

minutes

Audit Committee

MEETING HELD ON **MONDAY 29 FEBRUARY 2016**

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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
29 FEBRUARY 2016.

ATTENDANCE

Committee Members

Cr Christine Hamilton-Prime	<i>Presiding Member</i>
Mayor Troy Pickard	
Cr Tom McLean, JP	
Cr Nige Jones	
Cr Russell Poliwka	<i>Deputy Presiding Member</i>
Cr John Logan	
Cr Russ Fishwick, JP	<i>Deputising for Cr Sophie Dwyer</i>

Observer

Cr John Chester

Officers

Mr Garry Hunt	Chief Executive Officer
Mr Mike Tidy	Director Corporate Services
Mr Brad Sillence	Manager Governance
Ms Christine Robinson	Manager Executive and Risk Services
Mr Roney Oommen	Manager Financial Services
Mr Peter McGuckin	Internal Auditor
Mrs Lesley Taylor	Governance Officer

DECLARATION OF OPENING

The Presiding Member declared the meeting open at 5.30pm.

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.

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 4 - Confidential - Chief Executive Officer's Credit Card Expenditure (July - September 2015).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 5 - Confidential - Chief Executive Officer's Credit Card Expenditure (October - December 2015).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

APOLOGIES/LEAVE OF ABSENCE**Leave of Absence Previously Approved:**

Cr Mike Norman	21 February to 5 March 2016 inclusive;
Cr Sophie Dwyer	29 February to 6 March 2016 inclusive;
Cr Christine Hamilton-Prime	14 March to 4 April 2016 inclusive;
Cr Philippa Taylor	15 March to 18 March 2016 inclusive;
Cr Mike Norman	19 April to 27 April 2016 inclusive.

CONFIRMATION OF MINUTES**MINUTES OF THE AUDIT COMMITTEE HELD 9 NOVEMBER 2015**

MOVED Cr McLean SECONDED Cr Jones that the minutes of the meeting of the Audit Committee held on 9 November 2015 be confirmed as a true and correct record.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

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 HALF YEARLY REPORT - CONTRACT EXTENSIONS
– 1 JULY 2015 TO 31 DECEMBER 2015**

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

PURPOSE

For the Audit Committee to note that no contracts were extended by the Chief Executive Officer between 1 July 2015 to 31 December 2015.

EXECUTIVE SUMMARY

It is therefore recommended that the Audit Committee NOTES that no contracts were extended by the Chief Executive Officer during the period 1 July 2015 to 31 December 2015.

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 2015 to 31 December 2015 no contracts were extended.

Issues and options considered

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

Legislation / Strategic Community Plan / policy implications

Legislation The City's legal advice is that under section 5.41(d) of the *Local Government Act 1995* 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 the Council in the resolution.

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

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 2015 to 31 December 2015.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Logan **SECONDED** Cr Poliwka that the Audit Committee **NOTES** that no contracts were extended by the Chief Executive Officer during the period 1 July 2015 to 31 December 2015.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

**ITEM 2 HALF YEARLY REPORT - WRITE OFF OF MONIES -
1 JULY 2015 – 31 DECEMBER 2015**

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

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 2015 came to \$3,985.23. This amount consists of 5,563 small amounts of unpaid rates.

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 2015.

BACKGROUND

Section 6.12(1)(c) of the *Local Government Act 1995* gives the 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 Chief Executive Officer 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 Chief Executive Officer 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 2015 a total amount of \$3,985.23 was written off as unrecoverable. This amount included the following:

- 5,563 items of small rates balances that are below the reportable limit, totalling \$3,985.23. This amount represents mainly rounding of 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

Account no.	3256
Budget Item	Bad Debts written off.
Annual Budget	\$ 13,500
Year to Date Budget	\$ 6,850
Year to Date Actual	\$ 3,985
Year to Date variance	\$ 2,865

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

Monies written off under delegated authority comprised 5,563 small items of unpaid rates totalling \$3,985.23, all of which were below the \$100 reportable limit.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Jones SECONDED Cr McLean that the Audit Committee RECEIVES the report of monies written off under delegated authority for the period 1 July to 31 December 2015.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

ITEM 3 2015 COMPLIANCE AUDIT RETURN

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	09492, 32481, 101515
ATTACHMENT	Attachment 1 2015 Compliance Audit Return
AUTHORITY / DISCRETION	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 Council to adopt the City's 2015 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 2015 to 31 December 2015 has been completed and is required to be adopted by Council before being submitted to the DLGC by 31 March 2016.

