



TOWN OF
VICTORIA PARK



Audit and Risk Committee Minutes – 23 June 2020



WE'RE OPEN
VIC PARK

Please be advised that an **Audit and Risk Committee** was held at **5:30 pm** on **Monday 22 June 2020** in the **Council Chambers**, Administration Centre at 99 Shepperton Road, Victoria Park.

Cr Brian Oliver – Presiding Member
26 June 2020

Table of contents

Item	Page no
1 Declaration of opening	3
2 Attendance	3
2.1 Apologies.....	3
2.2 Approved leave of absence	3
3 Declarations of interest.....	3
4 Confirmation of minutes	4
5 Presentations.....	4
6 Method of dealing with agenda business	4
7 Reports.....	5
7.1 External audit plan for the year ending 30 June 2020.....	5
7.2 Financial Management Review 2019-2020	9
7.3 Proposed Internal Audit Program FY 20/21	16
7.4 Process for reporting significant compliance issues	24
8 Motion of which previous notice has been given	27
9 Meeting closed to the public	27
9.1 Matters for which the meeting may be closed.....	27
9.2 Public reading of resolutions which may be made public.....	27
10 Closure	27

1 Declaration of opening

Cr Brian Oliver opened the meeting at 05:30 pm.

2 Attendance

Mayor	Mayor Karen Vernon
Banksia Ward	Cr Wilfred Hendriks
Jarrah Ward	Cr Jesvin Karimi (Deputy Presiding Member) Cr Brian Oliver (Presiding Member)
Independent Committee Member	Mr Jonathan Carley
Chief Financial Officer	Mr Michael Cole
Manager Governance and Strategy	Ms Danielle Uniza
Coordinator Governance (Audit and Risk)	Ms Natalie Ong
Financial Controller	Ms Ann Thampoe
Secretary	Mr Liam O'Neill
From Moore Stephens	Mr Greg Godwin
From Office of the Auditor General	Mr Jordan Langford Smith
From KPMG	Ms Rachel Liepins

2.1 Apologies

Independent Committee Member	Mr Dane Ethridge
-------------------------------------	------------------

2.2 Approved leave of absence

Nil.

3 Declarations of interest

Nil.

4 Confirmation of minutes

COMMITTEE RESOLUTION:

Moved: Mayor Karen Vernon

Seconded: Cr Brian Oliver

That the Audit and Risk Committee confirms the minutes of the Audit Committee held on 23 March 2020.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

5 Presentations

Nil.

6 Method of dealing with agenda business

COMMITTEE RESOLUTION:

Moved: Cr Brian Oliver

Seconded: Cr Jesvin Karimi

That Audit and Risk Committee in accordance with clause 58 of the *Meeting Procedures Local Law 2019* suspends clause 50 - Speaking twice of the *Meeting Procedures Local Law 2019* for the duration of the meeting.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

7 Reports

7.1 External audit plan for the year ending 30 June 2020

Location	Town-wide
Reporting officer	Ann Thampoe
Responsible officer	Michael Cole
Voting requirement	Simple majority
Attachments	1. Office of Auditor General - Town of Victoria Park 2020 Audit Plan [7.1.1 - 18 pages]

Recommendation

That the Audit and Risk Committee recommends that Council, receives the external audit plan for the year ending 30 June 2020 as attached.

Purpose

To introduce to the Audit Committee the external auditors appointed by the Office of Auditor General and present the Financial Audit plan for the year ending 30 June 2020.

In brief

- During the 2020 Financial year, the Office of Auditor General appointed KPMG to conduct the external financial audit for the Town of Victoria Park.
- This report is to present the Audit Committee with KPMG's audit plan for the financial year ending 30 June 2020.

Background

1. The Local Government Amendment (Auditing) Bill 2017 made legislative changes to the *Local Government Act 1995* to provide for the auditing of local governments by the Auditor General. This Bill allowed the Auditor General to contract out some or all of the financial audits.
2. Audits that are contracted out are done under the supervision of the Auditor General and Office of the Auditor General.
3. For the 2020 financial year, KPMG has been appointed by the Auditor General as the Town's external auditors. The Town's previous auditors were Macri Partners.
4. The Audit plan (as attached), has been prepared by KPMG, and reviewed and agreed upon by the Management.
5. The Audit plan provides details of the audit approach, risk assessment and an overview of the audit focus areas.
6. The plan also provides details of the deliverables and timelines.

Strategic alignment

Civic Leadership	
Strategic outcome	Intended public value outcome or impact
CL06 - Finances are managed appropriately, sustainably and transparently for the benefit of the community.	The external audit plan is intended to provide all responsible parties details relating to methodologies and risk assessments that will be conducted along with deliverables and associated timelines for the audit.

