



SHIRE OF YORK

**MINUTES OF THE
AUDIT COMMITTEE MEETING
HELD ON 5 JUNE 2018
COMMENCING AT 2.35PM
IN COUNCIL CHAMBERS,
YORK TOWN HALL, YORK**

Table of Contents

1. OPENING	5
1.1 Declaration of Opening	5
1.2 Disclaimer	5
1.3 Standing Orders.....	5
1.4 Announcement of Visitors	5
1.5 Declarations of Interest that Might Cause a Conflict.....	5
1.6 Declarations of Financial Interest.....	5
1.7 Declarations of Interest that May Affect Impartiality.....	5
2. ATTENDANCE	6
2.1 Members.....	6
2.2 Staff.....	6
2.3 Apologies.....	6
3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING	6
4. ANNOUNCEMENT BY THE PRESIDING MEMBER WITHOUT DISCUSSION.....	6
5. PRESENTATIONS.....	6
6. OFFICER REPORTS	6
SY003-06/18 (Audit) – Fraud and Error Assessment.....	7
SY004-06/18 (Audit) – Findings of the Interim Audit 2017/18.....	9
SY005-06/18 (Audit) – Proposed Amended Investment Policy.....	13
7. QUESTIONS FROM MEMBERS WITHOUT NOTICE.....	15
8. NEXT MEETING	15
9. CLOSURE	15



SHIRE OF YORK

MINUTES OF THE AUDIT COMMITTEE
HELD ON 5 JUNE 2018 COMMENCING AT 2.35PM
IN COUNCIL CHAMBERS, YORK TOWN HALL, YORK

1. OPENING

1.1 Declaration of Opening

Cr David Wallace, Shire President, declared the meeting open at 2.35pm.

1.2 Disclaimer

The Shire President advised the following:

"I wish to draw attention to the Disclaimer Notice contained within the agenda document and advise members of the public that any decisions made at the meeting today, can be revoked, pursuant to the Local Government Act 1995.

Therefore members of the public should not rely on any decisions until formal notification in writing by Council has been received. Any plans or documents in agendas and minutes may be subject to copyright. The express permission of the copyright owner must be obtained before copying any copyright material."

1.3 Standing Orders

Local Government (Council Meetings) Local Law 2016

1.4 Announcement of Visitors

*Kellie Tonich – Office of the Auditor General; Anne Lei – Office of the Auditor General;
Greg Godwin – Moore Stephens*

1.5 Declarations of Interest that Might Cause a Conflict

Nil

1.6 Declarations of Financial Interest

Nil

1.7 Declarations of Interest that May Affect Impartiality

Nil

2. ATTENDANCE

2.1 Members

*Cr David Wallace, Shire President; Cr Kevin Trent, Deputy Shire President;
Cr Denese Smythe; Cr Jane Ferro; Cr Pam Heaton; Cr Heather Saint*

2.2 Staff

Paul Martin, Chief Executive Officer; Tabitha Bateman, Finance Manager

2.3 Apologies

Cr Denis Warnick; Suzie Haslehurst, Executive Manager Corporate and Community Services;

3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

3.1 *Minutes of Audit Committee Meeting held 12 February 2018.*

COMMITTEE RECOMMENDATION

Moved: Cr Smythe

Seconded: Cr Heaton

That the minutes of the Audit Committee meeting held on 12 February 2018 be accepted as a true and correct record.

CARRIED: 6/0

4. ANNOUNCEMENT BY THE PRESIDING MEMBER WITHOUT DISCUSSION

Nil

5. PRESENTATIONS

Entrance Meeting – Office of the Auditor General and Moore Stephens provided an overview of how this years Audit would be undertaken and provided an opportunity for Councillors and staff to ask questions.