It is therefore recommended that Council:

- 1 ADOPTS the completed 2015 Local Government Compliance Audit Return for the period 1 January 2015 to 31 December 2015 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 2015 Return was made available to local governments by the DLGC on its website for online completion.

The structure of the return is similar to previous years and focuses on areas of compliance considered high risk. However a number of new questions have been formulated regarding regulations 24AD to 24AI of the *Local Government (Functions and General) Regulations 1996* which are in the category of Tenders for Providing Goods and Services. This incorporates all the statutory requirements prescribed in Regulation 13 of the *Local Government (Audit) Regulations 1996*.

DETAILS

The return contains the following compliance categories:

- 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 relevant managers were required to complete the responses to the questions which were approved by their director before being forwarded to the Internal Auditor for review and input on the return. The return has been completed and is now required to be adopted by Council before being submitted to the DLGC by 31 March 2016.

Legislation / Strategic Community Plan / policy implications

Legislation Regulations 14 and 15 of the *Local Government (Audit) 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 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 in the return reveal a high level of compliance with legislation by the City.

VOTING REQUIREMENTS

Simple Majority.

MOVED Mayor Pickard SECONDED Cr Jones that Council:

- 1 ADOPTS the 2015 Local Government Compliance Audit Return for the period 1 January 2015 to 31 December 2015 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 Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

Appendix 1 refers

To access this attachment on electronic document, click here: [Attach1agnAudit160229.pdf](#)

Disclosure of interest affecting impartiality

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 4 - Confidential - Chief Executive Officer's Credit Card Expenditure (July - September 2015).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

ITEM 4 CONFIDENTIAL - CHIEF EXECUTIVE OFFICER'S CREDIT CARD EXPENDITURE (JULY - SEPTEMBER 2015)

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	09882
ATTACHMENT	Attachment 1 Chief Executive Officer's Credit Card Expenditure – Quarter Ended 30 September 2015 (Please Note: The report and attachment is confidential and will appear in the official Minute Book only)
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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

MOVED Cr McLean SECONDED Cr Poliwka that the Audit Committee NOTES the report on the corporate credit card usage of the Chief Executive Officer for the quarter ended 30 September 2015.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

Disclosure of interest affecting impartiality

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 5 - Confidential - Chief Executive Officer's Credit Card Expenditure (October - December 2015).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

**ITEM 5 CONFIDENTIAL - CHIEF EXECUTIVE OFFICER'S
CREDIT CARD EXPENDITURE (OCTOBER -
DECEMBER 2015)**

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	09882
ATTACHMENT	Attachment 1 Chief Executive Officer's Credit Card Expenditure – Quarter Ended 31 December 2015 (Please Note: The report and attachment is confidential and will appear in the official Minute Book only)
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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

MOVED Cr McLean SECONDED Cr Poliwka that the Audit Committee NOTES the report on the corporate credit card usage of the Chief Executive Officer for the quarter ended 31 December 2015.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

ITEM 6 **CONFIDENTIAL – COMPLIANCE AUDIT OF PAYMENT CARD INDUSTRY DATA SECURITY STANDARD**

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	18049, 101515
ATTACHMENT	Attachment 1 Internal Audit Report: Payment Card Data Security (Please Note: <i>The report and attachment is confidential and will appear in the official Minute Book only</i>)
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

This report is confidential in accordance with Section 5.23(2)(f)(i) 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 that if disclosed, could be reasonably expected to –

- (i) *impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law;*

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

MOVED Cr Logan **SECONDED** Cr Jones that the Audit Committee **NOTES** the details of the report titled *Internal Audit Report: Payment Card Data Security* as detailed in Attachment 1 to this Report.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

