



TOWN OF
VICTORIA PARK

Audit Committee Agenda – 23 March 2020



**WE'RE OPEN
VIC PARK**

Please be advised that an **Audit Committee** will be held at **5:30 pm** on **Monday 23 March 2020** in the **Leisure life Boardroom**, 34 Kent Street, East Victoria Park, WA, 6101.

Mr Anthony Vuleta – Chief Executive Officer
19 March 2020

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 Internal Audit Program.....	12
7.2 CEO Review of Systems and Procedures (Reg. 17) - Update on Outstanding Actions	17
8 Motion of which previous notice has been given.....	20
9 Meeting closed to the public	20
9.1 Matters for which the meeting may be closed	20
9.2 Public reading of resolutions which may be made public.....	20
10 Closure	21

1 Declaration of opening

Acknowledgement of Country (by Presiding Member)

I am not a Nyungar man, I am a non-Indigenous man. 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

Mayor	Mayor Karen Vernon
Banksia Ward	Cr Wilfred Hendriks
Jarrah Ward	Cr Jesvin Karimi (Deputy Presiding Member) Cr Brian Oliver (Presiding Member)
Independent Committee Members	Mr Dane Ethridge Mr Jonathan Carley
Chief Financial Officer Manager – Governance and Strategy	Mr Michael Cole 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 [insert date of previous meeting].

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 Internal Audit Program

Location	Town-wide
Reporting officer	Danielle Uniza
Responsible officer	Anthony Vuleta
Voting requirement	Simple majority
Attachments	1. Town of Victoria Park - Audit Committee - Terms of Reference [7.1.1 - 2 pages]

Recommendation

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That the Audit Committee recommends that Council:

1. Receives the report into the investigation of establishing a regular internal audit program
2. Endorses the proposed amendments to the Audit Committee's Terms of Reference to include functions relating to internal audit
3. Gives consideration to allocating resources for the purpose of delivering a regular internal audit program in the 2020/2021 Annual Budget
4. Requests that the Chief Executive Officer presents a further report back to the Audit Committee with a proposed internal audit program to be undertaken in the 2020/2021 financial year by July 2020

Purpose

To present the Audit Committee with the Town's findings on its investigation into the establishment of a regular internal audit program.

In brief

- At its meeting held on 17 September 2019, Council, on recommendation from the Audit Committee, resolved to request the Chief Executive Officer to investigate the establishment of a regular internal audit program and report back to the Audit Committee by March 2020.
- In conducting the Chief Executive Officer (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.
- To take a best practice approach to internal audit, it is proposed that the Audit Committee's Terms of Reference (ToR) be amended to include oversight capacity over this function, inclusive of reviewing an internal audit program to be undertaken in the 2020/2021 financial year.

Background

1. At its meeting held on 17 September 2019, Council, on recommendation from the Audit Committee, resolved to request the Chief Executive Officer to investigate the establishment of a regular internal audit program and report back to the Audit Committee by March 2020.
2. Although not a statutory requirement under the Act, the [Local Government Operational Guidelines on Audit in Local Government](#) (the Guidelines) describes internal auditing as an 'independent objective assurance and consulting activity designed to add value and improve an organisation's operations... by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes.' It further stipulates the Audit Committee's role in internal audit to:
 - help Council form an opinion on the local government's audit requirements by recommending a course of action that ensures any internal audit processes adopted are appropriate, accountable and transparent
 - determine the scope of an internal audit with input from the CEO
 - review the appropriateness of special internal audit assignments undertaken by the internal auditor at the request of Council or the CEO
 - review the level of resources allocated to internal audit and the scope of its authority
 - review reports on internal audit, and monitoring the implementation of recommendations made by the audit, and review the extent to which Council and management reacts to matters raised
3. Although internal audit is undertaken by many local governments (inclusive of the inner-city Councils, such as City of Perth, City of Vincent, City of Subiaco and the City of South Perth), the Town's practices in internal audit is limited. To better understand the evolution of internal audit within the Town, the background is outlined below:
4. From 2015 to 2017, an officer was employed by the Town, primarily, to manage the Town's audit and risk functions, and to provide some governance support. The Town, through this resource, undertook one internal audit relating to a [Performance Audit of Records Management](#). This area of audit was identified internally through the Town's strategic and operational risk register. The findings of the audit were presented to the Finance and Audit Committee for receiving at its September 2017 meeting, but was never presented to Council.
5. In March 2019, Council resolved to request the Chief Executive Officer to review the Finance and Audit Committee's Terms of Reference (ToR), resulting from the wider review of the Town's Committee structure.
6. In April 2019, the CEO's review of systems and procedures relating to legislative compliance, in accordance with Regulation 17 of the *Local Government (Audit) Regulations 1996* (the Regulations), was presented to Council alongside further actions for the purpose of continuous improvement. Among these actions were to 'develop an internal audit program with a focus on assessing areas of risk, strategic significance and ethics/integrity issues' and to 'ensure the internal audit program is appropriately resourced'.
7. In May 2019, the review conducted on the Finance and Audit Committee's Terms of Reference, which was requested by Council in March 2019, was presented. That report, which recommended the