6. OFFICER REPORTS

SY003-06/18 (Audit) – Fraud and Error Assessment

FILE REFERENCE:	FI.FRP.4, FI.FRP.6, FI.FRP.8
APPLICANT OR PROPONENT(S):	Shire of York
AUTHORS NAME & POSITION:	Suzie Haslehurst – Executive Manager, Corporate and Community Services
RESPONSIBLE OFFICER:	Suzie Haslehurst – Executive Manager, Corporate and Community Services
PREVIOUSLY BEFORE COUNCIL:	No
DISCLOSURE OF INTEREST:	Nil
APPENDICES:	A. Fraud and Error Risk Assessment – CEO Statement and Audit Committee Response

Nature of Council’s Role in the Matter:

- Executive

Purpose of the Report:

This report presents for consideration and approval the proposed statement by the Chief Executive Officer and Audit Committee response with regard to the annual Fraud and Error Assessment required by the Shire’s auditors.

Background:

In accordance with *Australian Auditing Standards* (ASA 240), auditors are required to ensure that a statement is received from the organisation regarding its assessment of the controls and procedures relating to the possibility of fraud and error. This is part of the annual audit process and is required to be completed for the year ended 30 June 2018.

Comments and details:

Appendix A provides the statement by the Chief Executive Officer relating to his Fraud and Error Assessment for 2017/18. The focus of the response is on the improvements made to internal controls and procedures since the findings of the Audit Regulation 17 and Financial Management Reviews were considered by Council. His report also acknowledges the Risk Improvement Plan endorsed and monitored by the Audit Committee.

Appendix A also includes the proposed statement by the Audit Committee which acknowledges the improvements made and indicates the Committee’s satisfaction that the risk of fraud and error is being appropriately mitigated.

This report seeks the Committee’s approval and recommendation to Council of the proposed Audit Committee Response to the Fraud and Error Risk Assessment as attached to this report.

Implications to consider:

- **Consultative**
Moore Stephens
- **Strategic**
Strong and Effective Leadership
5.1 *Effective and informed governance and decision-making*
5.4 *Open and accountable systems*
- **Policy related**
G4.6 *Risk Assessment and Management*
- **Financial**
Nil

- **Legal and Statutory**

Auditing Standard ASA 240

The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report

42 *The auditor shall make enquiries of management, internal audit, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.*

- **Risk related**

The Fraud and Error Risk Assessment is a risk mitigation strategy developed by the Shire's auditors to address the requirements of the Auditing and Assurance Standards.

- **Workforce Implications**

Nil

Voting Requirements:

Absolute Majority Required: No

OFFICER RECOMMENDATION

Moved: Cr Smythe

Seconded: Cr Ferro

"That the Audit Committee recommends that Council:

- 1. Notes the Fraud and Error Assessment by the Chief Executive Officer as attached to this report;***
- 2. Approves the Fraud and Error Assessment by the Audit Committee as attached to this report; and***
- 3. Requests the Shire President to sign the Fraud and Error Assessment on behalf of the Audit Committee".***

CARRIED 6/0

MOORE STEPHENS

Interim Audit Information Requirements

Shire of York

2018

Appendix 3:

Fraud and Error Assessment by the Chief Executive Officer

TO THE CHIEF EXECUTIVE OFFICER

RE: FRAUD AND ERROR ASSESSMENT FOR THE YEAR ENDED 30 JUNE 2018.

As part of the audit process, we are required to assess the risk of fraud or error occurring within the organisation. This will enable us to identify and assess the risks of material misstatement of the organisation's financial report due to fraud or error.

Members of the management team are primarily responsible for providing systems that mitigate the possibility of fraud or error occurring within your organisation.

In accordance with Australian Auditing Standards, we are required to make enquiries of management of their assessment of the risk of fraud or error occurring within the organisation for the year ending 30 June 2018.

Therefore, we request you to answer the following questions by ticking the appropriate box and where appropriate providing a brief explanation in the space provided.

Should you wish to discuss any matters arising please feel free to do this with us at any stage of the audit.