ITEM 7 CONFIDENTIAL – FRAUD AND MISCONDUCT RISK ASSESSMENT – PROCUREMENT

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	25586, 101515
ATTACHMENT	Attachment 1 Fraud and Misconduct Risk Assessment – Procurement Report (Please Note: <i>The report and attachment is confidential and will appear in the official Minute Book only</i>)
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

This report is confidential in accordance with Section 5.23(2)(f)(i) 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 that if disclosed, could be reasonably expected to –

- (i) *impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law;*

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

MOVED Cr Jones SECONDED Mayor Pickard that the Audit Committee NOTES the details of the updated report titled *Fraud and Misconduct Risk Assessment – Procurement* as detailed in Attachment 1 to this Report.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

ITEM 8 DEPRECIATION – IMPACTS OF REVALUATIONS

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	102400, 101515
ATTACHMENTS	Attachment 1 Comparison of Depreciation and Asset Values
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit Committee to note the impacts of revaluations within the Cities of Joondalup, Stirling and Wanneroo.

EXECUTIVE SUMMARY

A report was presented to the Audit Committee in March 2015, which included a comparison to other local governments, most notably to the Cities of Stirling and Wanneroo on the treatment of depreciation in a revaluation. The Audit Committee requested a further explanation of how the different approaches to revaluations could be implemented and the impact on the operating surplus ratio.

The impact of implementing revaluations across the three Cities has been markedly different. The City of Joondalup has had a large increase in depreciation of 42.1% over the last six years, although the increases each year have been steady. The City of Joondalup's asset values have increased by 65.5% over the same period. The increases for the Cities of Stirling and Wanneroo have been much more volatile during the same six year period. The City of Stirling's increase in depreciation has only been 13.8% but asset values have more than doubled. The City of Wanneroo's depreciation increase over the same period is 65.9% but is much lower than the 163.5% increase in asset values.

The overall reason for the volatility is that the accounting standard now requires assets to be shown at fair value which has resulted in detailed reviews of depreciation and asset values, whereas previously asset values and depreciation could be based on historical cost. Other reasons that may account for the difference between the three Cities are different age profile of assets, different type of assets (land revaluations account for a large portion in the case of the Cities of Stirling and Wanneroo) and different usage. The City of Stirling has used different methods of calculating depreciation than traditional methods, for example the use of residual values for some of its assets.

The increase in depreciation of 42% has not materially affected the City of Joondalup's operating surplus ratio because own source revenue has increased by 40% over the same six year period which offsets the effect. The City of Wanneroo has a similar neutral impact with a 60% increase in own source revenue closely matched by the 65.5% increase in depreciation. However, the City of Stirling's operating surplus ratio will have benefited from the impacts because own source revenue has increased by over 40% but depreciation only increased by 13.8%.

In the March 2015 report to the Audit Committee it was stated that the elimination method of accounting for asset revaluations could provide a choice as to how depreciation may be stated within the statement of comprehensive income during a year of revaluation. On reflection and after further consideration of its use and application this statement did not correctly describe the impact of the elimination method. The elimination method does allow a choice as to how the gross asset values are reflected in the supporting notes to the accounts and asset registers, however this choice does not affect fair values in the statement of comprehensive income or financial position. It may have an impact on the calculation of the asset consumption ratio and other statutory ratios without disclosure of gross asset values in the notes to the financial statements. The City of Joondalup used the elimination method for buildings in 2012-13, but this caused difficulty for users of financial statements to calculate various asset ratios and has not been used again.

BACKGROUND

A report was presented to the Audit Committee in March 2015 which provided details of the City's compliance with the *Australian Accounting Standard AASB 13 – Fair Value Measurement*, and also explained the impacts of higher Depreciation on the statutory ratios and *20 Year Strategic Financial Plan*.

Additionally the report provided a comparison to other local governments, most notably the Cities of Stirling and Wanneroo on the treatment of depreciation in a revaluation. The Audit Committee requested a further explanation of how the different approach to revaluations could be implemented and the consequent impact on the operating surplus ratio.

