



TOWN OF
VICTORIA PARK



Audit Committee Agenda – 19 August 2019



WE'RE OPEN
VIC PARK

Please be advised that an **Audit Committee** will be held at **5:30 pm** on **Monday 19 August 2019** in **Council Chambers**, Administration Centre at 99 Shepperton Road, Victoria Park.

Ms Natalie Martin Goode – Acting Chief Executive Officer
15 August 2019

Table of contents

Item	Page no
1 Declaration of opening	3
2 Attendance.....	4
2.1 Apologies.....	5
2.2 Approved leave of absence.....	6
3 Declarations of interest.....	7
4 Confirmation of minutes.....	8
5 Presentations.....	9
6 Method of dealing with agenda business.....	10
7 Reports.....	12
7.1 CEO Review of Systems and Procedures on Internal Controls	12
8 Motion of which previous notice has been given.....	23
9 Meeting closed to the public	23
9.1 Matters for which the meeting may be closed	23
9.2 Public reading of resolutions which may be made public.....	23
10 Closure	24

1 Declaration of opening

Acknowledgement of Country (by Presiding Member)

I am not a Nyungar woman, I am a non-Indigenous woman. I am honoured to be standing on Whadjuk - Nyungar country on the banks of the Swan River.

Ngany yoowart Noongar maam, ngany wadjella maam. Ngany djerapiny Wadjak – Noongar boodja-k yaakiny, nidja bilya bardook.

I acknowledge the traditional custodians of this land and respect past, present and emerging leaders, their continuing cultural heritage, beliefs and relationship with the land, which continues to be important today.

Ngany kaaditj Noongar moort keny kaadak nidja Wadjak Noongar boodja. Ngany kaaditj nidja Noongar birdiya – koora, ye-ye, boorda, baalapiny moorditj Noongar kaaditjin, moort, wer boodja ye-ye.

I thank them for the contribution made to life in the Town of Victoria Park and to this region.

Ngany youngka baalapiny Noongar birdiya wer moort nidja boodja.

2 Attendance

Banksia Ward

Cr Claire Anderson
Cr Karen Vernon (Deputy Presiding Member)

Jarrah Ward

Cr Jennifer Ammons Noble (Presiding Member)
Cr Brian Oliver

Independent Committee Members

Mr Neil Formosa
Mr Jonathan Carley

Chief Operations Officer

Mr Ben Killigrew

Chief Financial Officer

Mr Michael Cole

Manager, Governance and Strategy

Ms Danielle Uniza

Secretary

Mr Liam O'Neill

2.1 Apologies

2.2 Approved leave of absence

3 Declarations of interest

Declarations of interest are to be made in writing prior to the commencement of the meeting.

Declaration of financial interests

A declaration under this section requires that the nature of the interest must be disclosed. Consequently, a member who has made a declaration must not preside, participate in, or be present during any discussion or decision-making procedure relating to the matter the subject of the declaration. An employee is required to disclose their financial interest and if required to do so by the Council must disclose the extent of the interest. Employees are required to disclose their financial interests where they are required to present verbal or written reports to the Council. Employees can continue to provide advice to the Council in the decision-making process if they have disclosed their interest.

Declaration of proximity interest

Elected members (in accordance with Regulation 11 of the Local Government [Rules of Conduct] Regulations 2007) and employees (in accordance with the Code of Conduct) are to declare an interest in a matter if the matter concerns: a) a proposed change to a planning scheme affecting land that adjoins the person's land; b) a proposed change to the zoning or use of land that adjoins the person's land; or c) a proposed development (as defined in section 5.63(5)) of land that adjoins the persons' land.

Land, the proposed land adjoins a person's land if: a) the proposal land, not being a thoroughfare, has a common boundary with the person's land; b) the proposal land, or any part of it, is directly across a thoroughfare from, the person's land; or c) the proposal land is that part of a thoroughfare that has a common boundary with the person's land. A person's land is a reference to any land owned by the person or in which the person has any estate or interest.

Declaration of interest affecting impartiality

Elected members (in accordance with Regulation 11 of the Local Government [Rules of Conduct] Regulations 2007) and employees (in accordance with the Code of Conduct) are required to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making process. The Elected Member/employee is also encouraged to disclose the nature of the interest.

4 Confirmation of minutes

Recommendation

That the Audit Committee confirms the minutes of the Audit Committee held on 15 July 2019.

5 Presentations

6 Method of dealing with agenda business

Recommendation

That Audit 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.