Engagement

Internal engagement	
All Service areas	All Service areas that have an input into the financial management system will be engaged as part of the external audit.

Legal compliance

[Local Government Act 1995 Section 1.4](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Compliance: Not accepting audit plan	Moderate	Unlikely	Moderate	Ensure audit plan and timelines are presented by the Auditor General to Audit Committee in person, to ensure any concerns are addressed and resolved.

Financial implications

Current budget impact	Sufficient funds exist within the annual budget to address this recommendation.
Future budget impact	Not applicable.

Analysis

1. The Audit plan provides clear guidelines on expectations, deliverables and timelines for the Annual financial audit for the year ending 30 June 2020.
2. KPMG will initially be conducting the interim audit where they assess risk and perform test of operating effectiveness of key financial controls.
3. The findings of the interim audit will then be presented to Management for review.
4. Management will review matters raised within the Interim audit management letter, provide comments and actions against each matter and present the findings and management's response to the Audit Committee for acceptance.

Relevant documents

Not applicable.

COMMITTEE DISCUSSION

Mr Jordan Langford Smith, Office of the Auditor General and Ms Rachel Liepins, KPMG introduced the Audit plan and responded to elected member questions.

The Committee discussed the trust accounts and cash and cash equivalents as risks. It was highlighted that these were raised as risks due to prior issues with trust accounts and with employees working from home it is important to check cash controls.

The Committee noted that the findings of the financial management review will be considered by the external audit.

The Committee suggested that in future it would be useful to identify what gives rise to the risks identified in the audit plan.

The Committee considered the test controls on the revaluation process.

The Committee discussed the absence of testing in relation to personnel costs.

The Committee noted that the expected credit loss will need to be closely considered as a result of potential payment difficulties due to COVID-19.

The Committee discussed the audit timeline and it was advised that it currently not expected to be delayed.

The Committee was advised should there be any change as a result of the financial management review that this will be communicated to the Committee via management.

AMENDMENT:

Moved: Mr Jonathan Carley

Seconded: Cr Jesvin Karimi

That the statement '*subject to the inclusion of areas of audit focus and planned audit procedures for Personnel costs and related liabilities*' be added to the motion.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

Reason: The audit plan put forward was lacking the procedures around personnel costs which needs to be added in.

COMMITTEE RESOLUTION:

Moved: Mr Jonathan Carley

Seconded: Cr Jesvin Karimi

The Audit and Risk Committee recommends that Council receives the external audit plan for the year ending 30 June 20202 as attached, subject to the inclusion of areas of audit focus and planned audit procedures for 'Personnel costs and related liabilities'.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

7.2 Financial Management Review 2019-2020

Location	Town-wide
Reporting officer	Ann Thampoe
Responsible officer	Michael Cole
Voting requirement	Simple majority
Attachments	1. Town of Vic Park - FMR Report- Final [7.2.1 - 16 pages]

Recommendation

That the Audit and Risk Committee recommends that Council:

1. Notes the auditor's report on the review of the Town's financial management systems and procedures
2. Notes the Management responses to those comments and recommendations.

Purpose

To present to the Audit Committee the Auditor's report on the appropriateness and effectiveness of the financial management systems and procedures.

In brief

- A review of the appropriateness and effectiveness of the financial management systems and procedures of the Town must be undertaken ("Financial Management Review"), not less than once every three years. Moore Stephens (WA) Pty Ltd (external auditors) was engaged to conduct this review in accordance with Section 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended).

Background

1. The *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c), requires the Chief Executive Officer to undertake Financial Management Reviews regularly (and not less than once in every three years). The main purpose of a Financial Management Review (FMR) is to examine the appropriateness and effectiveness of the financial management systems and procedures of the Town.
2. Through a formal request for quote process, Moore Stephen (WA) Pty Ltd was appointed to undertake the financial management audit. The audit covered the period 1 July 2019 to 29 February 2020.
3. The Auditors report identified 10 matters of which 1 was considered to be significant, 6 were considered to be moderate issues and 3 were considered as minor issues.

Strategic alignment

Civic Leadership

Strategic outcome	Intended public value outcome or impact
CL06 - Finances are managed appropriately, sustainably and transparently for the benefit of the community.	The Financial management review is conducted to provide assurance in the performance of the control environment of the financial management system of the Town.

Engagement

Internal engagement	
Customer Service	Interviewed by auditors – to review procedures and internal controls
Aqualife	Interviewed by auditors – to review procedures and internal controls
Leisure Life	Interviewed by auditors – to review procedures and internal controls
People and Culture	Interviewed by auditors – to review procedures and internal controls

Legal compliance

[Local Government \(Financial Management\) Regulations 1996 section 5\(2\)\(c\)](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Compliance Auditor recommendations not being accepted	Significant	Unlikely	Low	Auditor findings and recommendation have been discussed with the relevant service areas and actions have been identified to ensure recommendations are implemented.

