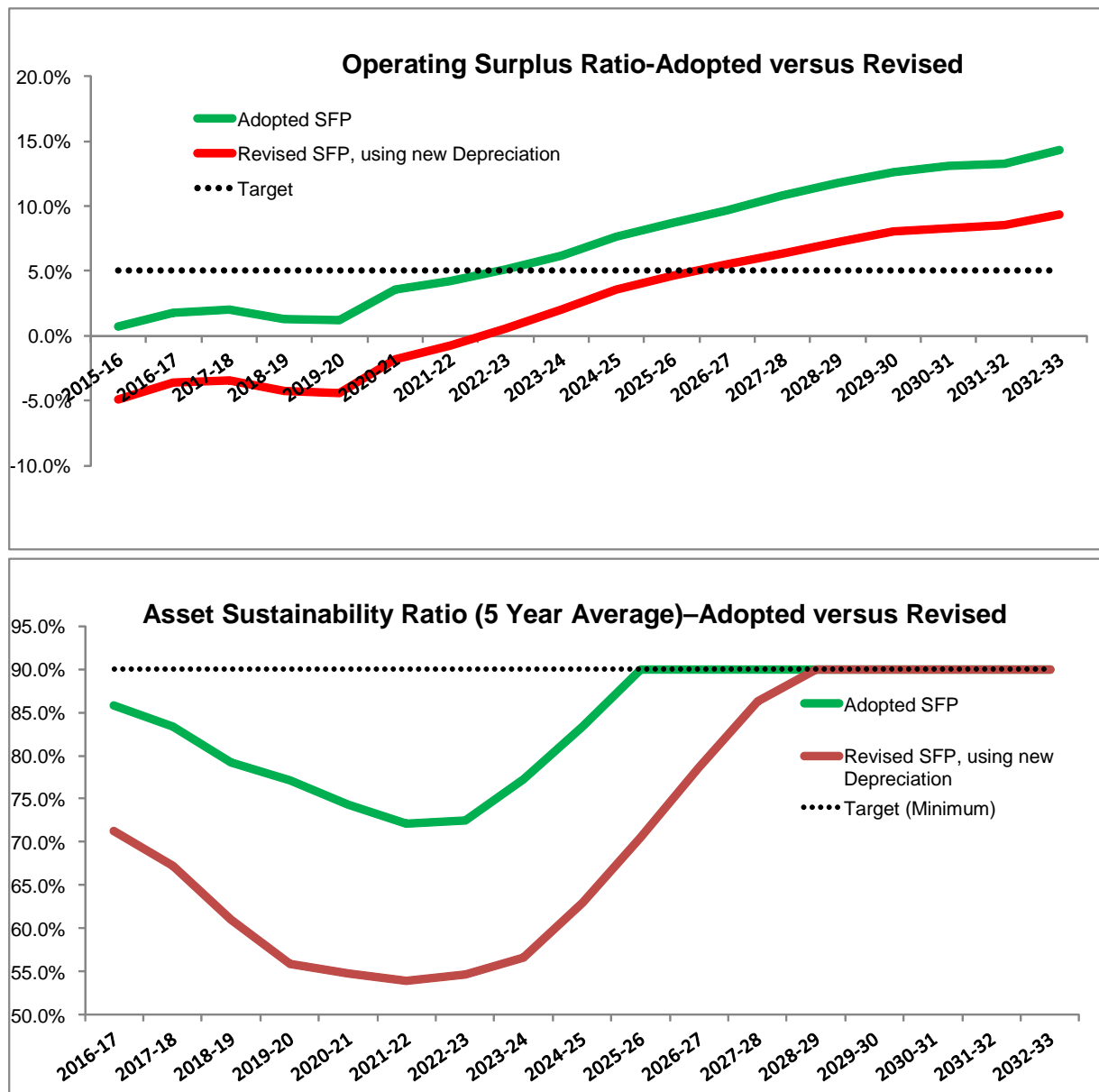
The 2013-14 revaluations will have impacts for the SFP because the baseline is much higher. The depreciation budget for 2014-15 (used as the baseline) was only \$19 million, whereas the final accounts (based on revaluation of Infrastructure assets) for 2013-14 recorded \$27 million depreciation. The SFP model has been amended with a higher baseline, and revised projections have been calculated. The revised projections show that depreciation in 2032-33 could be \$57 million instead of \$46 million (adopted SFP), an increase of \$11 million.