7 Reports

7.1 CEO Review of Systems and Procedures on Internal Controls

Location	Town-wide
Reporting officer	Danielle Uniza
Responsible officer	Natalie Martin Goode
Voting requirement	Simple majority
Attachments	<ol style="list-style-type: none">1. HRP Recruitment and Selection policy [7.1.1 - 6 pages]2. Recruitment Checklist [7.1.2 - 1 page]3. Risk Assessment and Acceptance Criteria [7.1.3 - 2 pages]

Recommendation

That the Audit Committee recommends that Council:

1. Receives the results of the Chief Executive Officer's Review of systems and procedures relating to internal controls, in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996*.
2. Endorses the eight recommended further actions identified as part of the review.
3. Requests that the Chief Executive Officer provides a further report to the Audit Committee on the progress of recommended further actions by March 2019.

Purpose

To present findings and recommend further actions from the Chief Executive Officer (CEO)'s review of systems and procedures relating to internal controls, in accordance with regulation 17 of the Local Government (Audit) Regulations 1996 (the Regulations).

In brief

- Regulation 17 of the Regulations require the CEO to conduct a review of systems and procedures relating to legislative compliance, risk management and internal controls on a triennial basis.
- To ensure that a thorough review is conducted, each area is being reviewed and reported on individually. All three areas are to be reviewed in 2019. This report is a review on internal controls.
- In conducting a review of systems and processes relating to internal controls, the Town has used the Local Government Operational Guidelines No. 9 – Audit in Local Government (the Guidelines) to establish eight key areas of review.
- Of the eight areas reviewed, one area has been deemed to have 'inappropriate' systems and processes, five areas are deemed to have some systems and processes in place that are 'needing improvement', and two areas have been deemed to be 'appropriate'. Eight further actions have been identified as a result of this review.

Background

1. In 2013, regulation 17 of the Regulations were amended to include a requirement for the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal controls and legislative compliance on a biennial basis. In 2018, regulation 17 was amended to change the frequency of the review requirement from biennial to triennial.
2. In accordance with regulation 16 of the Regulations, a local government's audit committee is responsible for reviewing the CEO's report, before providing a copy of the report and the results of its review to Council.
3. The first and only review conducted by the Town was a full review of all three areas – legislative compliance, risk management and internal control. The result of this review was presented to the Finance and Audit Committee at its meeting held in November 2016, before being presented to Council at its meeting held on 13 December 2016. This initial review found the Town's systems and processes relating to both risk management and legislative compliance to be 'appropriate and effective', and its systems and processes relating to internal controls to be 'in its infancy'. No further actions were recommended as part of that review.
4. As the last review was conducted in 2016, the CEO is required to conduct a review of all three systems in 2019. While the initial review assessed the appropriateness and effectiveness of all three systems in one report, the approach to this review has been to assess, and report on, each system individually within the calendar year. The reason for this staggered approach is to ensure that the CEO has an opportunity to review each area thoroughly. The most recent review conducted under this approach was on legislative compliance and was presented to Council at its March Ordinary Council Meeting.
5. While there is no mandatory or minimum requirement for conducting the reviews under regulation 17, the Town has used the Guidelines as a basis for reviewing the 'appropriateness and effectiveness' of the Town's internal control framework.
6. Internal control is a key component of a sound governance framework, alongside leadership, long-term planning, compliance, resource allocation, accountability and transparency. As stipulated in the Guidelines, an effective internal control environment is built on the following key areas: *integrity and ethics; policies and delegated authority; levels of responsibility and authorities; audit practices; information system access and security; management operating style and human resource management and practices*. While the overall strategy to maintain sound internal controls should be based on a risk analysis of the internal operations of a local government, an effective control framework should include the following aspects:
 - a) Effective and appropriate delegation of authority
 - b) Documented policies and procedures
 - c) Trained and qualified employees
 - d) Effective system controls (as outlined in the guidelines)
 - e) Effective policy and process review
 - f) Regular internal audits
 - g) Documentation of risk identification and assessment
 - h) Regular liaison with auditor and legal advisors
7. The eight aspects identified above have been used in conducting the CEO's review of the appropriateness of procedures and systems relating to internal controls.

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.	The Town has a responsibility to its community to ensure that its current internal controls systems are appropriate and in line with industry best practice to promote principles of good governance.
CL10 - Legislative responsibilities are resourced and managed appropriately, diligently and equitably.	By conducting a thorough review of the appropriateness of the Town's system and processes relating to internal controls, review areas that need further action are presented transparently.

Engagement

Internal engagement	
Stakeholder	Comments
Corporate Services	Provided response to Review Area 4
Human Resources	Provided response to Review Area 3

Legal compliance

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

[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
Compliance The Town's current systems relating to internal controls not meeting requirements	Moderate	Low	Moderate	Proactively improving internal controls processes and completing the proposed further actions as a result of this review.
Reputational The Town will face reputational damage if a lack of appropriate internal controls results in a breach of the <i>Local Government Act 1995</i> , and other	Major	Likely	High	Completing the proposed further actions as a result of this review. Ensure that internal controls, as outlined in the Guidelines, meets best practice standards.

relevant legislation

Financial implications

Current budget impact Sufficient funds exist within the annual budget to address this recommendation.

