



# AGENDA

Audit Committee Meeting

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Wednesday, 7 November 2018 at 6.30pm

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## **CONTENTS**

1.	DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS	1
2.	ACKNOWLEDGEMENT OF COUNTRY	1
3.	RECORD OF ATTENDANCE	1
4.	MEMORANDUM OF OUTSTANDING BUSINESS	1
5.	DISCLOSURES OF INTEREST	1
6.	PUBLIC QUESTION TIME	1
7.	PRESENTATIONS/DEPUTATIONS	1
8.	CONFIRMATION OF MINUTES OF PREVIOUS MEETING	2
8.1	Audit Committee (20 March 2018)	2
9.	ANNOUNCEMENTS BY THE PRESIDING MEMBER	2
10.	REPORTS	3
10.1	Report to the Audit Committee for the Year Ended 30 June 2018 and Annual Meeting with the Auditor	3
10.2	Local Government Audit Framework, Internal Audit Charter and 2019 Meeting Schedule	7
10.3	Local Government Auditing Reforms	15
10.4	Risk Assessment Tool	31
10.5	Recurrent Status Report – Risk Management, Internal Controls and Legislative Compliance	59
11.	MATTERS BEHIND CLOSED DOORS	64
12.	CLOSURE OF MEETING	64

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**NOTICE OF MEETING**

Elected Members

An Ordinary Meeting of the Audit Committee will be held on Wednesday, 7 November 2018 in the Pod Meeting Room, 135 Canning Highway, East Fremantle commencing at 6.30pm and your attendance is requested.

GARY TUFFIN  
Chief Executive Officer

2 November 2018

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**AGENDA**

- 1. DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS**
- 2. ACKNOWLEDGEMENT OF COUNTRY**

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

- 3. RECORD OF ATTENDANCE**
    - 3.1 Attendance**
    - 3.2 Apologies**
    - 3.3 Leave of Absence**
  - 4. MEMORANDUM OF OUTSTANDING BUSINESS**
  - 5. DISCLOSURES OF INTEREST**
    - 5.1 Financial**
    - 5.2 Proximity**
    - 5.3 Impartiality**
  - 6. PUBLIC QUESTION TIME**
    - 6.1 Responses to previous questions from members of the public taken on notice**
    - 6.2 Public Question Time**
  - 7. PRESENTATIONS/DEPUTATIONS**
    - 7.1 Presentations**
    - 7.2 Deputations**
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**8. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**

**8.1 Audit Committee (20 March 2018)**

**8.1 OFFICER RECOMMENDATION**

That the minutes of the Audit Committee meeting held on Tuesday, 20 March 2018 be confirmed as a true and correct record of proceedings.

**9. ANNOUNCEMENTS BY THE PRESIDING MEMBER**

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## 10. REPORTS

### 10.1 Report to the Audit Committee for the Year Ended 30 June 2018 and Annual Meeting with the Auditor

<b>File ref</b>	F/AUD1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting Date:</b>	7 November 2018
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Audit Report and Management Letter for the Year Ended 30 June 2018 (To be circulated upon receipt)

#### Purpose

The purpose of this report is for the Audit Committee to receive the Audit Report and Management Letter for the Year Ended 30 June 2018.

#### Executive Summary

The Town's Auditor has prepared a report to the Audit Committee for the Year Ended 30 June 2018. Mr Michael St John, Audit Manager, will be attending the meeting to discuss the contents of the report and other matters relevant to the scope of audit.

#### Background

In accordance with section 7.2 of the *Local Government Act 1995*, the accounts and annual financial report of a local government for each financial year are required to be audited by an Auditor.

The Annual Financial Report for the year ended 30 June 2018 received clearance from the Auditors for signing by the CEO on the 29 October 2018. The Audit Report was subsequently received.

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* addresses the situation of audit. In relation to the duties of the local government with respect to audits:

- a. the local government is to do everything in its power to –
  - i. assist the auditor to conduct an audit and carry out his or her other duties under the Act; and
  - ii. ensure that audits are conducted successfully and expeditiously;
- b. a local government is to meet with its auditor at least once in every year;
- c. a local government is to examine the report of the auditor and is to –
  - i. determine if any matters raised require action to be taken by the local government; and
  - ii. ensure that appropriate action is taken in respect of those matters;
- d. local government is to –
  - i. prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and
  - ii. forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.

The primary role of the Audit Committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability. The Committee should critically examine the audit and management reports provided by the external auditor and then determine if matters raised in the reports require action to be taken by the local government administration.

### **Consultation**

Chief Executive Officer

### **Statutory Environment**

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

### **Policy Implications**

The Department of Local Government has published Operational Guideline No. 9 Audit in Local Government that covers the appointment, functions and responsibilities of Audit Committees.

### **Financial Implications**

Annual attendance of the Auditor to a meeting of the Audit Committee is covered under the Audit Fee.

### **Strategic Implications**

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

### **Comment**

The Town has received an unqualified Audit Report, that is, no instances of statutory non-compliance were identified relating to the financial statements. The Auditors have provided the opinion that the financial report of the Town of East Fremantle:

- i. gives a true and fair view of the Town's financial position as at 30 June 2018 and of its performance for the financial year ended 30 June 2018;
- ii. complies with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- iii. is prepared in accordance with the requirements of the *Local Government Act 1995* Part 6 (as amended) and Regulations under the Act.

Regulations require the auditor, where appropriate, to prepare a management report to accompany the auditor's report. Although there is no legislative requirement for the auditor to prepare a management report unless he or she deems it appropriate, local government may wish to require the auditor to prepare a report on all issues identified during the audit.

**10.1 OFFICER RECOMMENDATION**

**That the Audit Committee:**

- 1. receive the Audit Report and Management Letter for the Year Ended 30 June 2018.**
- 2. note that any issues raised in the Management Letter will be included on the Status Report and reported to the Audit Committee on a standing basis.**
- 3. note that the Town's appointed Auditor, Mr. Michael St John, will be attending the Audit Committee in person to discuss the Audit Report and Management Letter, and any other matters relevant to the scope of Audit.**





## 10.2 Local Government Audit Framework, Internal Audit Charter and 2019 Meeting Schedule

<b>File ref</b>	F/AUD1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting Date:</b>	7 November 2018
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Proposed Policy – Internal Audit Charter

### Purpose

The Audit Committee is requested to endorse an internal audit charter, work plan and meeting schedule for the 2019 calendar year.