INTERNAL CONTROL

1. In your opinion are the internal control systems adequate to mitigate the possibility of fraud or error occurring within the organisation?

Yes

During the past twelve months, a Risk Management Working Group has been formed to implement a Risk Improvement Plan adopted by Council in response to the Shire's Audit Regulation 17 and Financial Management Reviews. A number of mitigation strategies identified in the improvement plan have been implemented. During the 2018/19 FY the Shire will undertake a second Audit Regulation 17 review which will assess the improvements made in these systems and identify any further areas for improvement.

2. Are the internal control systems adequately documented to be enforceable?

Yes

3. Do you believe the controls are adequately monitored to ensure they are operating as intended?

Yes but with qualifications

While an Internal Control Policy has been adopted by Council, an internal audit process is yet to be developed.

4. Do you consider there to be any weaknesses in the entity's internal controls?

Yes but with qualifications

As outlined above, internal controls and processes are being developed and implemented as an on-going process of improvement.

5. Are there any controls which you think could be bypassed or overridden?

No

Appendix 3: Fraud and Error Assessment by the Chief Executive Officer (Continued)

6. Do you know of instances in the past in which those controls have been overridden?

No

MISREPRESENTATION IN FINANCIAL STATEMENTS

7. Do you consider there to be any risk of fraud or error having a material impact (both individually or cumulatively) on any balances or statements made within the Financial Report?

No

8. Are you aware of any actual instances of fraud or error (either misrepresentation of data or misappropriation of assets) within the Council.

Yes – error regarding misappropriation of Shire assets

During the year some instances were identified with employees whom no longer work at the Shire. In each instance these matters were formally addressed with the employees concerned and reported to the Public-Sector Commission in accordance with my obligations.

9. Do you suspect that fraud or error may be occurring within the Council (even if unlikely to have a material impact)?

No

10. Have you received communication from any current or former employee, Councilor, or other individual connected with the Council alleging that fraud has occurred?

Yes as outlined in the answer to question 8 above.

OTHER MATTERS

.... If you have any concerns or questions you would like us to address during the course of our audit, please describe.

No

Council Name Shire of York

Reply Completed by Paul Martin – Chief Executive Officer

Signed

Date

Appendix 4:

Fraud and Error Assessment by the Audit Committee

TO THE CHAIR OF THE AUDIT COMMITTEE

RE: FRAUD AND ERROR ASSESSMENT FOR THE YEAR ENDED 30 JUNE 2018.

In performing the audit engagement, the Australian Auditing Standards require us to consider the risk that fraud or error could occur within the organisation for the year ended 30 June 2018.

These standards require us to make enquiries of those charged with governance of the risk of fraud or error within the organisation.

Therefore, we would appreciate you taking the time to briefly answer the following questions in the spaces provided, and return this letter, preferably before the commencement of the audit.

1. Do you believe the policies and procedures in place within the organisation are adequate to minimise the risk of fraud to an appropriately low level? If no, please provide an explanation and reasons for your answer.

Yes

The Audit Committee has endorsed for Council's adoption a Risk Improvement Plan and progress report is presented to the Committee on a six-monthly basis.

2. Are you aware of any instances where policies and procedures have not been adhered to which could have resulted in a fraud occurring? If yes, please provide details.

No

3. Have you, during the past year, become aware of or suspected fraud within the organisation? If yes, please provide details

No

4. If there any concerns or questions you would like us to address during the course of our audit, please describe.

No

Council Name Shire of York

Reply Completed by David Wallace – Shire President and Chair, Audit Committee

Signed

Date

SY004-06/18 (Audit) – Findings of the Interim Audit 2017/18

FILE REFERENCE:	FI.FRP.4, FI.FRP.6
APPLICANT OR PROPONENT(S):	Shire of York
AUTHORS NAME & POSITION:	Suzie Haslehurst – Executive Manager, Corporate and Community Services, Tabitha Bateman – Finance Manager
RESPONSIBLE OFFICER:	Suzie Haslehurst – Executive Manager, Corporate and Community Services
PREVIOUSLY BEFORE COUNCIL:	No
DISCLOSURE OF INTEREST:	Nil
APPENDICES:	A. Findings of the Interim Audit 2017/18 with Draft Responses

Nature of Council's Role in the Matter:

- Executive

Purpose of the Report:

This report presents for consideration and recommendation to Council, the findings of the Interim Audit 2017/18 undertaken by Moore Stephens on behalf of the Office of the Auditor General.