Financial implications

Current budget impact	Sufficient funds exist within the annual budget to address this recommendation.
Future budget impact	Not applicable.

Analysis

1. The review of the financial management systems and procedures identified 10 areas of improvement. Each matter that was identified has been discussed with the auditors and in turn with the relevant service areas. Actions identified will be implemented to ensure compliance going forward.

2. Matters raised by the Auditor, and management's response to each matter, are as follows:

(a) Purchases, Payments and Payables (Rating – Moderate)

During our testing of purchases we noted one instance, out of 10 tested, where a purchase order was raised after the date on the supplier invoice.

Recommendation:

To help ensure purchases have been appropriately authorised all authorising officers should be reminded of the requirement to ensure purchase orders are raised prior to the time of authorising work/services or ordering goods. This will also help to ensure budget responsibility.

Management Comments:

The purchase order identified relates to an annual website subscription. Management will ensure purchase orders for ongoing yearly subscriptions are raised and authorised prior to the end of the renewal period.

(b) Payroll (Rating – Moderate)

During our payroll testing we noted an instance where a department's timesheet, which is filled out by all staff members within that department, was not signed and approved by the department supervisor.

Recommendation:

To help ensure the accuracy and validity of payroll transactions, all timesheets should be independently reviewed and approved prior to processing.

Management Comments:

Payroll requires timesheets to be completed prior to payment processing date. The instances identified were mainly due to manager / supervisor being unavailable (due to leave) for authorisation. These timesheets have been reviewed by next senior officer, however not signed. Going forward, timesheets not signed will be returned to the next senior officer within the hierarchy for signatures prior to payment being processed.

(c) Payroll (Rating – Moderate)

Whilst the monthly reconciliations for payroll were performed on a regular basis as required, we noted they were not reviewed by a senior staff member independent of preparation.

Recommendation:

To help ensure the Town's payroll is completely and correctly posted into the general ledger, the reconciliations of the corresponding ledger control accounts should be independently reviewed and documented as such.

Management Comments:

Management notes the observations, and will ensure monthly payroll reconciliations are reviewed by a senior HR officer on an ongoing basis.

(d) Rates (Rating – Minor)

From review of the Town's rate notices we noted the valuation of the land and balance payable in the current financial year was not recorded on the instalment reminder notice as required by Local Government (Financial Management) Regulation 57(1)(c) and (e) respectively.

Recommendation:

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

Management Comments:

Management notes the observations and will ensure that future instalment notices include the land valuation and balance payable in the current financial.

(e) Bank Reconciliations (Rating – Moderate)

Whilst the monthly reconciliations for the reserve bank account were performed on a regular basis as required, we noted they were not reviewed by a senior staff member independent of preparation.

Recommendation:

Bank reconciliations are of primary control importance and are the catalyst for many transactions in other ledger accounts. To help ensure the Town's transactions are completely and correctly posted into the general ledger, the reserve bank reconciliations should be independently reviewed and documented as such

Management Comments:

Management notes the observation stated, and confirm that although all bank reconciliations were conducted and reviewed, there were few Reserve bank reconciliations that missed the signed documentation. Management will ensure that all reconciliations are signed and filed.

(f) Minutes and Meetings (Rating – Significant)

The Ordinary and Special Council meeting minutes, except for September 2019 and October 2019 were not signed at the meeting at which the minutes were confirmed as required by Local Government Act Section 5.22(3).

Recommendation:

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

Management Comments:

Management notes the observations. Going forward, a hard copy of the minutes will be printed for the presiding member to sign at the meeting in which those minutes are confirmed.

(g) Financial Reports (Rating – Moderate)

The monthly statement of financial activity for the month of November 2019 was not presented to the Council within 2 months of the end of the month to which the statement relates as required by Local Government (Financial Management) Regulation 34(3)(a).

Recommendation:

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

Management Comments:

The financial statements for the month of November was presented to the February Ordinary Council Meeting, as the Town did not hold a meeting in January (and have not in previous financial years).

Finance, in consultation with Governance will consider options on how compliance could be achieved.

(h) Budget (Rating – Minor)

The Annual Budget did not include an estimate of revenue and expenditure and an estimate of the assets and liabilities associated with major land transactions as required by Local Government (Financial Management) Regulation 27(k).

Recommendation:

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

Management Comments:

Management notes the observations as stated and will ensure details relating to any major land transactions are included within future budgets.

