

CITY OF JOONDALUP

MINUTES OF MEETING OF THE AUDIT COMMITTEE HELD IN CONFERENCE ROOM 1, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY, 18 OCTOBER 2005

ATTENDANCE AND APOLOGIES

Committee Members:

CMR M ANDERSON - Chairman
CMR J PATERSON
CMR P CLOUGH *from 1805 hrs*
CMR S SMITH
CMR A FOX *from 1830 hrs*

Officers:

MR G HUNT	Chief Executive Officer
MR P SCHNEIDER	Director, Corporate Services
MR K ROBINSON	Manager, Audit & Executive Services
MRS L TAYLOR	Minute Clerk

APOLOGIES

Late Apology - Cmr Fox

In Attendance

Mr Steve Linden, Stanton Partners	<i>from 1830 hrs</i>
Mr James Cotterell, Stanton Partners	<i>from 1830 hrs</i>

The Chairman declared the meeting open at 1800 hrs.

DECLARATIONS OF FINANCIAL INTEREST/INTEREST THAT MAY AFFECT IMPARTIALITY

Chief Executive Officer, Mr Garry Hunt declared an interest that may affect his impartiality in Item 2 – Audit Committee Charter as the role of a Chief Executive Officer is referred to within the draft Audit Charter and whether or not a CEO should participate as part of the committee structure.

Chief Executive Officer, Mr Garry Hunt declared an interest that may affect his impartiality in Item 3 – Internal Audit Services as this issue deals with the day-to-day operations of the City and there may be a potential for bias.

Chief Executive Officer, Mr Garry Hunt declared an interest that may affect his impartiality in Item 4 – Corporate Credit Cards as he is the holder of a corporate credit card.

Director, Corporate Services, Mr Peter Schneider declared an interest that may affect his impartiality in Item 4 – Corporate Credit Cards as he is listed on the authority to be issued with a credit card.

Chief Executive Officer, Mr Garry Hunt declared an interest that may affect his impartiality in Item 6 – Human Resources Policies and Procedures as the Human Resources Area reports directly to the CEO.

Cmr Clough entered the Room at 1805 hrs.

CONFIRMATION OF MINUTES

MINUTES OF THE AUDIT COMMITTEE HELD ON 17 AUGUST 2004

MOVED Cmr Smith, **SECONDED** Cmr Paterson that the minutes of the meeting of the Audit Committee held on 17 August 2004 be confirmed as a true and correct record.

The Motion was Put and

CARRIED

ITEM 1 LOCAL GOVERNMENT AMENDMENT ACT 2004 & LOCAL GOVERNMENT (AUDIT) AMENDMENT REGULATIONS 2005 – [50068]

WARD All

RESPONSIBLE Mr Garry Hunt
DIRECTOR Chief Executive Officer

PURPOSE

To advise the Audit Committee of recent amendments to the Local Government Act 1995 and the Local Government (Audit) Regulations 1996. The amendments strengthen the role of the Audit Committee in relation to corporate governance.

DETAILS

The Department of Local Government and Regional Development has recently issued a series of amendments to the Local Government Act and Regulations.

Local Government Amendment Act 2004

Amendments to the Act regarding audit include the insertion of a new division 7.1A entitled “Audit Committee”. The new division deals with the establishment, membership, decision-making and duties that a local government can delegate to an Audit Committee. It also includes a new section 7.12A dealing with “Duties of local government with respect to audits”.

Local Government (Audit) Amendment Regulations 2005

Amendments have been made on several minor issues such as definitions and interpretations. The most significant change has been the inclusion of new regulation 16, which deals with the “Functions of the Audit Committee”

COMMENTS

The Department of Local Government & Regional Development (DLGRD) held a number of training sessions on the recent legislative amendments. The City's Director Corporate Services, Manager Marketing Communications & Council Support and Manager Audit & Executive Services attended the training sessions.

The Council's Audit Committee has been operating since 7 May 2001. Therefore whilst recent amendments may necessitate some additional matters being referred to the Audit Committee, these can be easily accommodated.

The City has also employed an internal auditor since May 2002.

Prior to the internal appointment the Council utilised the services of Price Waterhouse Coopers.