Future budget impact Not applicable.

Analysis

8. The review has been based on current systems and procedures. It is to be noted that while several areas of improvement are already underway, the review has not considered those as they are not currently in place. An officer comment has been provided relating to each of the eight review areas. Where it has been deemed that there is appropriate procedures and systems relating to an area of review, it is assessed with '*appropriate*', where there is some form of procedure/ system relating to an area of review, it is assessed with a '*needing improvement*', and where there is little to no evidence of procedures and systems relating to an area of review, it has been assessed with an '*inappropriate*'. The eight areas of review have been assessed as follows:

Review Area 1: Effective and appropriate delegation of authority

Officer Comment	The delegated authority register has recently undergone a full review which was presented to Council for adoption at its meeting held on 21 May 2019. The delegated authority register has been updated using the WALGA model. Following its adoption, the Chief Executive Officer has since provided notice to relevant officers regarding the conditions of their sub-delegations.
Assessment	Appropriate
Recommended further action	None
Supplementary Documents	Register of Delegations

Review Area 2: Documented policies and procedures

Officer Comment	The Town's policies are currently available on the Town's website. However, as procedures and/or management practices are kept by each responsible service area, the format and record-keeping of procedures/management practices are often inconsistent.
Assessment	Needing improvement
Recommended further action	(1) Ensure consistency in the drafting and keeping of procedures and/ management practices using the Town's Record Management System
Supplementary Documents	None

Review Area 3: Trained and qualified employees

Officer Comment	<p>The Town's Recruitment and Selection procedures require all successful candidates to provide proof of their qualifications prior to commencing with the Town. A certified copy is retained on the new employees personnel file as evidence.</p> <p>All position descriptions for Town positions further identify the skills and abilities required for the role. These skills and abilities form the basis of the selection process and the evaluation of the candidates who have applied. Once employed, the Town provides ongoing training and development to staff through its workforce plan initiatives.</p> <p>That being said, a recent audit conducted by the Office of the Auditor General (May 2019 – <i>Focus Audit – Verifying Employee Identity and Credentials</i>) identified areas of the onboarding process that should be improved.</p>
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Assessment	Needing Improvement
Recommended further action	(2) In response to the audit, the People and Culture Unit are developing a new procedure for the onboarding of new staff.
Supplementary Documents	HR Procedure on Recruitment and Selection (Attachment 7.1.1) Recruitment Checklist (Attachment 7.1.2)

Review Area 4: Effective system controls (as outlined in the Guidelines)

Officer Comment	<p>The Town has numerous policies, processes, procedures and systems in place to ensure there is an effective system of controls. These include but are not limited to the following:</p> <ul style="list-style-type: none"> • separation of roles and functions, processing and authorisation – there is effective separation of roles in Finance between authorisation and processing of payments and these are reviewed as part of the annual independent audit and supported by Finance policies listed below • control of approval of documents, letters and financial records – as per the Register of Delegations • comparison of internal data with other or external sources of information – external sources verify end-of-year balances of investments and bank accounts • limit of direct physical access to assets and records – the current controls that limit access to IT and Information are included in the (draft) Information Systems Security Policy to be considered by the Audit Committee; • control of computer applications and information system standards – as per IT Hardware and Software Plan • limit access to make changes in data files and systems – as per IT Hardware and Software Plan • regular maintenance and review of financial
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	<p>control accounts and trial balances</p> <ul style="list-style-type: none"> • comparison and analysis of financial results with budgeted amounts – financial results are reviewed each month by the Senior Management Team as well as being presented to Council • the arithmetical accuracy and content of records – reviewed through reconciliations undertaken and independently verified as part of monthly and end of financial year reports • report, review and approval of financial payments and reconciliations – approvers and signatories as per Finance Policies listed below • comparison of the result of physical cash and inventory counts with accounting records – periodic stock counts and checks of petty cash are undertaken. <p>These controls are predominantly checked by the external auditor (the Office of the Auditor General). The controls are all the subject of ongoing internal review.</p>
Assessment	Appropriate
Recommended further action	(3) While the assessment is considered appropriate, some areas for improvement identified by Auditors as part of the 2018/19 interim audit will be actioned.
Supplementary Documents	<p>Relevant policies below as presented in the Policy Manual:</p> <ul style="list-style-type: none"> • FIN1 Investment • FIN2 Band accounts, signatories and payments • FIN3 Debt collection • FIN4 Procurement • FIN5 Budget expenditure and authorisation • FIN6 Disposal of disused equipment, machinery and other materials