(i) Fixed Assets (Rating – Moderate)

Whilst a monthly reconciliation of current year asset transactions is performed, we noted the reconciliation between the Town's fixed asset register and the general ledger was not performed on a regular basis.

Recommendation:

To help ensure the Town's fixed assets are completely and correctly posted into the general ledger, a reconciliation between the asset register and the corresponding ledger control accounts should be completed on at least a quarterly basis. This reconciliation should also be independently reviewed and documented as such.

Management Comments:

A reconciliation between asset register and corresponding ledger accounts are completed monthly. However, a final reconciliation of general ledger asset classes against the asset register is only completed at the end of the financial year. This is predominantly due to the asset classification of major projects requiring to be adjusted once the project is completed. Management will review and implement a quarterly reconciliation process as recommended.

(j) Registers (Rating – Minor)

From review of the Town's Financial Interest Register we noted the following in relation to individual returns (the responsibility of which rests with the individual completing them):

- (i) eight instances where annual/primary returns contained sections which were left blank.
- (ii) the return period (i.e. 1 July 2018 to 30 June 2019) was not specified on the returns.

We also noted the returns completed by ex-employees and former councillors were not removed from the register as required by Local Government Act Section 5.88(3).

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. The return period should also be clearly documented on the returns. Returns should also be checked for completeness before receipt of the return acknowledgements are issued.

Procedures should be put in place to ensure that returns of ex-employees and former councillors are removed from the register as soon as practicable after they cease to be person who is required to lodge a return.

Management Comments:

Management notes the observations stated and will ensure the recommendations are implemented to ensure compliance.

Relevant documents

Not applicable.

COMMITTEE DISCUSSION

Mr Greg Godwin, Moore Stevens spoke to the Financial Management Review and responded to questions from the committee.

It was queried if the blank sections on primary returns related to elected members or employees. The question was taken on notice.

It was noted by the Committee that the hard copies of minutes were examined to establish the dates they were signed.

COMMITTEE RESOLUTION:

Moved: Mayor Karen Vernon

Seconded: Cr Jesvin Karimi

That the Audit and Risk Committee recommends that Council:

1. Notes the auditor's report on the review of the Town's financial management systems and procedures
2. Notes the Management responses to those comments and recommendations.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

7.3 Proposed Internal Audit Program FY 20/21

Location	Town-wide
Reporting officer	Natalie Ong
Responsible officer	Danielle Uniza
Voting requirement	Simple majority
Attachments	1. Internal Audit Program 2020 2021 [7.3.1 - 16 pages]

Recommendation

That the Audit and Risk Committee recommends that Council

1. Adopts the Internal Audit Program (the Program) to be undertaken in the 2020/2021 financial year and notes future internal audit scope proposals for 2021/2022 and 2022/2023, as included in attachment 1.
2. Considers allocating \$30,000 for the purpose of delivering the Internal Audit Program in the 2020/2021 Annual Budget.

Purpose

To present the Audit Committee with the proposed Internal Audit Program for the 2020-2021 Financial Year ("the Program") and recommendations, for review and recommendation to Council.

In brief

- At its meeting held on 21 April 2020, Council requested that the CEO present a report back to the Audit & Risk Committee with a proposed Internal Audit Program to be undertaken in the 2020/2021 financial year by July 2020.
- Under the Audit & Risk Committee's Terms of Reference, the Committee is responsible for reviewing the scope of internal audits and recommending an annual internal audit program to Council, in addition to reviewing the level of resources allocated to internal audit.
- The Internal Audit Program provides the Town with a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, internal controls, and governance processes.
- The Internal Audit Program for the 2020/2021 financial year takes a risk-based approach to determine the effectiveness of organisational controls and processes for managing the High-Risk Events of non-compliance and fraud and corruption identified in the Strategic Risk Register. It comprises a set of prioritised audits which cover compliance, fraud and corruption and other risks in selected high-risk Focus Areas including: Conflicts of Interest, Gifts, Benefits & Hospitality, Misuse of Information, Information Security and Fraud & Corruption Reporting.