Requirement	Compliance
Audit Committee to be established	Committee established
Delegation to Audit Committee	No delegation
Audit of Accounts	The Annual Accounts are tentatively scheduled submitted to Council on 28 November 2005.

ATTACHMENTS

Appendix 1	Local Government Amendment Act 2004
Appendix 2	Local Government (Audit) Amendment Regulations 2005
Appendix 3	Local Government Act Seminar – Notes

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION: That the Audit Committee NOTES the changes contained in the Local Government Amendment Act 2004 and Local Government (Audit) Amendment Regulations 2005.

MOVED Cmr Smith, **SECONDED** Cmr Paterson **that:**

- 1 the Audit Committee NOTES the changes contained in the Local Government Amendment Act 2004 and Local Government (Audit) Amendment Regulations 2005;**
- 2 from 2006, the external Auditors meet with the Audit Committee prior to the audit being conducted.**

Chief Executive Officer gave an overview of the report and the recent amendments to legislation in relation to audit, regulations and other key elements in terms of the audit for the City from its perspective, with the following points being raised:

- Audit Committee for the City was established in 2001, prior to this being a requirement. New requirements listed on page 4 of the agenda.
- Annual Report and accounts scheduled to be presented to Council on 28 November 2005.
- No delegation powers to the Audit Committee.
- Requirement for the Audit Committee to meet with the City's external Auditors with respect to the Annual Report and accounts prior to these being presented to Council.
- Reference to Point h, stamped page 11 of the draft Audit Charter with the suggestion it may be appropriate for the Committee to meet with the Auditors once their Management report has been received at the conclusion of the audit.

The Motion was Put and

CARRIED UNANIMOUSLY (5/0)

ITEM 2 AUDIT COMMITTEE CHARTER – [50068]

WARD All

RESPONSIBLE Mr Garry Hunt
DIRECTOR Chief Executive Officer

PURPOSE

To provide the Audit Committee with an Audit Committee Charter that is in line with best practice principles.

EXECUTIVE SUMMARY

Audit Committees play a major role in assisting Local Government organisations in fulfilling their corporate governance responsibilities.

It has been recognised that the introduction of a formal Charter for the Audit Committee will provide clear guidelines that will enhance the City's review processes.

BACKGROUND

An Audit Committee fulfils an important role in overseeing the effectiveness of financial reporting, internal controls, ethical behaviour, internal and external audit functions and the management of risk.

The Victorian Government recently prepared best practice guidelines for Local Government entity Audit Committees. The Department of Local Government & Regional Development in Western Australia (DLGRD) reviewed these guidelines and released their version of Audit Committee Operating Guidelines.

DETAILS

It is proposed that a Charter be developed and implemented for the Audit Committee, based on the best practice guidelines provided by DLGRD.

The draft Audit Committee Charter (Attachment 1 refers) includes and addresses the following matters:

- (1) General
- (2) Objectives of the Audit Committee
- (3) Membership
- (4) Meetings
- (5) Reporting, and
- (6) Duties & Responsibilities

COMMENT

A copy of the attached Audit Committee Charter was forwarded to Audit consultants Stanton Partners for comment. Stanton Partners have advised that they support the intentions of the draft Charter.

It is considered that the Charter will assist the Council in discharging its corporate governance responsibilities by clearly articulating the objectives, roles and responsibilities, amongst other matters of the Audit Committee.

ATTACHMENTS

Appendix 4 Audit Committee Charter

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION: That the Audit Committee NOTES the progress in developing an Audit Committee Charter.

Cmr Fox entered the Room at 1830 hrs.

Messrs Linden and Cotterell of Stanton Partners entered the Room at 1830 hrs.

MOVED Cmr Paterson, SECONDED Cmr Smith that the Chief Executive Officer be requested to review the draft Audit Charter by modifying the words to more appropriately reflect:

- **Legislative requirements**
- **Oversight and monitoring role of the Audit Committee**
- **Clarification of the role and function of the Committee**
- **Terms of appointment of the independent Committee members**
- **Quorum numbers and composition of Committee**
- **Interaction with the Internal Auditor**
- **Status of independent persons**

Manager, Audit and Executive Services gave an overview of the Audit Committee Charter, with the following points being raised.