DETAILS

Attachment 1

Attachment 1 provides a summary of depreciation and asset values ('Fair Value') for the Cities of Joondalup, Stirling and Wanneroo from 2009-10 to 2015-16. All figures relate to the audited financial statements except 2015-16 depreciation which relates to Budgeted values. The key issues to note are as follows:

- Joondalup
 - Depreciation has increased steadily over the past six years, with an increase of 42.1% from 2009-10 to 2015-16.
 - Asset values have increased by 65.5% over the same six year period.
 - Depreciation as a % of asset value has reduced slightly from 2.7% to 2.3%.
- Stirling
 - Depreciation has only increased by 13.8% while asset values have increased by 241%.
 - Depreciation as a % of asset value has reduced vastly from 3.6% to 1.2%.
- Wanneroo
 - 65.9% increase in depreciation and a 163.5% increase in asset values.
 - Depreciation as a % of asset value has reduced sharply from 3.0% to 1.9%.

The impacts of implementing revaluations among the three Cities have been markedly different. The City of Joondalup has endured a large increase in depreciation of 42.1% in the last six years, although the increases each year have been steady. The City of Joondalup's asset values have increased by 65.5% over the same period. The increases for the Cities of Stirling and Wanneroo have been much more volatile. The City of Stirling's overall increase in depreciation has only been 13.8% but asset values have more than doubled. The City of Wanneroo's depreciation increase over the same period is 65.9% but is much lower than the 163.5% increase in asset values.

Reasons for Volatile Changes in Depreciation and Asset Values

The overall reason for the volatility is that the accounting standard has now required to show assets at fair value which has resulted in detailed reviews of depreciation and asset values, whereas previously asset values and depreciation could be based on historical cost.

Other reasons that may account for the difference between the three Cities are as follows:

- Age profile of assets are different (for example the City of Stirling has older assets on average compared to the City of Joondalup).
- Type of Assets – for example both the City of Wanneroo and the City of Stirling have golf courses included in their land values, whereas the City of Joondalup does not own a golf course. Indeed most of the increase in asset values from 2014-15 to 2015-16 by both the City of Stirling and the City of Wanneroo relates to their land values, and land is not depreciated.
- The City of Joondalup was historically revaluing land and buildings every three years prior to the introduction of fair value so its values may have been more current than the Cities of Stirling and Wanneroo.
- Usage of assets, including demographics and utilisation will be different.
- New assets - for example large growth in Wanneroo.

Additionally, there can also be different approaches to the calculation of depreciation which can cause large differences. The City of Joondalup uses straight-line depreciation and does not assume any residual values for the vast majority of its infrastructure assets (as there is no resale value for a road for example). However the City of Stirling has used residual values for some of its assets and also used patterns of consumption rather than the straight line method. When using patterns of consumption to calculate depreciation, the approach uses historical or benchmark data to identify that assets are used differently according to their age and therefore have different depreciation expenses.

The use of residual values for local government assets which have no disposal value has recently been ruled by the Australian Accounting Standards Board as being non-compliant.

Operating Surplus Ratio

The operating surplus ratio is the primary measure of long-term financial sustainability for local government. The ratio compares the amount of operating surplus (difference between income and expenses) to the amount of revenue generated by its own sources (own source revenue). Depreciation has a major influence on the ratio as it comprises approximately 21% of operating expenditure. The own source revenue for Joondalup has increased by 40% over the past six years largely offsetting the impact of the increase in depreciation of 42% so depreciation by itself will not have had a major impact on the changes in the Operating Surplus Ratio during the past six years.

The City of Stirling's depreciation has only increased by 13.8% but their own source revenue has increased by more than 40%, so their operating surplus ratio would have benefited from this. The City of Wanneroo's own source revenue has increased by more than 60% which is broadly in line with the increase in depreciation so similar to the City of Joondalup their operating surplus ratio will not have been affected greatly by the changes in depreciation.

Issues and options considered

Not applicable.

Legislation / Strategic Community Plan / policy implications

Legislation *Local Government Act 1995.*

Strategic Community Plan

Key theme Financial Sustainability.

Objective Effective management.

Strategic initiative

- Manage liabilities and assets through a planned, long-term approach.
- Balance service levels for assets against long-term funding capacity.

Policy Not applicable.