Background

1. At its meeting held on 17 September 2019, Council, at the Audit Committee's recommendation, resolved to request the Chief Executive Officer (CEO) to investigate the establishment of a regular internal audit program and report back to the Audit Committee by March 2020.
2. In conducting the CEO's review on systems and processes, in accordance with Regulation 17 of the Audit Regulations, the lack of an internal audit program has been highlighted as a 'further action' for improvement.
3. The Town, in its Risk Management Framework, records a low risk appetite for the "Financial", "Legislative Compliance", and "Reputation/Image" Impact Categories.
4. The Town's Strategic Risk Register specifies the following Internal Audit-related risk treatment actions to address identified inherent high-risk events:

Inherent High Risk Event	Risk Treatment Action
Non-compliance with Council's governance obligations under the Local Government Act	<ul style="list-style-type: none"> • Develop and implement internal audit on compliance and performance
Failure to prevent occurrences of fraud and corruption	<ul style="list-style-type: none"> • Conduct a regular internal audit on fraud and corruption • Conduct regular audits against findings by integrity bodies like the CCC, PSC and OAG

5. At its meeting held on 21 April 2020, Council, on the recommendation of the Audit Committee, requested that the CEO present a report back to the Audit & Risk Committee with a proposed Internal Audit Program to be undertaken in the 2020/2021 financial year by July 2020.
6. The Audit & Risk Committee's Terms of Reference state the following governance and oversight responsibilities, in relation to Internal Audit:
 - (a) Help Council form an opinion on the local government's audit requirements by recommending courses of action which ensure that internal audit processes are appropriate, accountable and transparent
 - (b) Review the scope of internal audits with input from the CEO and recommend an annual internal audit program to Council
 - (c) Review the appropriateness of special internal audit assignments undertaken by the internal auditor at the request of Council or the CEO
 - (d) Review the level of resources allocated to internal audit and the scope of its authority
 - (e) Review internal audit reports and make recommendations to Council on its results
 - (f) Oversee and monitor the implementation of internal audit recommendations
7. The Local Government Operational Guidelines on Audit in Local Government advocate internal auditing as an "independent, objective assurance and consulting activity designed to add value and improve an organisation's operations", which enables the achievement of organisational objectives by bringing a "systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

Strategic alignment

Civic Leadership	
Strategic outcome	Intended public value outcome or impact
CL08 - Visionary civic leadership with sound and accountable governance that reflects objective decision-making.	As internal audit is a key pillar of organisational governance, a robust internal audit program, with oversight from the Audit Committee, will enable the Town to have a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes. The business improvements that result from an effective internal audit program will ultimately add value to the way the Town runs its business.

Engagement

Internal engagement	
Stakeholder	Comments
Finance	Finance were advised of work being undertaken to develop the Internal Audit Program and asked to provide information on any internal or OAG audits undertaken in relation to Procurement and Accounts Payable to date.
IT	IT were advised of work being undertaken to develop the Internal Audit Program and asked to provide information on any recent cybersecurity or information security reviews conducted. Clarification and engagement to continue with the commencement of the new ICT Manager.
C-Suite	C-Suite were briefed about the development of the Internal Audit Program and its submission to the Audit and Risk Committee.

Legal compliance

[Section 7.1a of the Local Government Act 1995](#)

[Regulation 16 of the Local Government \(Audit\) Regulations 1996](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Legislative Compliance, Reputation/Image, Financial	Severe	Possible	High	<ul style="list-style-type: none"> Implementing an independent Internal Audit Program which assures a systematic, disciplined approach to evaluate and

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
<p>A poorly designed Internal Audit Program will make the Town vulnerable to non-compliance, fraud and corruption risks which adversely impact on the Town's reputation, finances and organisational morale, and subject the Council to dismissal and public censure.</p>				<p>improve the effectiveness of risk management, internal control, and governance processes in line with Local Government operational guidelines for audit.</p> <ul style="list-style-type: none"> • Ensure that the Internal Audit role considers compliance and ethics risks in the development of the internal audit program and associated plans, and in the conduct of audit projects. • Audit program design considers reports and findings from key state agencies and interstate counterparts as well as industry best practice.

Financial implications

<p>Current budget impact</p>	<p>There is no impact on the current 2019/2020 financial year budget.</p>
<p>Future budget impact</p>	<p>As there is currently no allocated resource within the Town for the purpose of conducting internal audits, and there is a need for some audits to be conducted externally, it is recommended that Council consider allocating \$30,000 for the purpose of conducting the internal audit program in the 2020/2021 financial year.</p>

Analysis

8. The Internal Audit Program for the 2020/2021 financial year takes a systematic risk-based approach to determine the effectiveness of organisational controls and processes for managing the High-Risk Events of non-compliance and fraud and corruption identified in the Strategic Risk Register. It is intended that the findings of this evaluation will inform improvements to the effectiveness of risk management, internal controls, and governance processes.
9. The Program comprises a set of prioritised audits which cover compliance, fraud and corruption and other risks in selected high-risk Focus Areas.
10. Focus Areas which make up the scope of the risk-based Internal Audit Program were identified from an analysis of the Town of Victoria Park's Strategic Risk Register (current as at June 2020), addressing the following elements of the Register:
 - a) Risk Events
 - b) Risk Impact Category

