



MINUTES

Special Council Meeting

Tuesday, 4 February 2020 at 6.05pm

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MINUTES OF A SPECIAL MEETING OF COUNCIL HELD IN THE COUNCIL CHAMBER, 135 CANNING HIGHWAY EAST FREMANTLE ON TUESDAY 4 FEBRUARY 2020.

1. OFFICIAL OPENING

The Presiding Member opened the meeting at 6.05pm

2. ACKNOWLEDGEMENT OF COUNTRY

“On behalf of the Council I would like to acknowledge the Whadjuk people of the Nyoongar nation as the traditional custodians of the land on which this meeting is taking place and pay my respects to Elders past, present and emerging.

3. RECORD OF ATTENDANCE

3.1 Attendance

The following members were in attendance:

Mayor J O’Neill	Presiding Member
Cr C Collinson	
Cr K Donovan	
Cr A McPhail	
Cr A Natale	
Cr D Nardi	
Cr J Harrington	
Cr A Watkins	

The following staff were in attendance:

Mr G Tuffin	Chief Executive Officer
Mr A Malone	Executive Manager Regulatory Services
Mr P Kocian	Executive Manager Corporate Services
Ms J May	Minute Secretary

There were two members of the public in attendance.

3.2 Apologies

Cr M McPhail

3.3 Approved

Nil.

4. DISCLOSURES OF INTEREST

4.1 Financial

Nil.

4.2 Proximity

Nil.

4.3 Impartiality

Nil.

5. PUBLIC QUESTION TIME

5.1 Public Question Time

Nil.

6. BUSINESS

6.1 Annual Report & Annual Financial Report 2018/19

Applicant	Town of East Fremantle
File ref	C/ELM1
Prepared by	Janine May, EA to Chief Executive Officer
Supervised by	Gary Tuffin, Chief Executive Officer
Date of Meeting	4 February 2020
Voting requirements	Absolute Majority
Documents tabled	Nil
Attachments	1. Annual Report 2018/19 including Audited Annual Financial Report 2. Annual Financial Audit Exit Brief (Confidential Separate Attachment)

Purpose

The purpose of this report is to:

- present the Annual Report and Annual Financial Report (Audited) for the year ended 30 June 2019
- set a date for the Annual Electors' Meeting
- consider significant matters raised in the Financial Audit Exit Brief

Executive Summary

The 2018/19 Annual Report reflects the achievements of the Town of the previous financial year. Acceptance of this Report allows the setting of the date of the Annual Electors' Meeting.

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report for the preceding financial year. The financial report is to be prepared and presented in the manner and form prescribed in the *Local Government (Financial Management) Regulations 1996*. Local Governments are required to submit the annual financial report to its auditor by the 30 September.

Background

The 2018/19 Financial Statements were considered and accepted by the Audit Committee on 29 January 2020. At this meeting, a number of significant matters, raised in the Independent Auditor's report, were considered by the Committee.

The Audit Committee recommended as follows:

That Council

1. receive the Annual Financial Report for the Year Ended 30 June 2019, inclusive of the Independent Auditor's Report.
2. request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor's Report.

3. *note the 'significant' matters raised in the Independent Auditor's Report, and the Management Comment, as discussed in the body of this agenda report.*
4. *request that the Chief Executive Officer submit a copy of this agenda report and minutes to the Minister, within 3 months from the date of the Independent Auditor's Report (i.e. 3 months from 13 December 2019).*
5. *request that a copy of this agenda report and minutes be published on the Town of East Fremantle website, within 14 days of the report being provided to the Minister.*

The Annual Report provides general information about the Town's activities and highlights during the year under review and reports on the progress of activity and priorities as determined in the 2017-2027 Strategic Community Plan.

Statutory Environment

Annual Financial Statements

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* applies to audit in local government.

After the annual financial report has been audited, the CEO is to sign and append to the report a declaration. A copy of the annual financial report is then to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

Annual Report

Under s5.54 of the *Local Government Act 1995*, the annual report for a financial year is to be accepted by the local government no later than 31 December after that financial year. If the auditor's report is not available in time for the annual report to be accepted by this date, the annual report is to be accepted no later than two months after the auditor's report becomes available.

Under s5.27(2), an electors' general meeting is to be held on a day selected by the local government but no more than 56 days after the local government accepts the annual report for the previous financial year.