Risk management considerations

Changes in depreciation continue to cause variances to budget because the valuations are completed at year-end and after the budget for the following year has been adopted by Council. Investigation is currently being undertaken as to whether the timing of valuations can be brought forward so that they can inform the budget process.

Financial / budget implications

The impacts of revaluations and depreciation are fully incorporated into the annual update of the *20 Year Strategic Financial Plan*.

Regional significance

As described earlier, there are different impacts of revaluations within the region.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

No further comments.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr McLean SECONDED Cr Poliwka that the Audit Committee NOTES the impacts of revaluations within the Cities of Joondalup, Stirling and Wanneroo.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

Appendix 2 refers

To access this attachment on electronic document, click here: [Attach2agnAudit160229.pdf](#)

ITEM 9 EXTERNAL REVIEW OF THE CITY'S SERVICE EFFECTIVENESS AND EFFICIENCY REVIEW PROGRAM

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

PURPOSE

For the Audit Committee to note the appointment of Deloitte Touche Tohmatsu to undertake an external review of the City's Service Effectiveness and Efficiency Review Program.

EXECUTIVE SUMMARY

Since July 2013 the City has been undertaking more focused 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. To ensure the service review program intent and methodologies are sound and in line with Australian and international best practice, external appraisals have been undertaken.

At the Council meeting held on 17 August 2015 it was requested that the Chief Executive Officer engage an appropriately qualified and independent organisation to review the City's Service Effectiveness and Efficiency Review Program and to recommend additional areas for review to achieve further efficiencies and cost savings.

It is therefore recommended that the Audit Committee NOTES the appointment of Deloitte Touche Tohmatsu to undertake an external review of the City's Service Effectiveness and Efficiency Review Program.

BACKGROUND

The Chief Executive Officer initiated an extensive program of review 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.

Service reviews, process mapping and continuous improvement is a long established practice at the City, where improvements plans are implemented following reviews of existing service levels. Since 2005 the City has had a policy framework that aligns the City's performance management systems and practices with the principles of the Business Excellence Framework. This is a practical methodology for continuous improvement across all management aspects of the organisation, and better practice in the provision of services to the community.

As part of the annual budget process Managers are required to assess assumptions on which estimates and/or proposals are based for customers, volumes, legislative change and significant cost changes. Proposals for any changes (resources, service levels, internal restructuring and processes) are to include the impacts to the 'business as usual' budget estimate. These annual reviews are aimed:

- Identifying the service drivers (statutory, financial, operational) and reviews what is currently delivered.
- Considering desirable service levels – what should be delivered (within budgeting realities) while maintaining customer needs and process improvement focus.
- Reviewing and recommending how the service would be best delivered (delivery model).

Service Review Program

Five major review methodologies were identified to assist the City's approach. These are as follows:

- Cost Efficiency and Service Reviews
- Performance Audits / Reviews as guided by the Standard on Assurance Engagement ASAE 3500 Performance Engagements
- Cost Management Program
- Structured Cost Reduction
- ISO 9001:2008 Quality Management Systems Audits

These methodologies have been identified from partnering with other local government authorities, researching of leading practice approaches and advice sought from the Western Australian Office of the Auditor General on the conduct of efficiency and effectiveness reviews.

In order to be able to make sound and sustainable decisions, it is critical that data and information be gathered to ensure a data-driven approach to understanding, comparing and interrogating costs and service levels.

The intent of the service review program (and business as usual reviews) is to guide the City in demonstrating effectiveness and efficiency of services provided. The reviews are aimed at identifying opportunities for:

- 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.

Independent appraisal of the City's approach to cost efficiencies and services reviews

Deloitte Touche Tohmatsu was engaged in 2014 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.

The recommendations from this review have been used to develop a framework for the Phase 2 Reviews (Service Effectiveness and Efficiency Review Program), which aligns with other City activities such as ISO:9001 Quality Management System, continuous improvement, process mapping and the *Business Excellence Framework*.

The progress report on the Service Effectiveness and Efficiency Review Program is provided as Attachment 1.

DETAILS

A scope was developed by the City for an appropriately qualified and independent organisation to review the City's methodology for undertaking its Service Effectiveness and Efficiency Review Program to ensure it is in line with Australian and international best practice and that all opportunities for achieving efficiencies and cost savings are being explored.