refocusing and renaming of the, then, Finance and Audit Committee to the, current, Audit Committee, stated that 'further additions to the original TOR were proposed to include functions relating to internal audit and ethical responsibility'. However, as result of discussion at a Committee workshop, these functions were not included in the ToR presented to Council for adoption in May 2019.

8. In August 2019, a report was presented to the Audit Committee to receive the results of the Regulation 17 review on internal controls. This review, similar to the review on 'legislative compliance', resulted in further actions relating to the development and implementation of an internal audit program. At the Committee meeting, an amendment was moved to request that the Chief Executive Officer investigate the establishment of an internal audit program – which is the subject of this report.
9. Subsequently, as part of the adoption of the Town's Strategic Risk Register at its February 2020, resulting from discussion held at the Audit Committee relating to internal audit, an additional 'Risk Treatment Action' was identified to review the current Audit Committee's ToR with due consideration being given to its role in internal audit.

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.	Having 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.

Other engagement	
Stakeholder	Comments
Inner-City Working Group – Internal Audit Subcommittee	As part of the Inner-City Working Group MoU, the Town has had preliminary discussions with participating Councils on the possibly of sharing an internal audit contract to save on costs.

Legal compliance

[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
Compliance Not amending the ToR for the Audit	Moderate	Likely	High	The ToR for the Audit Committee is amended to include functions relating to

Committee means that internal audits should not go to the Committee as it is not within its functions, as approved by Council.	internal audit.
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Financial implications

Current budget impact	Sufficient funds exist within the annual budget to address this recommendation.
Future budget impact	As part of the officer’s recommendation, it is proposed that Council gives consideration to the allocation of resources for the purpose of establishing a regular internal audit program as part of the 2020/2021 Annual Budget.

Analysis

1. In response to Council’s resolution to investigate the establishment of an internal audit program, the Town has since undertaken research, which has resulted in the following proposal:
 - (a) Amend the Audit Committee’s Terms of Reference to include internal audit
 - (b) Allocate sufficient resource for the delivery a ‘regular’ internal audit program
 - (c) Authorise the Audit Committee to review and recommend a 2020/2021 internal audit program to Council

Role of Audit Committee in internal audit

2. To ensure that the Town’s internal audit function is in line with industry practice and the Department’s Guidelines, it is proposed that the Audit Committee’s existing ToR be amended to include an additional section as follows:

2.5 Internal Audit

- (1) *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*
 - (2) *Review the scope of internal audits with input from the CEO and recommend an annual internal audit program to Council*
 - (3) *review the appropriateness of special internal audit assignments undertaken by the internal auditor at the request of Council or the CEO*
 - (4) *review the level of resources allocated to internal audit and the scope of its authority*
 - (5) *review internal audit reports and make recommendations to Council on its results*
 - (6) *oversee and monitor the implementation of internal audit recommendations*
3. Such changes will ensure that the Town’s internal audit program, unlike the previously implemented program, has appropriate oversight from both Council and the Audit Committee. The intent of the above clause is to ensure that the Audit Committee has an end-to-end role in internal audit – from the

identification of internal audits to be conducted to receiving the results of such reviews. The proposed amended Audit Committee Terms of Reference is included as Attachment 7.1.1.

Appropriate sufficient resource for the delivery a 'regular' internal audit program

4. Since the lack of an internal audit function was first identified in the CEO's review of processes and systems relating to legislative compliance, the Town has sought to identify opportunities to address this function by leveraging its partnerships within the sector.
5. As part of the Inner-City MoU between the Town of Victoria Park, City of Perth, City of South Perth, City of Subiaco and City of Vincent, which Council resolved to support 'in principle' at its February 2019 meeting, a sub-committee relating to internal audit was created. While still in the early stages of discussion, members of the group have identified an opportunity to collaborate on an internal audit contract, which will see independent internal audits being conducted for the participating local governments.
6. This approach was identified as an opportunity to reduce costs relating to the contracting out of an internal audit function (which has been the most current practice in the City of Subiaco, City of Vincent and City of South Perth; the City of Perth employs internal auditors within their workforce). Further justification for this approach relates to importance of having a truly 'independent' internal audit function. As discussed previously at a Finance and Audit Committee workshop, having an internal auditor that is employed by, and reports to, the CEO, may result in unintended bias.
7. Although preliminary discussions have been held, the contracting out of an internal audit function with other inner-city local governments has yet to be progressed. As such, it is proposed that due consideration be given to allocating resources within the 2020/2021 annual budget to trial this approach.