### Executive Summary

This report provides an overview of the local government audit framework. It also recommends an internal audit plan which includes items that are traditionally considered “high-risk”, with items having been identified in external audit management letters and the previous financial management review, as well as subject matter of performance audits undertaken by the Office of Auditor General. The development of an internal audit work plan is also recommended in the internal audit framework detailed in section 7 of the WA Local Government Accounting Manual.

### Background

The Department of Local Government has prepared operational guidelines on audit in local government. The guidelines outline audit requirements including the establishment of an audit committee and key functions.

The Guidelines define the role of the Audit committee “to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability”.

The Guidelines also state that the Audit committee needs to form an opinion of the local governments internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent.

### Legislative Audit Framework:

The *Local Government Act 1995*, *Local Government (Audit) Regulations 1996* and *Local Government (Financial Management) Regulations 1996* detail the statutory requirements with respect to audit of local government. The following reporting requirements to the audit committee are mandatory:

Item	Requirements	Legislation
External Audit Report	The Auditor is to provide a report (annually) giving an opinion on the financial position of the local government and the results of the operations of the local government. Where it is considered by the auditor appropriate to do so, the audit is to prepare a management report to accompany the auditor’s report.	Regulation 10 of the <i>Local Government (Audit) Regulations 1996</i>

Compliance Audit Return	Local Governments are required to complete a statutory compliance return (Compliance Audit Return) annually and have the return adopted by Council. The return is a checklist of a local government's compliance with the requirements of the Act and its Regulations, concentrating on areas of compliance considered 'high risk'. The audit committee is to review the Compliance Audit Return and report to the Council the results of that review.	Regulation 14 of the <i>Local Government (Audit) Regulations 1996</i>
Risk Management/Internal Controls/Legislative Framework	The CEO is to review the appropriateness and effectiveness of a local governments and procedures in relation to risk management, internal control and legislative compliance at least once every three years and report to the audit committee the results of that review.	Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i>
Financial Management Review	The CEO is review the appropriateness and effectiveness of the financial management systems and procedures of the local government at least once every years and reports the results of that review.	Regulation 5 of the <i>Local Government (Financial Management) Regulations 1996</i>

**External Audit Framework:**

Pursuant to section 7.2 of the *Local Government Act 1995*, the accounts and annual financial report of a local government for each financial year are required to be audited. The Act and Regulations prescribe the scope of the external audit of the annual financial statements of the local government. The operational guidelines also include a minimum standard audit specification.

The critical matters for audit are:

- Revenue – rates revenue, government grants, fees and charges
- Expenditure – salaries and wages, depreciation, materials and contract expense, insurance
- Current Assets – bank and short-term assets, receivables, inventory
- Non-Current Assets – property, plant, furniture and equipment, infrastructure and depreciation
- Liabilities – creditors and accruals, loan borrowings, provision for annual and long service leave entitlements
- Reserve Funds
- Contingent Liabilities
- Capital Commitments
- Accounting Policies
- Cash Flow Statement
- Financial Ratios

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that enables the Auditor General to audit council finances and performance. The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire.

The Town of East Fremantle will fall under the audit remit of the Office of Auditor General from the 2018/19 financial year.

Following commencement of the new legislation, a local government cannot appoint a person to be its auditor. The Auditor General will be able to contract out some or all of the financial audits but all audits will be done under the supervision of the Auditor General.

**Internal Audit Framework:**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of risk management, control, and governance processes. Establishing a formal internal audit function is not a legislative requirement but the development of appropriate internal controls will enhance risk management processes. The internal audit function can either be resourced internally or contracted out.

All internal audit reports must be referred to the Audit Committee for consideration. Internal auditor's activities should typically include the following:

- Examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
- A risk assessment with the intention of minimizing exposure to all forms of risk on the local government;
- A review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- A review of compliance with management policies and directives and any other internal requirements;
- Review of the annual Compliance Audit Return;
- Assist in the CEOs biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.

The internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day to day management of local government activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility.

The role of the external auditor can also be expanded to include an internal audit function, provided that it complements the external audit and does not cloud the objectivity and independence of the external audit (i.e. an external auditor must not audit information prepared by them or their accounting practice). A good example is where local governments decide to use the services of the external auditor to undertake a review of the financial management systems and procedures. This provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

**Consultation**

Chief Executive Officer  
Manager Administration and Finance

**Statutory Environment**

The local government audit framework is governed by the *Local Government Act 1995* and Regulations including the *Local Government (Administration) Regulations 1996*, *Local Government (Audit)*

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*Regulations 1996, Local Government (Financial Management) Regulations 1996 and Local Government (Functions and General) Regulations 1996.*

Regulation 12 of the *Local Government (Administration) Regulations 1996* requires a local government to give local public notice of the dates on which and the time and place at which Council and Committee Meetings are to be held in the next 12 months.

### **Policy Implications**

A new Policy – Internal Audit Charter is attached.

### **Financial Implications**

Council has approved a budget of \$140,000 for Strategic and Business Planning. Internal audit activities that are outsourced can be funded under this budget.

### **Strategic Implications**

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

### **Comment**

#### **Internal Audit Charter:**

It is recommended that the Audit Committee endorse the attached Internal Audit Charter to inform a work plan for the 2019 calendar year. The Charter encapsulates a commitment to internal audit activities. Proposed activities include:

1. Engagement of Local Government Insurance Services to assist the Town in identifying potential strategic risks, facilitate the assessment and development of mitigation activities for prioritised strategic risks and provide a documented format for ongoing management and reporting of strategic risks (quote received \$5,280 ex GST);
2. WALGA has been engaged to undertake a Procurement Review including the following:
  - Review the Town's Tender Register to ensure that it complies with legal requirements and best practice;
  - Review templates for RFQs and RFTs against the WALGA templates to ensure consistency (also review the general conditions of contract );
  - Review the award of Tenders for 17/18 contracts - from start to finish (including a review of the form of the final contract);
  - Prepare an RFT advertising template
  - Regulation 11 of the Local Government (Financial Management) Regulations states that a local government is to develop procedures for the authorisation of, and the payment, of accounts. The Town will be reviewing the Credit Card Policy, as well as developing a new payment policy requiring payment of invoices within 30 days of the receipt of invoice or receipt of goods or services as required by Treasurer's Instruction 323;
3. Regulation 19 of the Local Government (Financial Management) Regulations states a local government is to establish and document internal control procedures to ensure control over investments. The control procedures are to enable the identification of the nature and location of all investments and the transactions related to each investment. The Town will be reviewing the Investment Policy, and will bring an item forward discussing Divestment.