Background:

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that will enable the Auditor General to audit council finances and performance. The reforms will result in changes to the way local government audits are conducted.

The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire. From 2020-21, all local governments will be audited by the Auditor General, regardless of whether their auditing contracts have expired. The Shire of York does not have a current auditing contract. Although Moore Stephens was appointed to undertake the 2016/17 annual audit, no contract had been entered into for future audits at the time the amendments were passed.

However, in February this year, the Office of the Auditor General (OAG) informed the Shire that Moore Stephens had been appointed to undertake the 2017/18 annual audit on behalf of the OAG. In April, Moore Stephens conducted the Shire's Interim Audit. The findings of the Interim Audit are attached at Appendix A along with the proposed officer responses to be submitted to Moore Stephens.

Comments and details:

Following a three-day visit from the auditors, the following issues were identified and discussed with officers.

1. *Investment policy does not comply with Regulation 19C of the Local Government (Financial Management) Regulations 1996.*

The above Regulation was amended in May 2017 to reflect an extension of the maximum term of fixed term investment from one to three years. It was proposed that the Shire's investment policy would be updated as part of the biennial policy review to be undertaken in October this year. However, the policy has been updated and is presented as a separate report to this agenda for consideration.

2. *Instances of incomplete primary and annual returns.*
This issue relates to fields being left blank on three returns. Procedures have been updated to ensure compliance.
3. *Tender register does not include sufficient details.*
Physical copy of tender register updated to include missing details. Noted that electronic version was complete.
4. *Not all timesheets are signed by Supervisors/Managers.*
It was identified that there were two instances where the time sheets were not signed by the employees manager. Procedures have been updated to ensure compliance. Timesheets are not entered for payments until appropriately authorised.
5. *Audit trail logs of changes to supplier EFT details are not printed and reviewed before every payment run.*
Procedures have been updated to address this issue.

Implications to consider:

- **Consultative**
Moore Stephens
- **Strategic**
Strong and Effective Leadership
5.1 *Effective and informed governance and decision-making*
5.4 *Open and accountable systems*
- **Policy related**
F1.4 *Investment Policy*
G4.6 *Risk Assessment and Management*
G4.7 *Internal Control*
- **Financial**
Nil
- **Legal and Statutory**

Local Government Act 1995

1.4. Terms used

In this Act, unless the contrary intention appears —

auditor means —

- (a) *in relation to an audit, other than a performance audit —*
 - (i) *in relation to a local government that has an audit contract that is in force — a person for the time being appointed under Part 7 Division 2 to be the auditor of the local government; and*
 - (ii) *in relation to a local government that does not have an audit contract that is in force — the Auditor General;*

7.12A. Duties of local government with respect to audits

- (1) *A local government is to do everything in its power to —*
 - (a) *assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and*

- (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government must —
 - (aa) examine an audit report received by the local government; and
 - (a) determine if any matters raised by the audit report, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government must —
 - (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

- **Risk related**

The proposed responses to the findings indicate the strategies put in place to mitigate the risks posed by each identified issue. It should be noted that three of the five identified issues are considered minor and two are considered moderate.

- **Workforce Implications**

Nil

Voting Requirements:

Absolute Majority Required: No

OFFICER RECOMMENDATION

Moved: Cr Smythe

Seconded: Cr Trent

“That the Audit Committee recommends that Council receives the findings of the Interim Audit for 2017/18 and notes the management responses to the issues identified by the auditors.”