Authorise the Audit Committee to review the proposed internal audit program for 2020/21

8. As outlined in paragraph 2 of this report, it is proposed that the Audit Committee's ToR be revised to include authority to '*Review the scope of internal audits with input from the CEO and recommend an annual internal audit program to Council*'.
9. In line with this function, and to progress the establishment of a regular internal audit program, it is proposed that a further report be sought from the CEO outlining a proposed internal audit program for the 2020/2021 financial year by July 2020. The reason for this timeline is to allow sufficient time for an internal audit program to be developed in line with the Town's strategic and operational risk registers, and to ensure that any such program recommended aligns with the adopted 2020/2021 Annual Budget.

Other comments

10. As amendments to the Committee's ToR are proposed, the Committee may want to reconsider changing its name to from the 'Audit Committee' to the 'Audit and Risk Committee' to more accurately reflect the Committee's role in light of the recent adoption of the Town's Risk Management Framework, and Strategic Risk Register, which requires regular reporting to the Audit Committee. It is to be noted that this name change is not crucial to the establishment of an internal audit program.

Relevant documents

[Local Government Operational Guidelines on Audit in Local Government](#)

7.2 CEO Review of Systems and Procedures (Reg. 17) - Update on Outstanding Actions

Location	Town-wide
Reporting officer	Danielle Uniza
Responsible officer	Anthony Vuleta
Voting requirement	Simple majority
Attachments	1. Update on Outstanding Actions from Reg. 17 Review [7.2.1 - 5 pages]

Recommendation

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That the Audit Committee recommends that Council:

1. Receives the update on actions resulting from the Chief Executive Officer's Review of systems and procedures relating to legislative compliance, internal controls and risk management, in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996*.
2. Requests that the Chief Executive Officer provides a further report to the Audit Committee on the progress of recommended further actions by September 2020.

Purpose

To present the progress of further actions identified from the Chief Executive Officer (CEO)'s review of systems and procedures relating to legislative compliance, internal controls and risk management, 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 was reviewed and reported on individually to the Audit Committee in 2019.
- As a result of the reviews conducted, a total of 24 opportunities for improvement were identified across the three areas of review.
- As resolved by Council, an update on the outstanding actions are presented to the Audit Committee.

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. In 2019, the Audit Committee received three separate reports for their consideration, relating to risk management, internal controls and legislative compliance.
3. Upon receiving the results of the review, Council resolved, at its meetings held on 16 April 2019, 17 September 2019 and 17 December 2019, to request that the Chief Executive Officer provide updates to the Audit Committee on the progress of the opportunities for improvement actions identified as part of the reviews.
4. As many actions are already underway, the Town has sought to provide an update on all identified actions, rather than presenting a separate report for each individual area of review.

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 ensure that its systems and processes relating to legislative compliance, internal controls and risk management are appropriate and in line with industry best practice.

Engagement

Internal engagement	
Stakeholder	Comments
Corporate Services	Provided response to 1.5 and 3.5
Human Resources	Provided response to 1.3 and 2.2

Legal compliance

[Section 4.20\(4\) of the Local Government Act 1995](#)

Risk management consideration

Risk and consequence	Consequence rating	Likelihood rating	Overall risk analysis	Mitigation and actions
Compliance The Town’s systems and processes relating to legislative compliance, internal controls and risk management not	Moderate	Likely	Moderate	Proactively improving processes relating to legislative compliance, internal controls and risk management as identified by the review.

Financial implications

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

Analysis

5. There are currently 24 opportunities for improvement identified as a result of the CEO's review of systems and processes relating to legislative compliance, internal controls and risk management. The status of these actions are summarised below:

Review area	Total actions	No. not started	No. in progress	No. completed
Legislative Compliance	11	0	4	7
Internal Controls	7	0	5	2
Risk Management	6	0	3	3

6. The full report on each actions, inclusive of officer comments, are attached to this report as Attachment 7.2.1.

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