## 10.2 OFFICER RECOMMENDATION

That the Audit Committee:

1. recommend to Council the adoption of proposed Policy Internal Audit Charter as per the attached.
2. endorse tri-annual meetings for the Audit Committee, with proposed meeting dates for 2019 as follows:

Date	Time	Place
Tuesday 26 February 2019	5.30pm	Council Chambers
Wednesday 3 July 2019	5.30pm	Council Chambers
Tuesday 26 November 2019	5.30pm	Council Chambers

3. endorse the following work plan for 2019 with items to be presented to the Audit Committee:

Date	Items
Tuesday 26 February 2019	<ul style="list-style-type: none"><li>- Midyear budget review</li><li>- Procurement review</li><li>- Credit Card Policy</li><li>- Supplier Payments Policy</li><li>- Compliance Audit Return</li><li>- Standing status report</li></ul>
Wednesday 3 July 2019	<ul style="list-style-type: none"><li>- Interim Audit Management Letter</li><li>- Draft 19/20 Budget</li><li>- Strategic Risk Framework and Register</li><li>- Investment Policy and Divestments</li><li>- Standing status report</li></ul>
Tuesday 26 November 2019	<ul style="list-style-type: none"><li>- Annual Report and meeting with Auditor</li><li>- Audit Regulation 17 Review</li><li>- Standing status report</li></ul>

## INTERNAL AUDIT CHARTER

<b>Policy Number:</b>	<b>4.3.5</b>
<b>Type:</b>	Governance and Leadership – Risk Management
<b>Legislation:</b>	Local Government (Audit) Regulations
<b>Delegation:</b>	N/A
<b>Other Related Document:</b>	

### Objective

Internal audit provides an independent and objective review and advisory service to:

- provide assurance to Council and the Chief Executive Officer that the Town's financial and operational controls designed to manage the organisation's risks and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- assist management in improving and monitoring the Town's risk management, internal control and legislative compliance functions.

### Definitions

"Risk": AS/NZS ISO 31000:2009 defines risk as "the effect of uncertainty on objectives".

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative, or a deviation from the expected. An objective may be financial, related to health and safety, or defined in other terms.

"Risk Management": The application of coordinated activities to direct and control an organisation with regard to risk.

### Policy

#### Scope of internal audit

Internal audits may cover any programs and activities of the Town and encompass the review of all financial and non-financial policies and operations.

#### Independence

- Independence is essential to the effectiveness of the internal audit function.
- Internal audits will be performed by either using a dedicated internal audit resource reporting to the Office of the Chief Executive Officer or independent external contractors.
- Internal auditors report functionally to Council through the Audit Committee and are accountable to the Chief Executive Officer for the efficient and effective operation of the internal audit function.

### Authority and confidentiality

Internal auditors are authorised to:

- have full free and unrestricted access to any and all of the Town's records and other documentation, premises and Town employees; and
- obtain assistance as required from Town employees.

Internal auditors are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

### Roles and responsibilities

The internal audit activity encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Town's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Town's strategic objectives. This may include:

- evaluating risk exposure relating to achievement of the Town's strategic objectives;
- evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information;
- evaluating the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the organisation;
- evaluating the means of safeguarding assets and – as appropriate – verifying the existence of such assets;
- evaluating the effectiveness and efficiency with which resources are employed;
- evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are carried out as planned;
- monitoring and evaluating governance processes;
- monitoring and evaluating the effectiveness of the Town's risk management processes;
- evaluating the quality of performance of external auditors and the degree of coordination with internal audit;
- providing advice related to governance, risk management and internal control as appropriate;
- reporting significant risk exposures and internal control issues, including fraud risks and governance issues; and
- evaluating specific operations at the request of Council and the Chief Executive Officer.

### Relationship with external audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

<b>Responsible Directorate:</b>	Office of the Chief Executive Officer
<b>Reviewing Officer:</b>	Executive Manager Corporate Services
<b>Decision making Authority:</b>	Council
<b>Policy Adopted:</b>	
<b>Policy Amended:</b>	
<b>Next Review Date:</b>	November 2020





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### 10.3 Local Government Auditing Reforms

<b>File ref</b>	F/AUD1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting Date:</b>	7 November 2018
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. A Guide to Local Government Auditing Reforms 2. Local Government Regulations Amendment (Auditing) Regulations 2018

#### **Purpose**

The Audit Committee is requested to note the local government auditing reforms as outlined in this report and the attachments.

#### **Executive Summary**

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

#### **Background**

The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire. The Town of East Fremantle will fall under the audit remit of the Office of Auditor General from the 2018/19 financial year.

Following commencement of the new legislation, a local government cannot appoint a person to be its auditor. The Auditor General will be able to contract out some or all of the financial audits but all audits will be done under the supervision of the Auditor General.

As is currently the case, local governments will be responsible for meeting the costs of financial audits. The Auditor General will determine the fees for a financial audit.

#### **Consultation**

Chief Executive Officer

#### **Statutory Environment**

The local government audit framework is governed by the *Local Government Act 1995* and Regulations including the *Local Government (Administration) Regulations 1996*, *Local Government (Audit) Regulations 1996*, *Local Government (Financial Management) Regulations 1996* and *Local Government (Functions and General) Regulations 1996*.

#### **Policy Implications**

There are no Council Policies relevant to this item.

#### **Financial Implications**

There are no financial implications relevant to this item.

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### Strategic Implications

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

### Comment

The Department of Local Government has released a 'Guide to Local Government Auditing Reforms'. This is attached for information.

The Guide outlines the following changes to the local government audit framework:

- The new legislation gives the Auditor General the power to conduct performance audits, which may focus on a particular issue or theme, such as procurement practices;
- Local governments will be required to publish the annual report, including audit reports, on their website within 14 days after the report has been adopted by the local government (commencing with their 2017/18 annual report);
- The new legislation requires local governments to examine an audit report it receives and implement appropriate action in respect of the significant matters raised;
- Regulation 5 of the Local Government (Financial Management) Regulations has been amended to require a Financial Management Review no less than once in every three financial years (previously every 4 years);
- Local governments are required to maintain a property register of portable and attractive items valued under \$5,000 in line with State Government agencies as specified in Treasurer's Instruction 410 Record of Assets;
- Local governments will be required to revalue their assets between three and five years (previously every three years);
- Local governments will be required to provide the auditor with a copy of their adopted Long Term Financial Plan, Asset Management Plan, Corporate Business Plan and Strategic Community Plan.
- The Audit Regulation 17 review is required to be undertaken no less than once in every three financial years (previously every two years).