### Implications for SFP

The implications of the higher depreciation projections may be:

- Operating surplus ratio only climbs to the benchmark of 5% by 2026-27, four years after it was projected to do so within the adopted SFP.
- Asset sustainability ratio - The adopted SFP projected that the ratio would be achieved in the last eight years, with a minimum 90% achieved. The revised SFP now projects achievement in just the last five years. For those years where the 90% threshold is not achieved, an additional \$133 million would be required in asset renewal expenditure to achieve the 90% ratio.
- Financial sustainability score - If a financial sustainability score was recalculated from the years 2014 to 2021 based on the new projections, the score for the City would be 57. This is 12 lower than the poor score of 69 calculated from 2010 to 2017, and would be significantly below average.



The ratios may indicate that assets would not be renewed in line with expectations, which could ultimately lead to reduced levels of service. The City will need to assess the funding requirements for long-term asset renewal plans.

It should be noted though that the worsening projections are based on the simplistic assumption that the base depreciation continues for all 20 years. It is likely that future revaluations, and reviews of methods of depreciation, will result in different depreciation figures and forecasts.

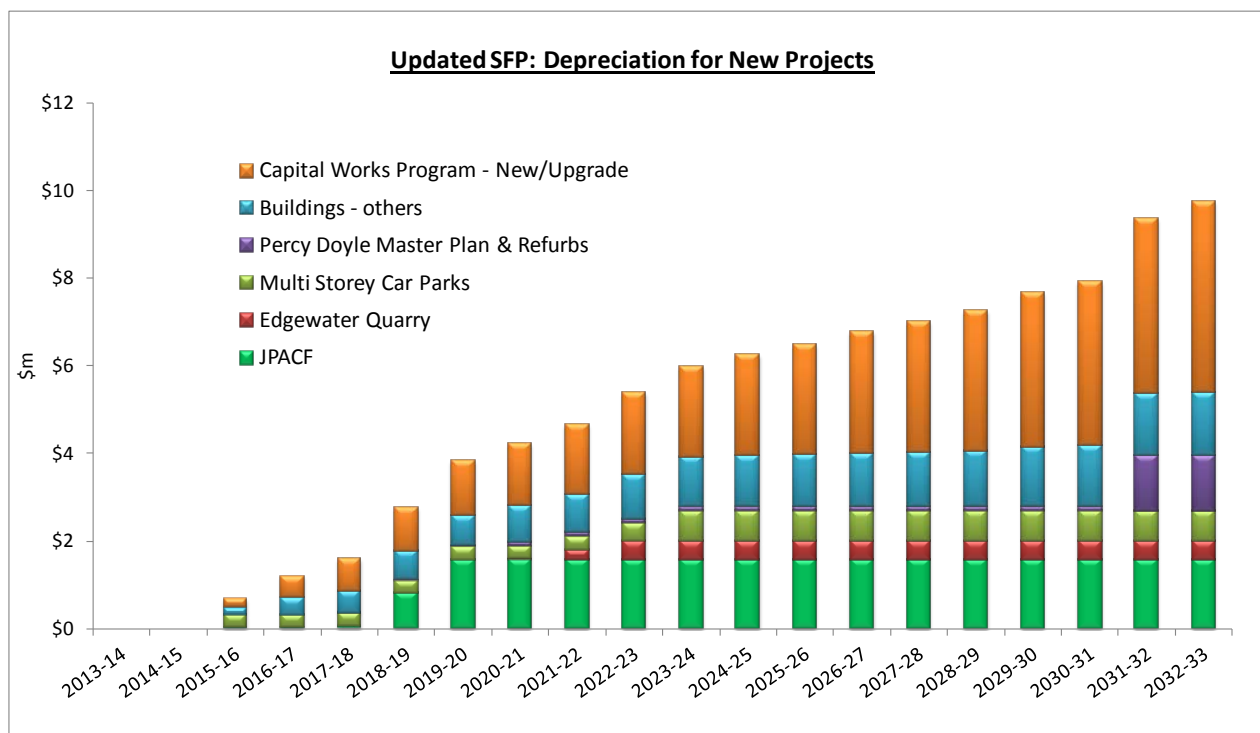
The implications of the low ratios will be better understood once revised *Asset Management Plans* (AMPs) are prepared for each asset class. Additionally, the CPA are updating their guidance paper for the public sector on valuations/depreciation, this will be issued in early 2015.