CARRIED 6/0

SHIRE OF YORK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE *INTERIM AUDIT*

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Investment policy does not comply with FM Reg 19C.			✓
2. Instances of incomplete primary and annual returns.			✓
3. Tender register does not include sufficient details.			✓
4. Not all timesheets are signed by Supervisors/Managers.		✓	
5. Audit trail logs of changes to supplier EFT details are not printed and reviewed before every payment run.		✓	
6.			
7.			
8.			

KEY TO RATINGS

The Ratings in this management letter are based on the audit team’s assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.

- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

- Minor** - Those findings that are not of primary concern but still warrant action being taken.

SHIRE OF YORK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE *INTERIM AUDIT*

Finding

The investment Policy has not been amended to reflect the changes in Local Government (Financial Management) Regulation 19C effective from 13 May 2017.

Rating

Minor

Implication

Investments made under the Shire's current investment policy guidelines could be in breach of Local Government (Financial Management) Regulations.

Recommendation

To help ensure compliance with Financial Management Regulation 19C Council should review its current investment policy in light of the amended requirements.

Management Comment

A complete review of the Shire of York's Policy Manual was intended to be undertaken in October 2018 at which time the Investment Policy would be updated. However, it is expected the Investment Policy will be presented separately to the Audit Committee in June 2018 and subsequently to Council for approval.

Responsible Person

Finance Manager

Expected Completion Date

30 June 2018

SHIRE OF YORK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE *INTERIM AUDIT*

Finding

Whilst reviewing the annual and primary returns of Councillors and staff we noted 3 returns reviewed contained sections which had been left blank.

Rating

Minor

Implication

Blank sections on returns are at risk of being amended without appropriate authorisation. In addition, late or incomplete returns may attract fines or penalties.

Recommendation

To help ensure compliance with Departmental Circular 18-2005 and to help ensure returns submitted are not at risk of being amended, all sections should be completed. We note it is acceptable to record N/A, Nil, or No Change or to rule a clear line through a N/A section whilst leaving sections blank is not recommended practice.

Whilst we note the CEO or any other Shire staff are not responsible for the content of the returns submitted, it is acceptable, and quite common, for the content to be reviewed prior to receipt being acknowledged.

Management Comment

As part of this process the memo of instruction sent out in July of each year will be updated to include the comment '**Do not leave sections blank. For areas not applicable or that do not require a response, 'N/A', 'Nil', or 'No Change' will be accepted**'.

Additionally, the findings of the Interim Audit will be reported to the Audit Committee and subsequently Council for their information.

Responsible Person

Council and Executive Support Officer

Expected Completion Date

30 June 2018

SHIRE OF YORK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE *INTERIM AUDIT*

Finding

Tender register does not include sufficient detail. As required by Local Government (Functions and General) Regulation 17(2) (c) and (e) the register should include particulars of any person who submitted an expression of interest and the name of each tenderer whose tender has been opened

Rating

Minor

Implication

As the tender register is subject to possible scrutiny incomplete information within the register is not recommended.

Recommendation

To help ensure compliance with Local Government (Functions and General) Regulations 17 (2) (c) and (e) the tender register should include particulars of any person who submitted an expression of interest and the name of each tenderer whose tender has been opened.

Management Comment

Officers met with the auditors to discuss the requirements for the Tender Register. Unfortunately, the physical register was missing the final page which included details of all tenderers. The electronic version however, was up to date and appears to comply with the requirements.

For future tenders and to ensure full compliance, officers are developing a checklist to be included in the file.

Responsible Person

Administration and Governance Coordinator

Expected Completion Date

30 June 2018

SHIRE OF YORK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE *INTERIM AUDIT*

Finding

Whilst reviewing timesheets, two instances were noted where the timesheets were not signed by the employee's manager or supervisor.