### 10.3 OFFICER RECOMMENDATION

That the Audit Committee:

1. receive the 'Guide to Local Government Auditing Reforms' outlining legislated changes to the local government audit framework;
2. note that the Town of East Fremantle will be falling under the remit of the Auditor General for external audit commencing the 18/19 financial year (ie this year).



Department of  
**Local Government, Sport  
and Cultural Industries**

# A Guide to Local Government Auditing Reforms

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## Contents

<b>A Guide to Local Government Auditing Reforms.....</b>	<b>4</b>
Introduction .....	4
Major changes .....	4
Auditor General will be responsible for financial and supplementary audits.....	4
New category of audits: performance audits .....	5
Publication of financial reports .....	5
Local government duties with respect to audits .....	5
Role of the Audit Committee .....	6
Amendments to the Local Government (Financial Management) Regulations 1996 .....	6
Timeframe for review of financial management systems .....	6
Assets values under \$5,000 .....	6
Timeframe for local governments to revalue assets .....	6
Amendments to the Local Government (Audit) Regulations 1996 .....	7
Role of the Audit Committee .....	7
Role of the council assisting the auditor .....	7
Timeframe for reviewing audit systems and procedures .....	7
Further information and liaison .....	8
<b>For more information, please contact: .....</b>	<b>8</b>

September 2017

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Translating and Interpreting Service (TIS) – Telephone: 13 14 50

All or part of this document may be copied. Due recognition of source would be appreciated. If you would like more information please contact the Department of Local Government, Sport and Cultural Industries.

# A Guide to Local Government Auditing Reforms

## Introduction

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

This guide has been prepared by the Department of Local Government, Sport and Cultural Industries (the Department) to inform local governments and auditors about the changes.

## Major changes

### **Auditor General will be responsible for financial and supplementary audits**

The reforms expand the Auditor General's scope of powers to undertake and report on local government financial audits and provide for the independent oversight of the local government sector.

The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire. From 2020-21, all local governments will be audited by the Auditor General, regardless of whether their auditing contracts have expired.

The Department has received advice that this termination requirement will not expose the State, the Director General, or local governments to any liability if audit contracts are cancelled as a result of the changes.

Following commencement of the legislation, a local government cannot appoint a person to be its auditor.

The Auditor General will be able to contract out some or all of the financial audits but all audits will be done under the supervision of the Auditor General.

As is currently the case, local governments will be responsible for meeting the costs of financial audits. The Auditor General will determine the fees for a financial audit.

During the transition, the Department will publish the status of each local government's audit arrangements. This will provide transparency so that members of the community are aware of whether or not the Auditor General has responsibility for a local government audit or not.

Regional subsidiaries and regional councils will be audited by the Auditor General in the same way as local governments. The Auditor General will have the power to dispense with a financial audit of a local government or regional subsidiary where the Auditor General believes this is appropriate.

The Auditor General must consult with the Minister for Local Government before exercising this power. This could be used, for example, if a regional council has ceased to operate but has not yet been wound up. If this power is exercised, the Auditor General must notify the Parliament's Public Accounts Committee and the Estimates and Financial Operations Committee.

The Auditor General must give the report on the financial audit to the Mayor or President of the local government, the CEO of the local government, and the Minister for Local Government.

### **New category of audits: performance audits**

The reforms introduce a new category of audits; performance audits. These audits examine the economy, efficiency, and effectiveness of programs and organisations, including compliance with legislative provisions and internal policies.

The new legislation gives the Auditor General the power to conduct such audits, which may focus on a particular issue or theme, such as procurement practices, and may include individual or multiple local governments and related bodies. This is in line with the approach adopted in other jurisdictions and for State Government agencies. Performance audits will be paid for by the State Government.

Performance audit reports will be submitted to both Houses of Parliament for the Public Accounts Committee and the Estimates and Financial Operations Committee. The report is also provided to the relevant local government.

### **Publication of financial reports**

Commencing with their 2017-18 annual report, local governments will be required to publish the annual report, including audit reports, on the local government's official website within 14 days after the report has been accepted by the local government.

Local governments will be required to publish their annual report online regardless of who undertakes the audit.

### **Local government duties with respect to audits**

Legislation now requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

Local governments must prepare a report addressing the significant matters identified in the report and state what action the local government has taken or intends to take. This report must be provided to the Minister within three months of receiving the audit

report. Within 14 days after the local government gives the report to the Minister, the CEO must publish a copy of the report on its official website.

### **Role of the Audit Committee**

Changes to the Local Government (Audit) Regulations 1996 will revise the role and functions of a local government's Audit Committee. These changes are discussed in detail below.

## **Amendments to the Local Government (Financial Management) Regulations 1996**

The following amendments to the Local Government (Financial Management) Regulations 1996 and Local Government (Audit) Regulations 1996 are being prepared.

### **Timeframe for review of financial management systems**

Regulation 5 regarding the CEO's duties as to financial management will be amended to require the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures from no less than once in every four financial years to no less than three financial years. This change in combination with amendments to the provisions in the Audit Regulations related to reviewing auditing systems, will achieve greater consistency.

### **Assets valued under \$5,000**

Amendments to Regulation 17A will exclude assets in a local government annual financial report valued under \$5,000. In order to ensure effective asset management of low value assets that are susceptible to theft or loss, local governments will be required to maintain a property register of portable and attractive items. This change brings local governments in line with State Government agencies as specified in Treasurer's Instruction 410 Record of Assets.

### **Timeframe for local governments to revalue assets**

Regulation 17A(4)(b) will be amended to set the timeframe for local governments to revalue their assets to between three and five years, which is consistent with Australian Accounting Standards Board standard 116: Property, Plant and Equipment.



## Amendments to the Local Government (Audit) Regulations 1996

### **Role of the Audit Committee**

With the transfer of auditing to the Auditor General, local government Audit Committees will have a new and important role.

The role of the Audit Committee will be amended so that the Audit Committee will have greater involvement in assisting the CEO to carry out the review under Regulation 17 of the Audit Regulations of systems and procedures concerning risk management, internal control, and legislative compliance.

This will include helping the CEO to formulate recommendations to council to address issues identified in the reviews. The Audit Committee will also support the auditor as required and have functions to oversee:

- the implementation of audit recommendations made by the auditor, which have been accepted by council; and
- accepted recommendations arising from reviews of local government systems and procedures.