### SFP – Other Comments

The outer years of the SFP are of course very difficult to predict but asset ratios have more meaning in the long-term and the asset sustainability ratio, which takes account of new depreciation, has significant relevance in the long-term. Indeed the revised AMPs being prepared by the City will need to project well beyond a 20 year time period, and it may be viable at some stage in future years to prepare a long-term financial plan over 40 years or more. This will ensure that any peaks of renewals beyond the 20 years are recognised.

### New Depreciation by Type

The graph below shows the split of new depreciation between six categories. It is worth noting that the majority of new depreciation derives from the *Capital Works Program*, because a great deal of the *Capital Works Program* is for new or upgraded assets, such as buildings, streetscape, parks, dualling of roads, traffic management, parking facilities and pathways. This new depreciation has an impact in the long term as it translates into renewal expenditure that is required.



All amounts quoted in this Report are exclusive of GST.

### **Regional significance**

Attachment 2 summarises the comparisons made with the Cities of Wanneroo, Stirling, Swan, Gosnells and Melville. The five local governments have many similar aspects in the implementation of fair value although there are significant differences in how the values are then reported in the accounts. Issues to note are:

- **Phasing** – The Cities of Stirling, Wanneroo and Swan used the same phasing for ‘fair value’ as the City of Joondalup, whereby land, buildings, plant and fleet were revalued in 2013, and then infrastructure in 2014.

- Implementation - The majority value of assets are now shown at 'fair value', with just some loose ends.
- Approach – Cost is the preferred approach for the majority of assets classes. The Cities of Stirling, Melville and Swan also valued some furniture at market.
- Increase in value of infrastructure assets – The Cities of Joondalup, Stirling and Wanneroo have all reported very large increases in the 'fair value' of their infrastructure assets between 2013-14 and 2012-13.
- Increase in depreciation 2013-14 versus 2012-13 - Where there is a large increase in 'fair value' it would be expected to see a large increase in depreciation. This is the effect that the City of Joondalup has experienced. However both the Cities of Stirling and Wanneroo have not elected to show their accounts in this way and do not have a large increase in depreciation between 2013-14 and 2012-13. The Cities of Stirling and Wanneroo have used the 'elimination' method for restating infrastructure assets and depreciation. This method is valid for accounting standards, but results in a different treatment of depreciation during the year of revaluation. This will only be a temporary issue, it would be expected that the 2014-15 results for the Cities of Stirling and Wanneroo will show higher depreciation costs compared to 2013-14. Attachment 1 provides further details of the 'elimination' method.
- Impact on budgets and long term financial plans – This Report has indicated earlier that the restated values will now cause issues with the SFP for the City of Joondalup. It is likely that the very large increase in Infrastructure assets of the Cities of Wanneroo and Stirling will also have issues in the long-term plans. The City of Wanneroo update and approve their long-term financial plan at the same time as the budget each year, so the impacts on depreciation of the revaluation will not be clear until the 2014-15 accounts are published. The City of Stirling has chosen not to publish their long-term financial plan.