- FIN7 Donations, - Financial assistance
- FIN8 Sponsorship by private companies on Council property, including events
- FIN9 Business dealings with Elected Members and employees
- FIN10 Taxi vouchers for community members of Council committees, working groups and project teams
- FIN11 Loan borrowings limitation

ICT Strategies and Policies:

- Information Systems Security Policy (TBD)
- [ICT Strategic Plan](#)
- ICT Hardware and Software Plan (TBD)

Review Area 5: Effective policy and process review

Officer Comment

At the time of writing the report, a full review of the Policy Manual has been presented to Council for its consideration. The review of the Policy Manual has been conducted in line with [Council Policy 001 – Policy Management and Development](#). Should Council resolve to adopt the reviewed Policy Manual, the next step will be to migrate all policies into the appropriate policy template and to ensure that all policies are easily accessible on the Town’s website.

It is to be noted, however, that several policies still need to undergo a full review. There are approximately 13 policies currently under review, two that have been identified as needing a further review, and a few other policies that need to be developed due to the recent assent of the *Local Government Legislation Amendment Act 2019*. In total, there are about 20 policies under review and/or development.

The review process for management practices and procedures are done on an ad hoc basis.

Assessment	Needing improvement
Recommended further action	<p>(4) Ensure that all 'policy statements' and 'procedures' are appropriately captured, in line with Council Policy 001 – Policy Management and Development before the next CEO's review on systems and processes relating to internal controls, which will be due in 2022</p> <p>(5) Establish a review process for procedures and/or management practices</p>
Supplementary Documents	<p>Policy Manual (current)</p> <p>Item 10.1 Review of the Town policy Manual (under consideration)</p> <p>Council Policy 001 – Policy Management and Development</p>

Review Area 6: Regular internal audits

Officer Comment	<p>As outlined under the response to Review Area 7 and Review Area 8 of the CEO's review of systems and process on legislative compliance presented to Council at its March Ordinary Council Meeting, there is currently no internal auditor and/or internal audit program within the Town. The lack of an internal audit function was further brought to the attention of the Finance and Audit Committee in June 2019. At the time, it was proposed that functions relating to 'internal audit' be included as part of its terms of reference; however, discussion held at the Committee workshop resulted in the inclusion of only the 'external audit' component.</p>
Assessment	Inappropriate

Recommended further action	(6) Establish and implement a regular internal audit program
Supplementary Documents	April OCM – Item 14.1.1 CEO Review of Systems and Procedures on Legislative Compliance May OCM – Item 10.3 Review of the Finance and Audit Committee

Review Area 7: Documentation of risk identification and assessment

Officer Comment	<p>The Town currently has two risk registers; a register of operational risks was developed in 2016, and a register of strategic risks was developed in 2018. The 'Risk Management Framework' and operational risk register have not been reviewed since 2017; whilst the strategic risk register was last updated in 2019.</p> <p>In line with a decision made at the Annual Electors' Meeting held in 2018, the Town's Risk Management Framework is currently undergoing a review and is due to be presented to Council by November 2019.</p>
Assessment	Needing improvement
Recommended further action	(7) Risk Management Framework and registers to be reviewed
Supplementary Documents	Risk Management Framework (Attachment 7.1.3)

Review Area 8: Regular liaison with auditor and legal advisors

Officer Comment	The Office of the Auditor General has recently conducted an Interim Audit for the 2018-2019
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	<p>Financial Year. At the time of writing the report, the interim audit report was considered by the Audit Committee and is now being presented to Council.</p> <p>The Town engages with, and procures, legal advisors in line with Council Policy ADM5 – Legal Advice – Engage Solicitors for Opinions whenever legal advice is considered necessary and/or appropriate. That being said, both the policy, and current practice, need to be reviewed to ensure it is operating effectively.</p>
Assessment	Needing improvement
Recommended further action	(8) Conduct review of Council Policy ADM5 – Legal Advice – Engage Solicitors for Opinions
Supplementary Documents	Item 14.1 Interim Audit Report 2018-2019 Financial Year Council Policy ADM5 – Legal Advice – Engage Solicitors for Opinions

9. It is to be noted that the approach to this review is similar to that which was undertaken with the previous Regulation 17 review on legislative compliance. That review was presented to both the Audit Committee (formerly the Finance and Audit Committee) and Council. The findings of that review were formally endorsed and accepted by Council at its meeting held on 19 March 2019.

Relevant documents

[A Guide to Local Government Auditing Reforms \(DLGSC\)](#)

[Local Government Operational Guidelines No. 9 – Audit in Local Government \(DLGSC\)](#)

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

10 Closure