These roles reflect the importance of the Audit Committee as a section of council charged with specific responsibilities to scrutinise performance and financial management. The regulations continue to allow for external membership of Audit Committees. Councils are encouraged to consider inviting appropriate people with expertise in financial management and audit to be members of their Audit Committee.

### **Role of the council assisting the auditor**

Local governments will be required to provide the auditor with a copy of their adopted Long Term Financial Plan, Asset Management Plan, Corporate Business Plan and Strategic Community Plan.

### **Timeframe for reviewing audit systems and procedures**

An amendment to Regulation 17(2) will require the CEO to undertake a review of audit systems and procedures no less than once in every three financial years. This change will introduce consistency in CEO responsibilities to review financial management and audit systems and procedures in a timely manner.

## Further information and liaison

The Auditor General has informed the Department that he intends to commence liaising with local governments in October regarding the transfer of responsibility.

## For more information, please contact:

Department of Local Government, Sport and Cultural Industries

Gordon Stephenson House, 140 William Street, Perth WA 6000

GPO Box R1250, Perth WA 6844

Telephone: (08) 6551 8700 Fax: (08) 6552 1555

Freecall: 1800 620 511 (Country only)

Email: [legislation@dlgsc.wa.gov.au](mailto:legislation@dlgsc.wa.gov.au) Website: [www.dlgsc.wa.gov.au](http://www.dlgsc.wa.gov.au)

Translating and Interpreting Service (TIS) – Telephone: 13 14 50

LG301

Local Government Act 1995

## **Local Government Regulations Amendment (Auditing) Regulations 2018**

Made by the Governor in Executive Council.

### **Part 1 — Preliminary**

#### **1. Citation**

These regulations are the *Local Government Regulations Amendment (Auditing) Regulations 2018*.

#### **2. Commencement**

These regulations come into operation as follows —

- (a) Part 1 — on the day on which these regulations are published in the *Gazette* (***gazettal day***);
- (b) regulations 13 and 14 — on 1 July 2018;
- (c) the rest of the regulations — on the day after gazettal day.

### **Part 2 — *Local Government (Audit) Regulations 1996* amended**

#### **3. Regulations amended**

This Part amends the *Local Government (Audit) Regulations 1996*.

#### **4. Regulation 3 amended**

In regulation 3 delete the definition of ***Australian Accounting Standards***.

#### **5. Regulation 8 amended**

In regulation 8(1):

- (a) in paragraph (a) delete “Executive Director —” and insert:

Departmental CEO —

- (b) in paragraph (b) delete “Executive Director” and insert:

Departmental CEO

Note: The heading to amended regulation 8 is to read:

**Departmental CEO to be notified of termination of audit agreement**

## 6. Regulation 9 replaced

Delete regulation 9 and insert:

## 9. Performance of audit

- (1) In this regulation —  
*Australian Accounting Standards* means the standards made and amended from time to time by the Australian Accounting Standards Board continued under the *Australian Securities and Investments Commission Act 2001* (Commonwealth) section 261.
- (2) An auditor must carry out an audit in accordance with the Australian Auditing Standards made or formulated and amended from time to time by the Auditing and Assurance Standards Board established by the *Australian Securities and Investments Commission Act 2001* (Commonwealth) section 227A.
- (3) An auditor must carry out the work necessary to form an opinion whether the annual financial report —
  - (a) is based on proper accounts and records; and
  - (b) fairly represents the results of the operations of the local government for the financial year and the financial position of the local government at 30 June in accordance with —
    - (i) the Act; and
    - (ii) the Australian Accounting Standards (to the extent that they are not inconsistent with the Act).

## 9A. CEO to provide documents to Auditor General carrying out financial audit

- (1) In this regulation —  
*audit document* means —
  - (a) the strategic community plan as defined in the *Local Government (Administration) Regulations 1996* regulation 19BA; or
  - (b) the corporate business plan as defined in the *Local Government (Administration) Regulations 1996* regulation 19BA; or

- (c) another plan or informing strategy specified by the Auditor General; or
  - (d) another document specified by the Auditor General.
- (2) The CEO must provide a copy of an audit document to the Auditor General within 14 days after the Auditor General requests it for the purposes of a financial audit under Part 7 Division 3A of the Act.

#### 7. Regulation 13 amended

- (1) In regulation 13 in the Table under the heading “***Local Government Act 1995***” after “s. 5.88” insert:

s. 5.89A
----------

- (2) In regulation 13 in the Table under the heading “***Local Government (Administration) Regulations 1996***” after “r. 19” insert:

r. 19C	r. 19DA
--------	---------

#### 8. Regulation 15 amended

In regulation 15(1) delete “Executive Director” and insert:

Departmental CEO

Note: The heading to amended regulation 15 is to read:

**Certified copy of compliance audit return and other documents to be given to Departmental CEO**

#### 9. Regulation 16 replaced

Delete regulation 16 and insert:

#### 16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
  - (i) its functions under Part 6 of the Act; and
  - (ii) its functions relating to other audits and other matters related to financial management;

- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the *CEO's report*) and is to —
  - (i) report to the council the results of that review; and
  - (ii) give a copy of the CEO's report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
  - (i) regulation 17(1); and
  - (ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government —
  - (i) is required to take by section 7.12A(3); and
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
  - (iv) has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.

#### 10. Regulation 17 amended

In regulation 17(2) delete "at least once every 2 calendar years." and insert:

not less than once in every 3 financial years.

### **Part 3 — *Local Government (Financial Management) Regulations 1996* amended**

#### **11. Regulations amended**

This Part amends the *Local Government (Financial Management) Regulations 1996*.

#### **12. Regulation 5 amended**

In regulation 5(2)(c) delete “4” and insert:

3

#### **13. Regulation 17A amended**

(1) In regulation 17A(1) insert in alphabetical order:

*carrying amount*, in relation to an asset, means the carrying amount of the asset determined in accordance with the AAS;

(2) Delete regulation 17A(4) and (5) and insert:

(4) A local government must revalue an asset of the local government —

- (a) whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and
- (b) in any event, within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued.

(5) An asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5 000.

#### **14. Regulation 17B inserted**

After regulation 17A insert:

#### **17B. CEO to take steps to protect excluded portable and attractive assets**

A CEO must take all reasonable steps to prevent the theft or loss of —

- (a) a non-consumable asset that is susceptible to theft or loss due to its portable nature and attractiveness for personal use or resale; and
- (b) an asset referred to in regulation 17A(5).