- Document is a draft at this stage, and would necessitate further work being undertaken.
- The Department of Local Government and Regional Development is currently developing an Audit Charter, but the document presented at this evening's meeting has been based on the charter currently in place in Victoria.
- Reference to Stamped page 11 (g) - Director, Governance and Director, Corporate Services to attend meeting as well.
- Reconsideration of Point (b), stamped page 11. Should occur after Point (c) if at all.
- Consideration to the specifications of the external auditors that may be appointed by the Committee.
- Non-elected members being appointed to Committee. The CEO was requested to ascertain whether the Council can set a quorum whereby it states there needs to be a majority of elected members making a decision.
- Stamped page 12 – Referral to risk. Consideration be given to whether the Committee should be named "Audit" or "Audit and Risk Committee"?
- Issues in relation to terminology within the draft Charter. Some terminology is management/operational orientated, needs to be elevated above that. Officers be requested to look at the use of terminology throughout the draft charter.
- Reference to external independent person. Point (e) refers to payment.
- Point (g) – Meeting being held in camera. Concerns were raised about possibility of the committee meeting without an officer or CEO being present.

- Point 6 – Duties and Responsibilities - this Point should be condensed, and oversight in nature, not operational.
- Page 11 (d) - Removal of members from committee.
- In general, Number 6, Points (a) – (h) require further consideration.
- Greater focus needs to be placed on the Audit Committee, with the primary role and function of the committee being clearly defined. The Charter is to co-ordinate and integrate the Terms of Reference.
- A report from the Victorian Auditor General which sets out the Charter framework and integrates the internal Audit role is attached – Appendix 9 refers.

The Motion was Put and

CARRIED UNANIMOUSLY (5/0)

ITEM 3 INTERNAL AUDIT SERVICES – [50068]

WARD All

RESPONSIBLE Mr Garry Hunt
DIRECTOR Chief Executive Officer

PURPOSE

To advise the Audit Committee of the current status of the internal audit function within the City.

BACKGROUND

Following the secondment of the internal auditor to the Assets & Commissioning business unit, internal audits planned for completion during the 2004/05 financial year have not been completed as scheduled.

The internal auditor recommenced duties in May 2005 to review the progress audit follow-up and reschedule the following audits not completed in 2004/05:

- Corporate Projects & Resources
- Employee Relations / Equal Employment Opportunities
- Public Liability
- Asset management
- Corporate Knowledge
- Legislative Powers
- HR Records
- Short Term Investments
- Disaster Recovery

- IT Hardware
- Application Systems Integrity
- IT Communications
- Environmental Disaster
- COJ Stakeholder relations

In addition, accounting firm Stanton Partners has been engaged by the City to review outstanding audit findings and the Financial Management System. They will also provide flexibility by way of resources to undertake a number of the above-mentioned audits.

The Local Government (Financial Management) Regulations 1996 require the Chief Executive Officer to regularly undertake reviews as to the appropriateness and effectiveness of the financial management systems and procedures of the local government. This review is to be carried out not less than once in every four financial years. The last review was undertaken by accounting firm Haines Norton in December 2001.

DETAILS

Accounting firm Stanton Partners have been appointed to provide selected audit services to the City following a Request for Quotation. The services to be provided will be on an “as and when required basis”.

Initial tasks to be carried out include the review of the City’s financial system and a follow-up of outstanding audit findings. The contract also provides the City with the flexibility to have a number of audit assignments carried out during the contract period as required. This Audit has been completed with all outstanding items being referred to Directors for follow up action.

Stanton Partners will commence the review of the City’s financial system on 17 October 2005.

COMMENT

This contract will provide the City with the flexibility to progress some of the planned audits until issues associated with the secondment of the internal auditor are resolved.

VOTING REQUIREMENTS

Simple Majority

OFFICER’S RECOMMENDATION: That the Audit Committee NOTES the report detailing the status of internal audit services at the City.