- c) Inherent Risk Rating
- d) Risk Treatment Actions

Inherent High Risk Event	Risk Treatment Action
Non-compliance with Council's governance obligations under the Local Government Act	<ul style="list-style-type: none"> • Develop and implement internal audit on compliance and performance
Failure to prevent occurrences of fraud and corruption	<ul style="list-style-type: none"> • Conduct a regular internal audit on fraud and corruption • Conduct regular audits against findings by integrity bodies like the CCC, PSC and OAG

11. The design and approach is based on extensive research, including, but not limited to, the following references:
 - a) WA Local Government Operational Guidelines: The operation, function and responsibilities of Audit Committees
 - b) Key Western Australian Office of Auditor General (OAG) reports on Fraud Prevention and Information Systems
 - c) Public Sector Commission (PSC) WA Integrity Framework
 - d) Corruption and Crime Commission (CCC) reports and findings (Western Australia and interstate counterparts)
 - e) Industry and international best practice standards, guidance material and articles

12. The scope of the Internal Audit Program specifies cross-functional audits to be undertaken in the following high-priority Focus Areas for the 2020-2021 financial year:
 - (g) Conflicts of Interest (November 2020)
 - (h) Gifts, Benefits and Hospitality (November 2020)
 - (i) Misuse of Information (February 2021)
 - (j) Information Security (April 2021)
 - (k) Reporting of Fraud and Corruption / Integrity Culture & Leadership (May 2021)

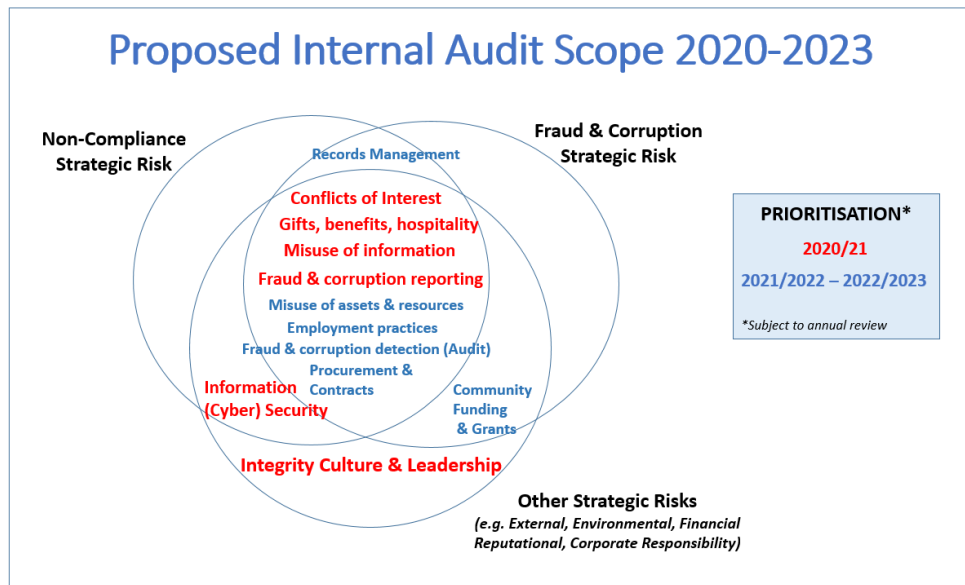
13. The Internal Audit Program proposes minimum Internal Audit Criteria for each Focus Area audit to enable evidence-based assessment of the extent to which the focus areas are being effectively managed by the Town, to meet compliance requirements and against best practice benchmarks.

14. A detailed Audit Plan will be developed for each Focus Area audit. The Internal Audit Criteria are subject to review and updates as part of detailed planning for each specific audit, taking into consideration emergent risks, internal and external trends and identified issues as they arise. A responsive, proactive and agile approach to audit planning will ensure currency and relevance, through environmental scanning, research and networking to keep abreast of industry and sector developments and changes in the regulatory environment.

15. In line with the Terms of Reference of the Audit and Risk Committee, the findings of each audit will be presented at the first Audit and Risk Committee meeting following the completion of the audit. Progress against internal audit recommendations will be tracked and a report presented to the Audit and Risk Committee at each quarterly meeting of the Committee.