### Ratio Comparison

There are three asset ratios prepared by each local government:

- Asset consumption ratio compares the 'fair value' of assets to the current replacement cost. This is an indicator of the age / condition for assets, with a high ratio indicating a young age profile of the assets.
- Asset sustainability ratio compares the amount of expenditure on capital renewals to overall depreciation expenses. This is an indicator of renewal versus consumption.
- Asset renewal funding ratio compares the amount of renewal expenditure included in the long term financial plan compared to the amounts recommended by adopted AMPs over a 10 year period. This is an indicator of the alignment of AMPs and long term plans, and the affordability of asset management plans.

The table below compares the three asset ratios for each local government. In summary, there are significant issues with comparisons due to the methods of restating accounts (in particular depreciation) and confusion on how the ratios should be calculated. Some comments will be provided on both the Cities of Stirling and Wanneroo; it is not deemed worthwhile making comments on the others due to the uncertainties of the calculations.

Issues to note are:

- City of Stirling
  - Asset consumption ratio is very high at 91%, suggesting a very young age/condition profile for the assets. This is surprising as the City of Stirling is an older City than the City of Joondalup. It is possible that the ratio is distorted because the 'elimination' method was used for Infrastructure assets.
  - Asset sustainability ratio is suggesting that the vast majority of capital expenditure was on renewals, approximately twice the rate of depreciation. This ratio also appears distorted. The use of the elimination method for depreciation in 2013-14 may have caused some of this, but not all of it.
  - Asset consumption ratio versus asset sustainability ratio – it would be expected to have an inverted relationship between these ratios (that is if the asset sustainability ratio was high then the asset consumption ratio should be low) because a low asset consumption ratio would indicate an ageing profile which requires large renewals (high asset sustainability ratio). However, the City of Stirling has both a high asset consumption ratio and high asset sustainability ratio.
  - Asset renewal funding ratio appears to be strange, as it suggests that the amounts being planned for capital expenditure are twice as much as requested by asset management plans. In summary this ratio does not make sense.
- City of Wanneroo
  - High asset consumption ratio suggesting that the age / condition of assets is very young. While it is acknowledged that many parts of the City of Wanneroo are new, there are also many older suburbs and slightly surprising to see such a high ratio.
  - Low asset sustainability ratio, which suggests that the City of Wanneroo is spending a lot on new assets but not much on renewals in comparison to depreciation.
  - Asset renewal funding ratio indicates that for each \$4 requested for renewal expenditure, only \$3 is included in the long term financial plan.

<b>Asset Ratios 2013-14</b>	<u>Joondalup</u>	<u>Stirling</u>	<u>Wanneroo</u>	<u>Gosnells</u>	<u>Melville</u>	<u>Swan</u>
Asset Consumption Ratio	67%	91%	82%	71%	62%	63%
Asset Renewal Funding Ratio	83%	197%	76%	80%	100%	171%
Asset Sustainability Ratio	40%	195%	16%	74%	120%	54%

It should be noted that most local governments (except the Cities of Joondalup and Stirling) have reported the asset consumption ratio and asset renewal funding ratios as memorandum items only, not as formal part of the accounts. This is because these two ratios are not required to be formally published at this stage.

### Comparison to Main Roads

Review of the accounts for 2013-14 for Main Roads has shown the following:

- Implementation - revaluations are completed for the majority of assets (land, buildings and infrastructure \$41 billion). Outstanding and presumably to be completed in 2015 is property, plant and equipment (\$0.5 billion).
- Approach – some buildings (does not say how many) are valued at market value.
- Accounts – the elimination method has not been used.
- Threshold - \$5,000 minimum used for capitalisation.
- Annual approach – Main Roads undertake an annual desktop revaluation using indices.
- Depreciation – straight line method of calculating depreciation is used.

### **Sustainability implications**

Not applicable.

### **Consultation**

Not applicable.