**15. Schedule 2 amended**

In Schedule 2 Form 1:

- (a) delete “being the annual financial report and supporting notes and other information for the financial year ended 30 June <sup>(3)</sup> ..... are in my opinion properly drawn up” and insert:

for the financial year ended 30 June <sup>(3)</sup> ..... is based on proper accounts and records

- (b) delete “the *Australian Accounting Standards* and comply with the provisions of the *Local Government Act 1995* and the regulations under that Act.” and insert:

the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

N. HAGLEY, Clerk of the Executive Council.



#### 10.4 Risk Assessment Tool

<b>File ref</b>	F/AUD1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting Date:</b>	7 November 2018
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Town of East Fremantle Risk Management Governance Framework

#### Purpose

This report recommends that the Audit Committee endorse the inclusion of a 'Risk Implications' heading in all agenda reports, and that the Town's adopted risk matrix be completed for all reports to identify risks. It is recommended that any risk with a risk ranking of 'high' or 'extreme' (ie a risk assessment of greater than 10) be recorded on the Risk Register as these risks have been identified as requiring attention and require periodic monitoring.

#### Executive Summary

Council adopted the attached Risk Management Governance Framework at its Ordinary Meeting of 17 March 2017. Appendix A of the Framework details a Risk Assessment Tool, which can be used to assess risk in all items that are being presented to Committees/Council. It is recommended that the table below be completed for all agenda items. This will facilitate risk identification, analysis, evaluation, and monitoring.

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)

Local Government Insurance Services developed the risk assessment tool which is widely used by local governments in Western Australia. The tool is broken down as follows to explain how it is used:

#### Measures of Likelihood

Level	Rating	Description	Frequency	Probability
5	Almost Certain	The event is expected to occur in most circumstances	More than once per year	Greater than 90% chance of occurrence
4	Likely	The event will probably occur in most circumstances	At least once per year	60%-90% chance of occurrence
3	Possible	The event should occur at some time	At least once in 3 years	40%-60% chance of occurrence
2	Unlikely	The event could occur at some time	At least once in 10 years	10%-40% chance of occurrence
1	Rare	The event may only occur in exceptional circumstances	Less than once in 15 years	Less than 10% chance of occurrence.

Measures of likelihood form part of the risk matrix to determine the 'risk rank' and the 'level of risk'. A level of 1 - 5 is applied based on the likelihood of an event occurring, ranging from rare to almost certain. The likelihood can be determined objectively or subjectively, qualitatively or quantitatively, and described using general terms or mathematically such as probability or a frequency over a given time period.

### Measures of Consequence

Town of East Fremantle Measures of Consequence							
Rating (Level)	Health	Financial Impact	Service Interruption	Compliance	Reputational	Property	Environment
Insignificant (1)	Near-Miss or First Aid	Less than \$10,000	No material service interruption	Minor regulatory or statutory impact	Unsubstantiated, low impact, low profile or 'no news' item	Inconsequential damage.	Contained, reversible impact managed by on site response
Minor (2)	Medical type injuries	\$10,001 - \$50,000	Short term temporary interruption – backlog cleared < 1 day	Some temporary non-compliances	Substantiated, low impact, low news item	Localised damage rectified by routine internal procedures	Contained, reversible impact managed by internal response
Moderate (3)	Lost time injury >14 Days	\$50,001 - \$250,000	Medium term temporary interruption – backlog cleared by additional resources < 1 week	Short term non-compliance but with significant regulatory requirements imposed	Substantiated, public embarrassment, moderate impact, moderate news profile	Localised damage requiring external resources to rectify	Contained, reversible impact managed by external agencies
Major (4)	Long-term disability / multiple injuries	\$250,001 - \$1,000,000	Prolonged interruption of services – additional resources; performance affected < 1 month	Non-compliance results in termination of services or imposed penalties	Substantiated, public embarrassment, high impact, high news profile, third party actions	Significant damage requiring internal & external resources to rectify	Uncontained, reversible impact managed by a coordinated response from external agencies
Extreme (5)	Fatality, permanent disability	More than \$1,000,000	Indeterminate prolonged interruption of services – non-performance > 1 month	Non-compliance results in litigation, criminal charges or significant damages or penalties	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Extensive damage requiring prolonged period of restitution Complete loss of plant, equipment & building	Uncontained, irreversible impact

As defined by the Australian Standard consequence is the outcome of an event affecting corporate objectives. The above identifies outcomes in seven main categories being health, financial impact, service interruption, compliance, reputation, property and environment. A level of 1 - 5 is applied based on the severity of the outcome, ranging from insignificant to catastrophic. Combined with measures of likelihood, measures of consequence form the evaluation of risks in the Risk Matrix (see below).

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	MEDIUM (5)	HIGH (10)	HIGH (15)	EXTREME (20)	EXTREME (25)
Likely	4	LOW (4)	MEDIUM (8)	HIGH (12)	HIGH (16)	EXTREME (20)
Possible	3	LOW (3)	MEDIUM (6)	MEDIUM (9)	HIGH (12)	HIGH (15)
Unlikely	2	LOW (2)	LOW (4)	MEDIUM (6)	MEDIUM (8)	HIGH (10)
Rare	1	LOW (1)	LOW (2)	LOW (3)	LOW (4)	MEDIUM (5)

RISK RANK	LEVEL OF RISK	DESCRIPTION	CRITERIA FOR RISK ACCEPTANCE	RESPONSIBILITY
<b>EXTREME</b>	<b>17 - 25</b>	Urgent Attention Required	Risk only acceptable with excellent controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority and subject to continuous monitoring	CEO / Council
<b>HIGH</b>	<b>10 - 16</b>	Attention Required	Risk acceptable with excellent controls, managed by senior management / executive and subject to monthly monitoring	Director / CEO
<b>MEDIUM</b>	<b>5 - 9</b>	Monitor	Risk acceptable with adequate controls, managed by specific procedures and subject to semi-annual monitoring	Operational Manager
<b>LOW</b>	<b>1 - 4</b>	Acceptable	Risk acceptable with adequate controls, managed by routine procedures and subject to annual monitoring	Operational Manager

The risk matrix will determine a risk ranking and level of risk based on the measurement of the likelihood and consequence of a particular event. It is recommended that any event with a risk ranking of 'high' or 'extreme' be recorded in the Town's Risk Register and reported to the Audit Committee on a periodic basis. These events require regular monitoring and risk treatment actions which may involve the following:

- Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk;
- Taking or increasing risk in order to pursue an opportunity;
- Removing the risk source;
- Changing the likelihood;
- Changing the consequences;
- Sharing the risk with another party or parties (including contracts and risk financing); and
- Retaining the risk by informed decision.