Rating

Moderate

Implication

Increased risk of fraud/error in the payroll.

Recommendation

To help ensure the accuracy of reported hours worked, employees and managers should ensure all timesheets are reviewed and signed.

Management Comment

Agreed - it is noted that there were occasions where timesheets were not approved prior to payment. Outside staff timesheets are normally collected on a daily basis and should be approved daily.

Additional measures have been implemented to ensure timesheets are reviewed prior to sending to IT Vision Payroll Services for input into Synergy. Timesheets will not be uploaded until authorised by the appropriate supervisor. This process will be communicated to all staff.

Responsible Person

IT/Payroll Coordinator

Expected Completion Date

Ongoing

SHIRE OF YORK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE *INTERIM AUDIT*

Finding

Audit trail logs of changes to supplier EFT details are not printed and reviewed before each pay run.

Rating

Moderate

Implication

Increased risk of payments being made to the incorrect bank account.

Recommendation

To help ensure all changes to creditor's details in the system are correct and hence all payments are bona fide, the system's audit trail report showing all changes made to the system should be printed and reviewed by a senior staff member independent of processing before every payment run.

The independent review should seek to confirm the integrity of the changes/details in the system against appropriate authorisations and should be evidenced accordingly.

Management Comment

Agreed - the creditors audit trail reports were historically run as part of the end of month processes. After discussions with Moore Stephens and the level of risk associated with creditors payments, audit trails are now printed between payment runs prior to processing through the bank.

Responsible Person

Accounts Payable – Print and review

Finance Manager – Final Review

Expected Completion Date

Ongoing

Issue Date: 25/05/2018

SY005-06/18 (Audit) – Proposed Amended Investment Policy

FILE REFERENCE:	FI.BNK.1; OR.CMA.4
APPLICANT OR PROPONENT(S):	Shire of York
AUTHORS NAME & POSITION:	Tabitha Bateman – Finance Manager
RESPONSIBLE OFFICER:	Suzie Haslehurst – Executive Manager, Corporate and Community Services
PREVIOUSLY BEFORE COUNCIL:	24 October 2017 SY126-10/16
DISCLOSURE OF INTEREST:	Nil
APPENDICES:	A. Revised Investment Policy with tracked changes

Nature of Council’s Role in the Matter:

- Executive

Purpose of the Report:

This report presents for consideration and approval, the proposed amendments to the Shire’s Investment Policy in accordance with changes to the *Local Government (Financial Management) Regulations 1996*.

Background:

In accordance with section 6.14 of the *Local Government Act 1995*, local governments have the power to invest funds that are not, for the time being, required by the local government.

Regulation 19 of the *Local Government (Financial Management) Regulations 1996* (the Regulations) requires control procedures to be established and documented regarding investments. The Shire’s Investment Policy forms part of those controls.

Regulation 19C of the Regulations outlines the restrictions on the investment of money.

Comments and details:

In May 2017, Regulation 19C(2)(b) was amended to allow local governments to invest in bonds and term deposits for up to 3 years. Previously, the maximum term for fixed deposits was twelve months. This report seeks Council approval of the proposed changes to Policy F1.4 *Investment Policy* to reflect this amendment.

Implications to consider:

- **Consultative**
Moore Stephens
- **Strategic**
Strong and Effective Leadership
5.1 *Effective and informed governance and decision-making*
5.4 *Open and accountable systems*
- **Policy related**
F1.4 *Investment Policy*
G4.6 *Risk Assessment and Management*
- **Financial**
These changes may result in a higher interest rate and therefore better return on investment.