16. As part of a strategic and ethical approach to the Internal Audit function, it is recommended for the Committee's consideration that:

- (a) The Internal Audit Program includes an out-sourced independent internal audit of the Internal Audit function in future years, with funding to be made available for this purpose.
- (b) Where it is identified that the performance of an internal audit would create a conflict of interest for the Internal Audit function, an out-sourced independent auditor be appointed.
- (c) A multi-year view of internal audit programming be considered, with a rolling three-year program (reviewed annually) which proposes future Focus Areas for the second and third years, based on strategic assessments of the risk and threat environments undertaken through the risk management function. For instance:



17. It is intended that as the Town's internal audit model matures, it will evolve in line with the contemporary view of internal audit as outlined in the Institute of Internal Audit's factsheet "Evolution of Internal Audit", developing accretionally from a compliance-based function to one that helps to drive enterprise-wide value.



Relevant documents

[Terms of Reference - Audit and Risk Committee](#)

[Strategic Risk Register](#)

[Risk Management Framework](#)

Public Sector Commission

- [Integrity Strategy for WA Public Authorities 2020-2023](#)
- [Integrity Snapshot Tool for WA Public Authorities](#)

WA Office of Auditor General (OAG)

- [Report on Fraud Prevention in Local Government, August 2019](#)
- [Information Systems Audit Report – State Government entities, April 2020](#)

WA Corruption and Crime Commission (CCC)

- [Report into misconduct risks with access to confidential information in the Office of the Auditor General, April 2020](#)
- [Review of an inadequate investigation by the Department of Communities into allegations of bribery, April 2020](#)
- [Review of recommendations made following unauthorised release of confidential information from the Public Transport Authority, February 2020](#)
- [Review of recommendations made to Department of Transport arising from three reports, October 2019](#)
- [Report into how conflicts of interest undermine good governance - A report on the Chief Executive Officer of the Shire of Halls Creek, August 2018](#)
- [Report into Allegations of Serious Misconduct by Councillors of the City of Perth between 21 and 24 October 2017](#)
- [Report on Matters of Serious Misconduct in the Shire of Exmouth. May 2017](#)
- [Report on a Matter of Governance at the Shire of Dowerin, October 2016](#)
- [Report on City of Perth Lord Mayor \(gifts and travel contributions\), October 2015](#)

[WA Local Government Accounting Manual – Section 7 Internal Control Framework](#)

[WA Local Government Operational Guidelines: The operation, function and responsibilities of Audit Committees](#)

[Internal Audit in Australia, Institute of Internal Auditors](#)

Victorian Independent Broad-based Anti-Corruption Commission (IBAC)

- [Local Government Integrity Frameworks Review March 2019](#)
- [Controlling fraud and corruption: a prevention checklist](#)

[Queensland Department of Local Government guidance on IA and Audit Committees](#)

[NSW Department of Premier and Cabinet Internal Audit Guidelines for Local Councils](#)

Institute of Internal Audit

- [Internal Audit in Australia](#)
- [Effective Internal Auditing in the Public Sector – A Good Practice Guide](#)
- [International Standards for the Professional Practice of Internal Auditing](#)
- [International Professional Practices Framework \(IPPF\)](#)
- [Factsheet: Evolution of Internal Audit](#)

KPMG

- [Top 10 Internal Audit considerations in 2020](#)
- [Internal Audit: Understanding the audit universe and the journey to risk maturity](#)
- [ICAS Risk Maturity Matrix with Audit Tests](#)

PWC

- [The 8 Attributes of Successful Internal Audit Functions](#)

Ms Natalie Ong, Governance Coordinator - Audit and Risk spoke to her report and responded to questions from the Committee.

The Committee considered the proposed expense for the internal audit program and the make up of that cost.

The Committee discussed the proposed scheduling of the different internal audits and if a cybersecurity audit should be prioritised.

The Committee noted that there would be coordination with the external auditor throughout this process to ensure efficiency in the internal audit processes.

COMMITTEE RESOLUTION:

Moved: Cr Brian Oliver

Seconded: Mayor Karen Vernon

That the Audit and Risk Committee recommends that Council

1. Adopts the Internal Audit Program (the Program) to be undertaken in the 2020/2021 financial year and notes future internal audit scope proposals for 2021/2022 and 2022/2023, as included in attachment 1.
2. Considers allocating \$30,000 for the purpose of delivering the Internal Audit Program in the 2020/2021 Annual Budget.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

7.4 Process for reporting significant compliance issues

Location	Town-wide
Reporting officer	Michael Cole
Responsible officer	Michael Cole
Voting requirement	Simple majority
Attachments	Nil

Recommendation

That the Audit and Risk Committee recommends that Council notes the process for reviewing, and reporting on, non-compliance issues raised by the Auditor.

Purpose

To receive an update on the process the Town has since implemented for reviewing, and reporting on, non-compliance issues raised by the Auditor.