Risk treatments that deal with negative consequences are sometimes referred to as risk mitigation, risk elimination, risk prevention and risk reduction. Risk treatments will be particularly important where existing controls are deemed to be inadequate.

### **Background**

A Standard designated as AS/NZS ISO 31000:2009 has been prepared on Risk Management. This Standard defines risk assessment as the overall process of risk identification, risk analysis and risk evaluation. The Standard encapsulates the following paragraphs.

All organisations should identify sources of risk, areas of impact, events and their causes and their potential consequences. The aim of this step is to generate a comprehensive list of risks, known as a Risk Register, based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives.

Identification should include risks whether or not their source is under the control of the organisation, even though the risk source or cause may not be evident. Risk identification should include examination of the knock-on effects of particular consequences, including cascade and cumulative effects. As well as identifying what might happen, it is necessary to consider possible causes and scenarios that show what consequences can occur. All significant causes and consequences should be considered.

Organisations should apply risk identification tools and techniques that are suited to its objectives and capabilities, and to the risks faced. People with appropriate knowledge should also be involved in identifying risks. The management of risk should therefore be undertaken with full consideration of the need to justify the resources used in carrying out risk management.

Risk criteria also need to be defined to evaluate the significance of risk. Factors to be considered include the following:

- The nature and types of causes and consequences that can occur and how they will be measured;
- How likelihood will be defined;
- The timeframe (s) of the likelihood and/or consequence (s);
- How the level of risk is to be determined;
- The views of stakeholders;
- The level at which risk becomes acceptable or tolerable.

Risk evaluation always involves the assessment of the likelihood (chance of something happening) and consequence (outcome of an event affecting objectives) of an event.

### Consultation

Chief Executive Officer

### Statutory Environment

Regulation 17 of the *Local Government (Audit) Regulations 1996* states the following:

#### **17. CEO to review certain systems and procedures**

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
  - (a) *risk management; and*
  - (b) *internal control; and*
  - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

### Policy Implications

The Town of East Fremantle Risk Management Government Framework incorporates a Risk Management Policy.

### Financial Implications

There are no financial implications relevant to this report.

### Strategic Implications

*Strategic Priority 5 – Leadership and Governance*

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

### Comment

The risk management process is to include risk identification, risk analysis, risk evaluation and risk treatment.

For specific risk assessment purposes, the Town has three levels of risk assessment context:

1. Strategic Risks – these risks are associated with achieving the organisations long term objectives. A proposal has been received from Local Government Insurance Services to assist the Town to identify potential strategic risks, facilitate the assessment and development of mitigation activities for prioritised strategic risks, and provide a documented format for ongoing management and reporting of strategic risks.
2. Operational Risks – these risks relate to the Town’s day to day activities, functions, infrastructure and services.
3. Project Risks – project risk has two main components:
  - (i) Direct – refers to the risks that may arise as a result of project activity which may prevent the Town from meeting its objectives.
  - (ii) Indirect – refers to the risks that threaten the delivery of project outcomes.A project governance framework should be developed to categorise those projects where risks are to be recorded.

The inclusion of the risk assessment tool in agenda reports to Committees/Council will facilitate the risk management process with regards to the aforementioned risks.

#### **10.4 OFFICER RECOMMENDATION**

**That the Audit Committee:**

1. recommend to Council that a new heading titled ‘Risk Implications’ be included in the Agenda Report template for all Council and Committee Meetings, and that the Chief Executive Officer ensure that the Risk Assessment and Risk Matrix be completed for all reports. Further, that any item with a risk ranking of greater than ‘10’ categorised as either ‘High’ or ‘Extreme’ Risk, and apparent to be ongoing, be recorded on the Risk Register.
2. request that the Risk Register be presented to the Audit Committee as a standing item.



## Risk Management Governance Framework

- Risk Management Policy
- Risk Management Procedures

November 2016

Version: 1.0

# Town of East Fremantle

# Table of Contents

Introduction .....	1
Risk Management Policy .....	2
Purpose .....	2
Policy .....	2
Definitions (from AS/NZS ISO 31000:2009) .....	2
Risk: .....	2
Risk Management: .....	2
Risk Management Process: .....	2
Risk Management Objectives .....	3
Risk Appetite .....	3
Roles, Responsibilities & Accountabilities .....	3
Monitor & Review .....	3
Risk Management Procedures .....	4
Governance .....	4
Framework Review .....	4
Operating Model .....	4
Governance Structure .....	5
Roles & Responsibilities .....	6
Document Structure (Framework) .....	7
Risk & Control Management .....	8
Risk & Control Assessment .....	8
Reporting Requirements .....	11
Coverage & Frequency .....	11
Indicators .....	12
Identification .....	12
Validity of Source .....	12
Tolerances .....	12
Monitor & Review .....	12
Risk Acceptance .....	13
Appendix A – Risk Assessment and Acceptance Criteria .....	14
Appendix B – Risk Profile Template .....	1

## Introduction

The Policy and Procedures form the Risk Management Framework for the Town of East Fremantle (“the Town”). It sets out the Town’s approach to the identification, assessment, management, reporting and monitoring of risks. All components of this document are based on Australia/New Zealand Standard ISO 31000:2009 Risk Management.

It is essential that all areas of the Town adopt these procedures to ensure:

- Strong corporate governance.
- Compliance with relevant legislation, regulations and internal policies.
- Integrated Planning and Reporting requirements are met.
- Uncertainty and its effects on objectives is understood.

This Framework aims to balance a documented, structured and systematic process with the current size and complexity of the Town along with existing time, resource and workload pressures.

Further information or guidance on risk management procedures is available from LGIS Risk Management.