Local Governments are required to publish the annual report, including audit reports, on their website within 14 days after the report has been adopted by Council.

Annual Electors' Meeting

Under s5.29 of the *Local Government Act 1995*, a local government must give at least 14 days' local public notice of the date, time, place and purpose of the meeting

Policy Implications

There are no policy implications.

Financial Implications

There are no financial implications.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Town receives a qualified audit report	Possible (3)	Moderate (3)	Moderate (5-9)	Reputation/Compliance	Control through robust internal controls and staff development

Risk Matrix

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

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	9
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

Strategic Implications

Strategic Priority 5: Leadership and Governance

"A proactive, approachable Council which values community consultation, transparency and accountability."

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

Site Inspection

N/A

Comment

The Independent Auditor's Report is appended to the Annual Financial Report. The Auditor has provided the opinion that the financial report of the Town of East Fremantle:

- (i) Is based on proper accounts and records; and
- (ii) Fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The Auditor has however raised a number of 'significant' matters that meet the review and reporting requirements of section 7.12A (3)(4) of the *Local Government Act 1995*. These matters are listed below, along with management comment. This agenda report is to be provided to the Minister, and will be published on the Town's website as per requirements.

Significant Finding 1

The following material matter indicates a significant adverse trend in the financial position of the Town:

- a. The Operating Surplus Ratio has been below the Department of Local Government, Sports and Cultural Industries basic standard for the past 3 years. The financial ratios are reported in Note 33 of the annual financial report.

Management Comment

Council adopted a 15-year Strategic Resource Plan (combined asset management and long term financial plan) at its ordinary meeting of May 2019. Section 5.11 of this document discusses the forecast operating ratios from 2019-2034. The Operating Surplus Ratio is not projected to meet the Department's standard of 1.00% until the 2028-29 financial year. Council is aware of this, with the following comment provided in the agenda report of May 2019:

Council has a legislative requirement to comply with the principles of sound financial management, of which a key component is the preparation of a Long Term Financial Plan. The Office of Auditor General is also required to undertake a performance audit of adverse financial trends in the financial position or the financial management practices of the local government. This will be limited a high level assessment of whether the 7 financial ratios reported in the notes to the financial report achieved the standards set by the Department of Local Government, Sport and Cultural Industries. Council therefore needs to be cognizant of the ratio analysis included in the Forecast Financial Statements as 3 of the ratios are below benchmark.

A number of assumptions underpin the Strategic Resource Plan, including a 3% annual rate increase. Every endeavour will be made to ensure operating revenue grows at a faster rate than operating expenditure in order to achieve an improved Operating Surplus Ratio. A review of depreciation expense (and underlying valuation methodology) in 2019/20 may also result in a favourable improvement to this ratio.

The following are material matters identified by the Auditor indicating non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law.

Significant Finding 2

For 75% of purchases we sampled below the tender threshold, there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market, and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement. This could also result in favouring certain suppliers, although our audit did not identify any instances.

Management Comment

The Town's purchasing policy states that where the value of a purchase is between \$5,001 and \$20,000, efforts should be made to obtain at least two written quotes.

During the Auditor's procurement testing, 6 purchases were identified in this range, out of a sample of 8, where there was insufficient documentation to indicate that the requisite number of quotations had been obtained.

Extended security permissions, including a purchasing requisition system, were implemented in June 2019. Staff are now required to upload evidence of quotations for purchases in excess of \$5,000 against a requisition request, which is converted into a purchase order only after it has been reviewed and approved by a Manager.

The Internal Audit Work Plan for 2020 also proposes that an internal audit of all requisitions over \$5,000 be completed, and presented to the Audit Committee in July 2020. This will ensure a complete sample and identify all instances of non-compliance. Findings will then inform areas for improvement, education, and if deemed appropriate, removal of financial delegation.

Significant Finding 3

No evidence was retained to demonstrate whether changes to supplier and employee master files, including bank account details, were being authorised by an officer other than the person making the amendment. This increases the risk that unauthorised changes may be made, resulting in errors or funds being inappropriately transferred. Our audit did not identify and instances of unauthorised changes.