MOVED Cmr Smith, SECONDED Cmr Paterson that the Audit Committee NOTES:

- 1 the report detailing the status of internal audit services at the City;**
- 2 that the review of the Financial Management System is a statutory requirement.**

Chief Executive Officer gave an overview of the report, with the following points being raised:

- Further work to be undertaken in relation to the report on internal audit services at the City;
- This issue will be a primary item to be presented to the next meeting of the Audit Committee;
- Outstanding items not completed in 2004/05 require revisiting;
- Focus on procedural issues which are important to the organisation;
- Process mapping required within a couple of primary areas within the organisation;
- 4 year review of the City's financial procedures will assist in identifying any increasing risks that may occur for the City;
- Risk issues within the Human Resources area;
- Mr Linden of Stanton Partners gave an overview of the processes involved and indicated it needed to be determined whether certain audits were required. Risk factors also needed to be taken into consideration.
- To a query raised by Cmr Anderson as to whether Stanton Partners were undertaking audits that had not been completed from 2004/2005, Mr Linden advised no direction had been received from the City to date in this regard.
- Chief Executive Officer advised a report will be presented to the next meeting of the Audit Committee in relation to the audit of the Financial Management System.

The Motion was Put and

CARRIED UNANIMOUSLY (5/0)

ITEM 4 CORPORATE CREDIT CARDS – [50068]

WARD All

RESPONSIBLE Mr Garry Hunt
DIRECTOR Chief Executive Officer

PURPOSE

To report on the current status of credit card usage throughout the City, as requested by the Audit Committee at its meeting on the 17 August 2004.

BACKGROUND

A forensic audit was conducted by Deloitte Touche Tohmatsu in March 2004. The audit scope included a range of contractual issues associated with the previous Chief Executive Officer, including the use of his corporate credit card. A subsequent Internal Audit was conducted in July 2004, which focused on the other corporate credit cardholders from December 1999 to January 2004.

DETAILS

Corporate credit card issues raised in the two audit reports include:

Forensic Audit

- Inadequate procedures
- The lack of supporting documentation,
- Not all charges supported with tax invoices,
- The majority of payments were not properly approved,

Internal Audit

- Non-business use of credit cards
- The majority of credit card statements were not properly approved
- Lack of supporting documentation
- No management review

Section 5.9 (Use of Credit/Charge cards) of the corporate procedures manual was updated in January 2005 to incorporate the findings from both the forensic audit carried out by Deloitte Touche Tohmatsu and the subsequent in-house internal audit in July 2004.

A review of corporate credit expenses for the months of January, February and March 2005 was also carried out by the internal auditor to ascertain whether the updated procedures were being followed. No exceptions were noted during those three months.

The review also confirmed that documentation included with the latest credit card issued to the Chief Executive Officer, provided a copy of the new procedures and obtained the cardholder's signature acknowledging the terms and conditions of issue.

In September 2005 the Department of Local Government and Regional Development issued Operational Guideline No 11 relating to the 'Use of Corporate Credit Cards' – Appendix 6 refers

It should be noted that Council at its meeting held on 11 October 2005 resolved, in part, to:

- 1 *AGREE that the payee name be provided on the single line credit card payments included in the Warrant of Payments;*
- 3 *REQUEST that the Director of Corporate Services prepare a quarterly report for the Audit Committee on the corporate credit card usage of the CEO and Mayor.*

All future reports relating to the Warrant of Payments will reflect this arrangement.

There will be matters arising out of the Panel Inquiry report that will be the subject of a report to Council, and may be referred to the Audit Committee for action.

COMMENT

Based on the issuing of the new procedures and the and the recent review detailed above it is considered that at this point in time internal controls over corporate credit cards are adequate.

ATTACHMENTS

Appendix 5 New corporate credit card procedures
Appendix 6 Department of Local Government and Regional Development -
Operational Guideline No 11 - 'Use of Corporate Credit Cards'

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION: That the Audit Committee NOTES the report on Corporate credit cards and the new corporate procedures (section 5.9) covering same.

MOVED Cmr Paterson, SECONDED Cmr Smith that Procedure 5.9 – Use of Credit/Charge Cards be reviewed in light of the Local Government Operational Guidelines Number 11 in relation to use of corporate credit cards and the discussions that have taken place at this meeting.