- **Legal and Statutory**

Local Government (Financial Management) Regulations

19. Investments, control procedures for

- (1) *A local government is to establish and document internal control procedures to be followed by employees to ensure control over investments.*
- (2) *The control procedures are to enable the identification of —*
- (a) *the nature and location of all investments; and*
 - (b) *the transactions related to each investment*

19C. Investment of money, restrictions on (Act s. 6.14(2)(a))

- (1) *In this regulation — authorised institution means —*
- (a) *an authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or*
 - (b) *the Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986; foreign currency means a currency except the currency of Australia.*
- (2) *When investing money under section 6.14(1), a local government may not do any of the following —*
- (a) *deposit with an institution except an authorised institution;*
 - (b) *deposit for a fixed term of more than 3 years;*
 - (c) *invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;*
 - (d) *invest in bonds with a term to maturity of more than 3 years;*
 - (e) *invest in a foreign currency.*

[Regulation 19C inserted in Gazette 20 Apr 2012 p. 1701; amended in Gazette 12 May 2017 p. 2469.]

- **Risk related**

If Council chooses not to approve the proposed amendments, there is a high compliance risk to the organisation.,

- **Workforce Implications**

Nil

Voting Requirements:

Absolute Majority Required: No

OFFICER RECOMMENDATION

Moved: Cr Saint

Seconded: Cr Trent

“That the Audit Committee recommends that Council:

- 1. Approves the revised Investment Policy to reflect the amendment to Regulation 19C of the Local Government (Financial Management) Regulations 1996.***
- 2. Requests the Chief Executive Officer to update the Shire of York Policy Manual accordingly.”***

CARRIED 6/0



F1.4 INVESTMENT

Policy Objective

To provide guidance for the investment of Council funds that may not be required for immediate use, taking into account legislative requirements and risk while ensuring the Council's liquidity requirements are being met, along with a favourable rate of return.

Policy Scope

This Policy applies to all funds (including general funds, reserve funds and other restricted funds) invested by the Council.

Policy Statement

Introduction

The investment of funds is a crucial aspect to good financial management. -The Shire needs to ensure the preservation of capital and appropriate liquidity whilst ensuring a good rate of return is achieved within Policy guidelines. -Revenue from investments is a funding source for the Shire ~~and also~~ assists in maintaining the value of financial reserves.

Principles

- a) Investments must be placed in portfolios which protect the Shire's capital.
- b) There must always be adequate liquidity to meet anticipated cash flow requirements.
- c) Proper records of investments are kept and reported to Council.

Provisions

1. General

- 1.1 There must be full compliance with Local Government (Financial Management) Regulation 19C which prohibits a local government from:
 - a. depositing funds with an unauthorised institution (An authorised institution is defined in 3 below).
 - b. depositing funds for a fixed term of more than ~~12 months~~ 3 years.
 - c. investing in bonds that are not guaranteed by the ~~Commonwealth Government~~ Commonwealth Government or a State or Territory Government.
 - d. investing in bonds with a term to maturity of more than 3 years.
 - e. investing in a foreign currency.

1.2 Council funds may be invested in one or more of the following:

- a. Fixed Term Deposits (For a fixed term of [3 years or less](#) ~~12 months or less~~)
- b. Commercial Bank Bills (For a fixed term of [3 years or less](#) ~~12 months or less~~)
- c. Government Bonds (For a term to maturity of 3 years or less)
- d. Cash Management Funds (For a fixed term of [3 years or less](#) ~~12 months or less~~)

1.3 Council funds are to be invested with the following financial institutions:

- a. Banking institutions holding a banking licence under Commonwealth Banking Legislation with a BBB rating or better, as set by Standard and Poor's. The Institution must be an Authorised Deposit-Taking Institution (ADIs) as defined under the Banking Act 1959.
- b. Bonds issued and guaranteed by government.

1.4 Investments, whenever possible, are to be placed with Local Banks [giving consideration to interest rates and keeping within the limitations of the Global Credit Framework](#).

1.5 The Chief Executive Officer has the delegated authority to invest surplus funds in accordance with this Policy.

2. Probity

2.1 To ensure there is not a conflict of interest, officers shall refrain from personal activities that would conflict with the proper execution and management of the Shire's investment portfolio.