Management Comment

These findings were included in the Interim Audit Management Letter from June 2019. Management Comment is repeated as follows:

Changes to Supplier Master File:

The Town has implemented a "New / Update Creditor Details" form which is completed by the supplier, entered into the Supplier Master File by the Finance Officer, then reviewed by the Manager Finance and Administration, and approved by the Executive Manager Corporate Service. Adherence to the completion of this form will demonstrate evidence that changes to a Supplier Master File are properly authorised.

The Finance Officer also checks the Supplier Details to the ABN Lookup website to ensure a correct ABN has been provided.

A telephone number is also obtained from an independent source such as a website, and that the creditor then be contacted to verify the information.

The Town has also created a "Bank Audit Update Report" for suppliers. This report is automatically generated on a fortnightly basis on the week suppliers are paid. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration and going forward kept with the "New / Update Creditor Details" forms file. The creation of this report demonstrates that The Town is vigilant in ensuring that the possibility of fraud is minimised.

When reviewing a supplier payment batch, both the Finance Officer and the Manager Finance and Administration check the bank account details on the invoice to the Creditor Batch Report before

posting to the general ledger. The Manager Finance and Administration also checks the supplier's bank account number to the ABA/EFT file uploaded into CommBiz. The Town considers these two checks imperative in ensuring the minimisation of fraud and this has been our standard practice.

The Town will also engage IT Vision, the service provider of the Town's finance system, SynergySoft, to review user access to the Supplier Master File so that members of the Finance Team can only make changes.

Changes to Employee Master File:

The appointment of a new employee is created through the human resources process. Once appointed the relevant documentation for data entry into the Payroll System is provided by the Human Resources Coordinator to the Finance Officer. The Finance Officer then creates the new employee in the Payroll System. The documentation is then given to the Manager Finance and Administration for review. This is standard practice.

To show evidence in support of our standard practice a "New / Update Employee Details" form has been created, which will be prepared by the Finance Officer and Reviewed by the Manager Finance and Administration. The implementation of this form will provide evidence that changes to the Employee Master File are properly authorised. The form will be filed in the employee's personnel file.

A "Bank Audit Update Report" has also been created for Payroll. This report is automatically generated on a fortnightly basis on payroll week. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration when reviewing payroll. Going forward we will implement the process of keeping this report with the fortnightly payroll file.

Significant Finding 4

Controls over changes to the Town's key systems were inadequate for ensuring that only approved changes are implemented. This could affect the availability or integrity of systems or information; however our audit testing did not identify any related adverse trends.

Management Comment

The Town's IT Service Provider is in the process of implementing an ICT Change Management system within the current service desk platform to ensure Service tickets can be escalated or associated with Change Management Tickets. Changes will be reported to Management during the Quarterly IT Management meeting.

The Town will also review the Change Management Resources available on the Public Sector Commissioner website, and determine whether any of these would be appropriate for customisation and adoption:

- Template: Change Management Plan
- Template: Change Management Group Terms of Reference
- Template: Human Resources Plan
- Template: Change Management Questionnaire

Taking into account the 14 day local public notice, it is proposed to hold the Electors' Meeting on Tuesday, 25 February 2020.



6.1 OFFICER RECOMMENDATION/COUNCIL RESOLUTION 010220

Moved Cr Natale, seconded Cr A McPhail

That Council:-

1. receive the Annual Report and Annual Financial Report for the Year ended 30 June 2019, inclusive of the Independent Auditor's Report.
2. request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor's Report.
3. note the 'significant' matters raised in the Independent Auditor's Report, and the Management Comment, as discussed in the body of this agenda report.
4. request that the Chief Executive Officer submit a copy of this agenda report and minutes to the Minister, within 3 months from the date of the Independent Auditor's Report (i.e. 3 months from 13 December 2019).
5. request that the Annual Report including Annual Financial Statements for the year ending 30 June 2019 and a copy of this agenda report and minutes be published on the Town of East Fremantle website, within 14 days of the report being provided to the Minister.
6. hold the Annual Electors' Meeting on Tuesday, 25 February 2020.

(CARRIED UNANIMOUSLY)

(ABSOLUTE MAJORITY)

7. CLOSURE

There being no further business, the Presiding Member declared the meeting closed at 6.10pm.

I hereby certify that the Minutes of the special meeting of the Council of the Town of East

18 FEBRUARY 2020

A handwritten signature in black ink, appearing to be 'C. Natale', written over a horizontal line.

Presiding Member