### **COMMENT**

The CPA has prepared a guide for the implementation of 'fair value' for the public sector. The guide has indicated that there may be further refinements which the City may consider in applying 'fair value', for example the use of residual values. The majority of assets within local government are considered not to have a residual value as the term is more commonly associated with the resale value of assets. There are very few infrastructure assets within local government (for example fleet) that would have a resale value and therefore a residual value is not considered relevant. However, the cyclical nature of local government assets is such that assets tend to be renewed when the service level reaches a point that represents the community's minimum expectations. As a result the asset is not replaced when the remaining service potential is totally consumed, but rather there is a level of service potential which is transferred from the old asset into the new asset. This represents a residual value that may be factored into the depreciation calculations.

As the CPA guide will be updated during 2015 the City will review the updated guide and undertake further review of depreciation, and research alternative approaches, such as the use of residual values.

It is possible that further reviews will impact on the depreciation values. Suffice to say that the issue of 'fair value' for local governments and depreciation based on 'fair value' concepts is still a relatively newly implemented concept and has some way to go before it settles down in the industry.



**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr Norman, SECONDED Cr Thomas that the Audit Committee NOTES the review of depreciation and implementation of 'Fair Value'.**

**The Motion was Put and**

**CARRIED (6/1)**

**In favour of the Motion:** Crs McLean, Amphlett, Chester, Norman, Ritchie and Thomas.

**Against the Motion:** Mayor Pickard.

*The Director Infrastructure Services left the meeting at 8.36pm.*

*Appendix 5 refers*

*To access this attachment on electronic document, click here: [Attach5AUDIT090315.pdf](#)*

## **ITEM 7                      HALF YEARLY REPORT - CONTRACT EXTENSIONS – 1 JULY TO 31 DECEMBER 2014**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Mike Tidy Corporate Services
<b>FILE NUMBER</b>	07032
<b>ATTACHMENT</b>	Attachment 1      Bi-Annual Figures for Contract Extensions – 1 July 2014 to 31 December 2014 – Council Approved Contracts
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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### **PURPOSE**

For the Audit Committee to note the details of contracts extended by the Chief Executive Officer between 1 July 2014 to 31 December 2014.

### **EXECUTIVE SUMMARY**

The schedule of contracts extended by the Chief Executive Officer during the half-year ended on 31 December 2014 is provided in Attachment 1.

*It is therefore recommended that the Audit Committee NOTES the contracts extended by the Chief Executive Officer during the period 1 July 2014 to 31 December 2014, forming Attachment 1 to this Report.*

### **BACKGROUND**

At its meeting held on 1 November 2005 (Item CJ231-11/05 refers), Council resolved that a half-yearly report be prepared for the Audit Committee detailing contracts that were originally approved by Council and have subsequently been extended by the Chief Executive Officer.

### **DETAILS**

Council has delegated to the Chief Executive Officer the authority to approve all contract extensions on tenders approved by Council subject to a report to the Audit Committee being prepared on a half-yearly basis providing details of those contracts extended.

During the period 1 July 2014 to 31 December 2014 four contracts were extended.

**Issues and options considered**

The option to extend the contracts by the Chief Executive Officer is required to maintain continuity of the applicable services to the City.

**Legislation / Strategic Community Plan / policy implications**

<b>Legislation</b>	The City's legal advice is that under section 5.41(d) of the <i>Local Government Act 1995</i> the Chief Executive Officer may be delegated the power to extend a contract – provided the Chief Executive Officer does not extend the contract beyond the “total term of the Contract” specified by Council in the resolution.
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**Strategic Community Plan**

<b>Key theme</b>	Governance and Leadership.
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<b>Objective</b>	Corporate capacity.
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<b>Strategic initiative</b>	Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.
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<b>Policy</b>	Not applicable.
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**Risk management considerations**

The delegated authority to extend Contracts is limited to the original terms and conditions approved by resolution of Council when the tender was first awarded.