2.2 To satisfy audit obligations, Letters of Confirmation will be obtained from the financial institutions confirming details of investments held on Council's behalf at 30th June each year.

3. Credit Risk Management

Global Credit Framework

3.1 To control the credit quality on the entire portfolio, a global credit framework will apply to limit the percentage of the portfolio exposed to any particular rating category. The maximum available limits in each Standard & Poor's credit rating category are as follows:

Standard and Poors - Credit Ratings:

Long term	Short Term	%	Description
AAA	A-1+	100	Prime
AA+		100	High Grade

AA		100	
AA-		100	
A+	A-1	100	Upper Medium Grade
A		100	
A-	A-2	70	Lower Medium Grade
BBB+		50	

4.0 ~~Term to Maturity Management~~

~~The Shire of York portfolio will have the following structural constraints:~~

Category	Description	Minimum	Maximum
Portfolio % < 1 Year (Fixed Term Deposit)		0%	100%
Portfolio % > 1 Year < 3 Years (Govt Bonds)		0%	70%

Commented [TB1]: Remove 3.2 in its entirety – In most cases the 31-day rule prevents the Shire from calling back term deposits early unless under extreme financial hardship. The Shire can request early termination of a deposit however the approval is at the discretion of the Institution.

~~To provide adequate liquidity all tradeable securities purchased will have, subject to market conditions, the ability to be liquidated within five working days.~~

~~19.4. Investment Reporting~~

~~19.14.1 Investments must be appropriately recorded in the Shire's financial records and reconciled on a monthly basis.~~

~~19.24.2 A monthly investment report must be provided to Council after the end of that month. The report shall give results for the calendar month in question and year to date. The report shall be segregated into three segments for the following:~~

- ~~• General Municipal Funds;~~
- ~~• Reserve Funds;~~
- ~~• Trust Funds.~~

~~The following detail is to be provided for each segment:~~

- ~~• Total funds invested by institution and investment type;~~
- ~~• Maturity date;~~
- ~~• Credit ratings of the investments;~~
- ~~• Current interest rates of individual investments;~~
- ~~• Total investments earnings year to date against budget.~~

Investments whenever possible are to be placed with Local Banks.

The Chief Executive Officer has the delegated authority to invest surplus funds in accordance with this Policy.

Key Terms/Definitions

Standard & Poor's – a financial services company providing index data and a source of independent credit ratings.

Policy Administration

Responsible Directorate/Division: Finance

Contact Officer Position: Financial Controller

Relevant Delegation: DE 3-2 - Delegated Authority – Invest Money held in Municipal or Trust Funds

Relevant Legislation: Local Government Act 1995 – Sections 6.14, 6.15
Local Government (Financial Management) Regulations 19 & 19C
The Trustee Act 1962 – Part III Investments [as amended by the Trustees Amendment Act 1997](#)
Banking Act 1959
Western Australian Treasury Corporation Act 1986

Relevant Documents: Staff Code of Conduct

Date Adopted: 28 January 2016

Reviews/Amendments 24 October 2016
15 February 2010 – Council Resolution 200210 (original)
15 February 2010 – Council Resolution 200210 (endorsed)
17 September 2012 – Council Resolution 210912 (amended)

Commented [TB2]: Repeat of 1.4 above

Formatted: Indent: Left: 1 cm, No bullets or numbering

Commented [TB3]: Repeat of 2.1

Formatted: Indent: Left: 1 cm, No bullets or numbering

Commented [TB4]: Repeat of 2.2

Formatted: Indent: Left: 1 cm, No bullets or numbering

Commented [TB5]: Repeat of 1.5

Formatted: Indent: Left: 1 cm, No bullets or numbering

7. QUESTIONS FROM MEMBERS WITHOUT NOTICE

Nil

8. NEXT MEETING

To be advised

9. CLOSURE

The Shire President thanked everyone for attending and closed the meeting at 3.33pm.