Discussion ensued, with clarification being sought in relation to the following:

- 5.9.2 – Issue and Return of Credit Cards
- 5.9.5 – Credit Card Limits and Approving Officers

The Motion was Put and

CARRIED UNANIMOUSLY (5/0)

ITEM 5 WRITE OFF OF MONIES

WARD All

RESPONSIBLE Mr Peter Schneider
DIRECTOR Corporate Services

PURPOSE

To report to the Audit Committee on the exercise of the delegation to write off money.

EXECUTIVE SUMMARY

At its meeting held on 29 June 2004 Council reviewed the delegated authority manual, resolved to amend the manual and to include an additional requirement under which a report is to be provided to the Audit Committee on the exercise of the delegation to write off money.

A report of small balances of rates written off under this delegation will be tabled at the Audit Committee meeting on 18 October 2005.

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. By authority of section 5.42 of the Act, the Council delegated this authority to the CEO, who in turn delegated his authority, up to the limits provided in the instrument of delegation, to other employees under section 5.44 of the Local government Act, as stated in the Register of Delegation of Authority manual under Write Off of Monies.

DETAILS

The report (to be tabled at the Audit Committee meeting on 18 October 2005) totalling \$4,064.96 represents over 4000 small amounts of rates written off by delegated officers for the period 29 June 2004 to 30 June 2005. These amounts vary from one cent to five dollars each, reflecting, in the main, rounding decimals or penalty interest charged for a few days late payment where ratepayers did not pay the penalty and the cost of collection was, for all practical purposes, proving to be un-economical. The report also contains three items totalling \$275.40 representing collection/legal fees written off after the ratepayers concerned agreed to and observed rate payment arrangements.

Legislation – Statutory Provisions:

Section 6.12 (1)(c) of the Local Government Act 1995

Financial/Budget Implications:

All amounts written off were charged back to the rates/fee revenue account originally credited.

Policy implications:

Delegation of Authority

COMMENT

The report is presented to the Audit Committee pursuant to Council resolution - CJ135-06/04.

ATTACHMENTS

Appendix 7	Delegation of Authority – Write Off of Monies
Appendix 8	Write Off of Monies for 29.06.04 to 30.6.05

MOVED Cmr Smith, SECONDED Cmr Clough that the Audit Committee RECEIVES the report of rates written off under delegated authority as tabled at the Audit Committee meeting held on 18 October 2005.

The Motion was Put and

CARRIED UNANIMOUSLY (5/0)

ITEM 6 HUMAN RESOURCES POLICIES AND PROCEDURES**WARD** All**RESPONSIBLE** Mr Garry Hunt
DIRECTOR Chief Executive Officer

A verbal report was provided to the Audit Committee by the Chief Executive Officer, with the following points being raised:

- A number of issues have come to light as a result of the Inquiry Report.
- Chief Executive Officer has met with the external consultant responsible for the report undertaken on some aspects of the Human Resources area with respect to policies and procedures.
- Current payroll system is out-dated and inadequate for an organisation for size of the City of Joondalup.
- Expressions of Interest for new system have gone out to tender. Limited number of suppliers selected from the expressions of interest received;
- Full business case has been undertaken.
- The need to address a number of processes within the Payroll area that may be at risk.
- Within approximately six months, expected that a new Payroll system go “live”.
- A number of processes require charting and the next phase of the organisational review will address this.

To a query raised by Cmr Anderson, Chief Executive Officer advised a further report would be presented to the Audit Committee in relation to the Inquiry Report and the key issues from the perspective of the Council, as well as any issues that may be identified from that report in relation to human resources procedures.

DATE OF NEXT MEETING

To be held prior to the Annual General Meeting of Electors on 28 November 2005.

Following a query by Cmr Anderson in relation to the Audit Committee meeting with the external Auditors, Director Corporate Services advised this should happen following receipt of the Management Report from the Auditors. The Audit Report has been received by the City and Committee members will be provided with a copy.

CLOSURE

There being no further business, the Chairman declared the Meeting closed at 1920 hrs; the following Commissioners being present at that time:

CMR J PATERSON
CMR P CLOUGH
CMR M ANDERSON
CMR A FOX
CMR S SMITH