**Financial/budget implications**

In accordance with each individual Contract and approved budget limits.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

This report provides the Audit Committee with details of contracts originally approved by Council or by the Chief Executive Officer under delegated authority, which have subsequently been extended by the Chief Executive Officer during the period from 1 July 2014 to 31 December 2014.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED** Cr Amphlett, **SECONDED** Cr Chester that the Audit Committee **NOTES** the contracts extended by the Chief Executive Officer during the period 1 July 2014 to 31 December 2014, forming Attachment 1 to this Report.

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

*Appendix 6 refers*

*To access this attachment on electronic document, click here: [Attach6AUDIT090315.pdf](#)*

## **ITEM 8                      HALF YEARLY REPORT - WRITE OFF OF MONIES - 1 JULY TO 31 DECEMBER 2014**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Mike Tidy Corporate Services
<b>FILE NUMBER</b>	07032, 101515
<b>ATTACHMENTS</b>	Nil.
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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### **PURPOSE**

For the Audit Committee to note the amounts of monies written off under delegated authority.

### **EXECUTIVE SUMMARY**

The total amount written off under delegated authority during the six months ended 31 December 2014 came to \$5,266.74, comprising 5,781 small amounts of unpaid rates that are below the \$100 reportable limit.

*It is therefore recommended that the Audit Committee RECEIVES the report of amounts written off under delegated authority for the period 1 July to 31 December 2014.*

### **BACKGROUND**

Section 6.12(1)(c) of the *Local Government Act 1995* gives Council the power to write off any amount of money owing to the City.

At its meeting held on 6 June 2006 (CJ079-06/06 refers) Council approved to delegate to the CEO the authority to write off monies owed to the City, subject to a report being provided to the Audit Committee on a six monthly basis on the exercise of this delegation for amounts between \$100 and \$20,000. The CEO under section 5.44 has delegated his authority to nominated employees, up to the limits provided in the instrument of delegation.

### **DETAILS**

During the six months ended 31 December 2014 a total amount of \$5,266.74 was written off as unrecoverable. This amount included the following:

- 5,781 items of small rates balances that are below the reportable limit, totalling \$5,266.74, representing in the main rounding decimals or minor penalty interest charges for a few days late payment where ratepayers did not pay the penalty or the full penalty and the cost of collection was, for all practical purposes, proving to be uneconomical.

**Issues and options considered**

Not applicable.

**Legislation / Strategic Community Plan / policy implications**

**Legislation**                      Section 6.12(1) (c) of the *Local Government Act 1995*.  
Section 5.42 of the *Local Government Act 1995*.  
Section 5.44 of the *Local Government Act 1995*.

**Strategic Community Plan**

**Key theme**                      Financial Sustainability.

**Objective**                      Effective management.

**Strategic initiative**              Not applicable.

**Policy**                          Not applicable.

**Risk management considerations**

The amounts written off are immaterial in value and are either unrecoverable or uneconomical to recover, none of which represent a noteworthy financial risk to the City.

**Financial/budget implications**

<b>Account no.</b>	3256.
<b>Budget Item</b>	Bad Debts written off.
<b>Annual Budget</b>	\$ 13,700.
<b>Year to Date Budget</b>	\$ 8,900.
<b>Year to Date Actual</b>	\$ 5,267.
<b>Year to Date variance</b>	\$ 3,633.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

Monies written off under delegated authority comprised 5,781 small items of unpaid rates totalling \$5,266.74, all of which were below the \$100 reportable limit.

## **VOTING REQUIREMENTS**

Simple Majority.

**MOVED Mayor Pickard, SECONDED Cr Amphlett that the Audit Committee RECEIVES the report of monies written off under delegated authority for the period 1 July to 31 December 2014.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

**COMMITTEE DECISION – ADOPTION BY EXCEPTION RESOLUTION - [02154, 08122]**

**MOVED** Mayor Pickard, **SECONDED** Cr Ritchie that pursuant to the *Meeting Procedures Local Law 2013 – Clause 4.8 – Adoption by exception resolution*, the Committee **ADOPTS** the following items:

**Item 9 and Item 10.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.



**Disclosure of interest affecting impartiality**

<b>Name/Position</b>	<b>Mr Garry Hunt, Chief Executive Officer.</b>
<b>Item No./Subject</b>	Item 9 - Confidential - Chief Executive Officer's Credit Card Expenditure for the Quarter Ended 30 September 2014.
<b>Nature of interest</b>	Interest that may affect impartiality.
<b>Extent of Interest</b>	The Chief Executive Officer is the card holder.