In January 2016, Deloitte was appointed to undertake this review and found that:

- The City has initiated a couple of individual service reviews and has selected a high level approach that is appropriate for the achievement of its objectives.
- A business case template has been drafted by the Executive and Risk Services team, intended to be used broadly to evaluate opportunities for service improvements as well as to provide Business Units with a template to be used to evaluate and present proposals for business improvement initiatives.
- The Executive and Risk Services team have drafted reporting templates to support the management and tracking of service reviews.

Deloitte have subsequently recommended:

- The use data analytics to provide insights to help identify operational efficiency and cost saving opportunities.
- Analyse and evaluate headcount, payroll and spend data to uncover further efficiencies and cost savings.
- Prioritise recommendations and resourcing to achieve program objectives and outcomes.

The complete Deloitte report is provided as Attachment 2.

Deloitte are currently undertaking a high level assessment of the Procurement and Contract Management Review and the Human Resource Services Business Delivery Model. Detailed findings have been provided to City to assist in progressing these reviews.

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 improve 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 implicationsCurrent financial year impact

Account no.	1.210.A2301.3265.0000
Budget Item	Consultancy
Budget amount	\$50,000
Amount spent to date	\$13,500
Proposed cost	\$29,325

All amounts quoted in this report are exclusive of GST.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

A methodical and structured review program is necessary to provide solid and reliable information on which decisions can be based.

It is 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.

Preliminary research of leading practice approaches for service reviews have been undertaken. This included reviewing a 2012 study of service delivery reviews by the Australian Centre of Excellence for Local Government. The study reveals that progressive local governments have employed a formal system for reviewing the services they provide to their communities, and such processes had achieved tangible outcomes and community benefit. The study suggests that such reviews can identify opportunities for:

- Service and activity improvements.
- Cost savings.
- Service level adjustments.
- Alternative modes of service delivery.
- Improved resource usage.

VOTING REQUIREMENTS

Simple Majority.

MOVED Mayor Pickard SECONDED Cr Logan that the Audit Committee NOTES the appointment of Deloitte Touche Tohmatsu to undertake an external review of the City's Service Effectiveness and Efficiency Review Program.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

Appendix 3 refers

To access this attachment on electronic document, click here: [Attach3a9nAudit160229.pdf](#)

ITEM 10 RE-SCHEDULING OF MEETING DATES - AUDIT COMMITTEE 2016

WARD	All
RESPONSIBLE DIRECTOR	Mr Jamie Parry Governance and Strategy
FILE NUMBER	50068
ATTACHMENT	Nil.
AUTHORITY / DISCRETION	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 re-scheduling various committee meeting dates and times for 2016.

EXECUTIVE SUMMARY

At its meeting held on 3 November 2015 the Audit Committee adopted a schedule of meeting dates for the Audit Committee throughout 2016. The meeting schedule has been reviewed with the intent of reducing this time imposition on Elected Members and it is proposed to amend a number of meeting dates so they are held on the same day as other scheduled meetings.

It is therefore recommended the Audit Committee ADOPTS the amended meeting dates and times for the Audit Committee of the City of Joondalup to be held at the Joondalup Civic Centre, Boas Avenue, Joondalup.

BACKGROUND

The Audit Committee was established at the Special Council meeting held on 3 November 2015. The role of the Audit Committee is to provide guidance and assistance to Council as to:

- the carrying out of functions in relation to audits under the *Local Government Act 1995*
- the development of a process used to select and appoint a person to be the City's auditor
- matters to be audited and the scope of audits
- the carrying out of functions relating to other audits and other matters related to financial management

- the review, the appropriateness and effectiveness of the City's systems and procedures in relation to:
 - risk management
 - internal control
 - legislative compliance
 - internal and external audit reporting.

The proposed 2016 schedule of Council meeting dates is based on the format used in recent years. That is, 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.

It is preferable to hold committee meetings in the first week of the month, thereby enabling committee recommendations to be listed in the Briefing Session agenda and subsequently the Council meeting agenda, however this may not always be possible due to other scheduled meetings.