In brief

- As part of their audit of the 2017/18 Annual Financial Statements, the Town's auditors issued their opinion on a significant adverse trend in the financial position of the Town relating to the Asset Sustainability Ratio.
- This adverse trend was not brought to the attention of the Council, in accordance with Section 7.12A(4) of the Local Government Act 1995 and required a subsequent report to Council.
- A similar finding was included in the audit of the 2018/19 Annual Financial Report and the action required to be taken under the Act was completed.
- The Audit Committee recommended that Council requests that the Chief Executive Officer provides further information relating to the development of a process in line with item 1.5 of the update on outstanding actions from regulation 17 review (attachment 7.2.1), along with updated status, to the audit committee at its June 2020 meeting.

Background

1. At its meeting of 23 March 2020, the Audit Committee considered the CEO's review of systems and procedures under regulation 17 of the Local Government (Audit) Regulations 1996.
2. One matter in the review was the auditor's opinion from their audit of 2018/19 Annual Financial Report on a significant adverse trend in the financial position of the Town relating to the Asset Sustainability Ratio. A similar opinion was issued in 2017/18.
3. Section 7.12A(4) of the Local Government Act 1995 requires a local government to 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 concerning each of those matters. A copy of that report is to be provided to the Minister within 3 months after the audit report is received by the local government and published on the local government's official website.
4. Due to an oversight in 2018, this did not occur and the Town was required to comply with section 7.12A(4) of the Act.

5. The regulation 17 review also noted that the Town has since implemented a process for reviewing, and reporting on, non-compliance issues raised.
6. The Audit Committee requested that the Chief Executive Officer provides further information relating to the development of the process along with updated status, to the Audit Committee at its June 2020 meeting.

Strategic alignment

Civic Leadership	
Strategic outcome	Intended public value outcome or impact
CL06 - Finances are managed appropriately, sustainably and transparently for the benefit of the community.	Responses to audit findings are considered by the Audit Committee and Council in a timely manner.
CL10 - Legislative responsibilities are resourced and managed appropriately, diligently and equitably.	Ensures compliance with Regulation 17

Engagement

Internal engagement	
Stakeholder	Comments
Finance Team	Finance team have been consulted. All auditor opinions are reviewed and if any adverse findings are identified, the adverse finding and action being taken to address the finding are reported to Council. This is to be included in the report to Council to receive the auditor's opinion.

Legal compliance

[Section 7.12A\(4\) of the Local Government Act 1995](#)

[Regulation 17 of the Local Government \(Audit\) Regulations 1996](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Reputational Negative public perception towards the Town may result if Audit findings not dealt with in a timely manner.	Moderate	Likely	High	Responses to adverse findings addressed when Audit opinion is received by the Audit Committee and Council.

Financial implications

Current budget impact	Sufficient funds exist within the annual budget to address this recommendation.
Future budget impact	Not applicable.

Analysis

7. Following concerns raised by the Audit Committee in 2019, a process has been put in place to review and report on non-compliance issues raised by the Auditor.
8. The Town's checklists have been updated to include the following process:
 - (a) Upon receipt of the Auditor's opinion, the opinion is to be reviewed for any adverse findings.
 - (b) In the event of an adverse finding, the report to the Audit and Risk Committee will include management responses to the adverse finding including action proposed.
 - (c) A copy of the report is to be provided to the Minister
 - (d) A copy of the finding and action taken is to be posted on the Town's official website.
9. This process was followed on receipt of the Auditor's opinion for the 2018/19 Annual Financial Report with the report to the Audit Committee noting:
 - (a) The audit finding concerning the Asset Sustainability Ratio
 - (b) The action the Town has taken with respect to the Asset Sustainability Ratio
 - (c) A copy of that report was provided to the Minister immediately after the audit report was received by the local government and was also published on the Town's official website.

Relevant documents

Not applicable

Committee Discussion

The Committee discussed if there was a culture of raising noncompliance and the proposed process to address significant finding in the external audit.

COMMITTEE RESOLUTION:

Moved: Mr Jonathan Carley

Seconded: Cr Jesvin Karimi

That the Audit and Risk Committee recommends that Council notes the process for reviewing, and reporting on, non-compliance issues raised by the Auditor.

CARRIED (5 - 0)

For: Cr Brian Oliver, Cr Jesvin Karimi, Cr Wilfred Hendriks, Mayor Karen Vernon, Mr Jonathan Carley

Against: nil

8 Motion of which previous notice has been given

9 Meeting closed to the public

9.1 Matters for which the meeting may be closed

9.2 Public reading of resolutions which may be made public

Nil.

10 Closure

There being no further business, Cr Brian Oliver closed the meeting at 06:18 pm.

I confirm these minutes to be true and accurate record of the proceedings of the Committee.

Signed:

Cr Brian
Oliver

Dated this:

Day of:

2020