## ITEM 9                      CONFIDENTIAL - CHIEF EXECUTIVE OFFICER'S CREDIT CARD EXPENDITURE FOR THE QUARTER ENDED 30 SEPTEMBER 2014

<b>WARD</b>	All	
<b>RESPONSIBLE DIRECTOR</b>	Mr Mike Tidy Corporate Services	
<b>FILE NUMBER</b>	09882, 101515	
<b>ATTACHMENT</b>	Attachment 1	Chief Executive Officer's Credit Card Expenditure – Quarter Ended 30 September 2014
	<i>(Please Note:</i>	<i>The report and attachment is confidential and will appear in the official Minute Book only)</i>
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').	

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This report is confidential in accordance with Section 5.23(2)(a) of the *Local Government Act 1995*, which also permits the meeting to be closed to the public for business relating to the following:

*a matter affecting an employee.*

A full report is provided to Elected Members under separate cover. The report is not for publication.

**MOVED Mayor Pickard, SECONDED Cr Ritchie that the Audit Committee NOTES the report on the corporate credit card usage of the Chief Executive Officer for the quarter ended 30 September 2014.**

**The Motion was Put and CARRIED (7/0) by Exception Resolution after consideration of Item 8, page 48 refers.**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

### Disclosure of interest affecting impartiality

<b>Name/Position</b>	<b>Mr Garry Hunt, Chief Executive Officer.</b>
<b>Item No./Subject</b>	Item 10 - Confidential - Chief Executive Officer's Credit Card Expenditure for the Quarter Ended 31 December 2014.
<b>Nature of interest</b>	Interest that may affect impartiality.
<b>Extent of Interest</b>	The Chief Executive Officer is the card holder.

**ITEM 10                    CONFIDENTIAL - CHIEF EXECUTIVE OFFICER'S  
CREDIT CARD EXPENDITURE FOR THE QUARTER  
ENDED 31 DECEMBER 2014**

WARD All

**RESPONSIBLE  
DIRECTOR** Mr Mike Tidy  
Corporate Services

**FILE NUMBER** 09882, 101515

<b>ATTACHMENT</b>	Attachment 1	Chief Executive Officer's Credit Card Expenditure – Quarter Ended 31 December 2014
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(Please Note: The report and attachment is confidential and will appear in the official Minute Book only)

<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').
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This report is confidential in accordance with Section 5.23(2)(a) of the *Local Government Act 1995*, which also permits the meeting to be closed to the public for business relating to the following:

*a matter affecting an employee.*

A full report is provided to Elected Members under separate cover. The report is not for publication.

**MOVED Mayor Pickard, SECONDED Cr Ritchie that the Audit Committee NOTES the report on the corporate credit card usage of the Chief Executive Officer for the quarter ended 31 December 2014.**

**The Motion was Put and CARRIED (7/0) by Exception Resolution after consideration of Item 8, page 48 refers.**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Amphlett, Chester, Norman, Ritchie and Thomas.

**URGENT BUSINESS****MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN****REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION**

A report was requested highlighting the differences in calculations of the two options for treating depreciation adjustments when re-valuing assets.

**CLOSURE**

There being no further business, the Presiding Member declared the meeting closed at 8.43pm; the following Committee Members being present at that time:

Cr Tom McLean, JP  
Mayor Troy Pickard  
Cr Geoff Amphlett, JP  
Cr John Chester  
Cr Mike Norman  
Cr Teresa Ritchie, JP  
Cr Sam Thomas