At its special meeting held on 3 November 2015 the Audit Committee adopted the following meeting dates for 2016:

Audit Committee To be held in Conference Room 2
Monday 9 November 2015, commencing at 5.30pm
Wednesday 2 March 2016, commencing at 7.00pm
Wednesday 3 August 2016, commencing at 7.00pm
Wednesday 2 November 2016, commencing at 7.00pm

DETAILS

The Audit Committee is a committee required to be established in accordance with the *Local Government Act 1995* and associated regulations. It is responsible for matters associated with all aspects of financial auditing, legislative compliance, risk management and reviewing the efficiency of the City's use of resources.

Meetings of this committee are usually associated with statutory reporting requirements, including endorsement of the Annual Compliance Audit Return, appointment of the City's Auditor, and adoption of the Audited Financial Statements and Annual Report.

The Compliance Audit Return is required to be endorsed by Council and submitted to the Department of Local Government and Communities before 31 March annually. Consideration of the City's audit focus often occurs in August, coinciding with the end of financial year accounts. Similarly, the audited financial statements are usually finalised by early October, enabling review and adoption by the committee and Council in November.

In this regard, it is necessary for the Audit Committee to meet in November 2015 to accept the Annual Financial Report and accept the 2014-15 Annual Report. This will enable sufficient time for statutory advertising of the acceptance of the Annual Report prior to the holding of the Annual General Meeting of Electors to be held on 15 December 2015.

The proposed changes are as follows:

- Amend the date and time of the Wednesday 3 August 2016 meeting to now be held on Tuesday 2 August 2016, commencing at 5.45pm. This meeting will be followed by the Strategy Session commencing at 7.00pm.
- Amend the date and time of the Wednesday 2 November 2016 meeting to now be held on Tuesday 1 November 2016, commencing at 5.45pm. This meeting will be followed by the Strategy Session commencing at 7.00pm.

Issues and options considered

The Audit Committee can either:

- adopt the meeting dates as proposed in this report
- not adopt the meeting dates as proposed in this report
or
- amend the meeting dates.

Legislation / Strategic Community Plan / policy implications

Legislation

*Local Government Act 1995.
Local Government (Administration) Regulations 1996.
City of Joondalup Meeting Procedures Local Law 2013.*

Strategic Community Plan

Key theme Governance and Leadership.

Objective Corporate capacity.

Strategic initiative Not applicable.

Policy Not applicable.

Risk management considerations

Should the meeting schedule not be changed, there is a risk that committee members may be unable to attend due to conflicting appointments.

Financial / budget implications

Not applicable.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

The proposed dates maintain a meeting schedule that aligns with statutory reporting requirements, including endorsement of the Annual Compliance Audit Return, appointment of the City's Auditor, and adoption of the Audited Financial Statements and Annual Report. While the meetings are no longer scheduled on the same day and time, the amended schedule aligns meetings with other scheduled meetings, thereby minimising conflicts with other City activities.

VOTING REQUIREMENTS

Absolute Majority.

MOVED Cr Logan SECONDED Cr McLean that the Audit Committee BY AN ABSOLUTE MAJORITY AMENDS its decision on 3 November 2015 (Item 1 refers) as follows:

- 1 re-schedule the Wednesday 3 August 2016 meeting to now be held on Tuesday 2 August 2016, commencing at 5.45pm;**
- 2 re-schedule the Wednesday 2 November 2016 meeting to now be held on Tuesday 1 November 2016, commencing at 5.45pm.**

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Pickard, Crs Fishwick, Jones, Logan, McLean and Poliwka.

URGENT BUSINESS

Nil.

MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil.

REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION

Declarations of Gifts/Hospitality to Elected Members

Cr McLean requested a report be presented to the Audit Committee in relation to declaration of gifts/hospitality in view of the CCC report into the City of Perth.

CLOSURE

There being no further business, the Presiding Member declared the meeting closed at 6.17pm; the following Committee Members being present at that time:

Cr Christine Hamilton-Prime
Mayor Troy Pickard
Cr Tom McLean, JP
Cr Nige Jones
Cr Russell Poliwka
Cr John Logan
Cr Russ Fishwick, JP