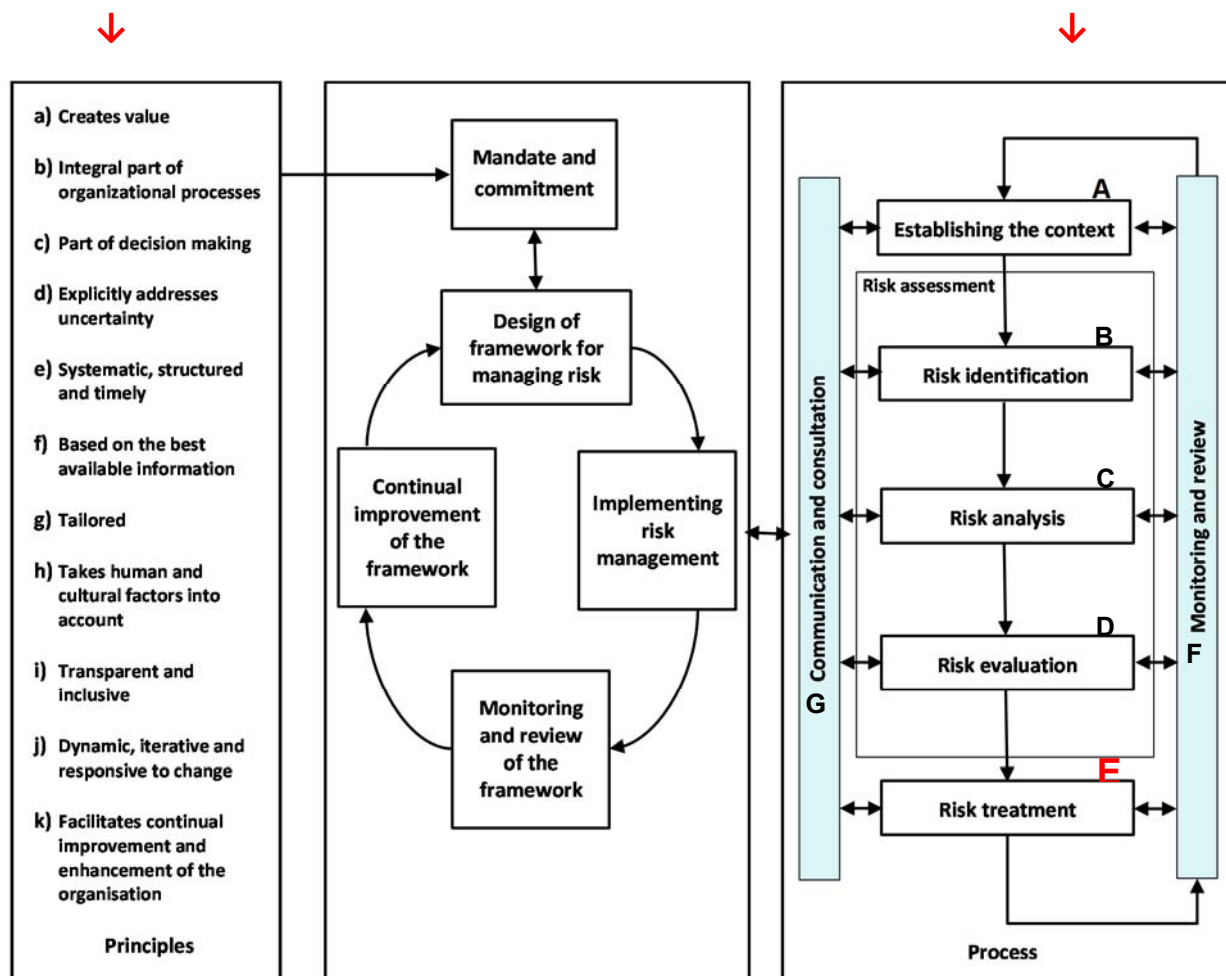


Figure 1: Risk Management Process (Source: AS/NZS 31000:2009)



# Risk Management Policy

## Purpose

The Town of East Fremantle's ("the Town") Risk Management Policy documents the commitment and objectives regarding managing uncertainty that may impact the Town's strategies, goals or objectives.

## Policy

It is the Town's Policy to achieve best practice (aligned with AS/NZS ISO 31000:2009 Risk management), in the management of all risks that may affect the Town, its customers, people, assets, functions, objectives, operations or members of the public.

Risk Management will form part of the Strategic, Operational, Project and Line Management responsibilities and where possible, be incorporated within the Town's Integrated Planning Framework.

The Town's Senior Staff Group will determine and communicate the Risk Management Policy, Objectives and Procedures, as well as direct and monitor implementation, practice and performance.

Every employee, Councillor, volunteer and contractor within the Town is recognised as having a role in risk management, from the identification of risks, to implementing risk treatments and shall be invited and encouraged to participate in the process.

Consultants may be retained at times to advise and assist in the risk management process or management of specific risks or categories of risk.

## Definitions (from AS/NZS ISO 31000:2009)

**Risk:** Effect of uncertainty on objectives.

Note 1: An effect is a deviation from the expected – positive or negative.

Note 2: Objectives can have different aspects (such as financial, health and safety and environmental goals) and can apply at different levels (such as strategic, organisation-wide, project, product or process).

**Risk Management:** Coordinated activities to direct and control an organisation with regard to risk.

**Risk Management Process:** Systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, monitoring and reviewing risk.

## Risk Management Objectives

- Optimise the achievement of our vision, experiences, strategies, goals and objectives.
- Provide transparent and formal oversight of the risk and control environment to enable effective decision making.
- Enhance risk versus return within our risk appetite.
- Embed appropriate and effective controls to mitigate risk.
- Achieve effective corporate governance and adherence to relevant statutory, regulatory and compliance obligations.
- Enhance organisational resilience.
- Identify and provide for the continuity of critical operations

## Risk Appetite

The Town defined its risk appetite through the development and endorsement of the Town's Risk Assessment and Acceptance Criteria. The criteria are included within the Risk Management Procedures and are subject to ongoing review in conjunction with this policy.

All organisational risks to be reported at a corporate level are to be assessed according to the Town's Risk Assessment and Acceptance Criteria to allow consistency and informed decision making. For operational requirements such as projects or to satisfy external stakeholder requirements, alternative risk assessment criteria may be utilised, however these cannot exceed the organisation's appetite and are to be noted within the individual risk assessment and approved by a member of the Senior Staff Group.

## Roles, Responsibilities & Accountabilities

The CEO is responsible for the allocation of roles, responsibilities and accountabilities. These are documented in the Risk Management Procedures (Operational Document).

## Monitor & Review

The Town will implement and integrate a monitor and review process to report on the achievement of the Risk Management Objectives, the management of individual risks and the ongoing identification of issues and trends.

This policy will be kept under review by the Town's Senior Staff Group and its employees.

Signed: .....

Gary : Chief Executive Officer

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

# Risk Management Procedures

## Governance

Appropriate governance of risk management within the Town of East Fremantle (the “Town”) provides:

- Transparency of decision making.
- Clear identification of the roles and responsibilities of risk management functions.
- An effective Governance Structure to support the risk framework.

## Framework Review

The Risk Management Framework is to be reviewed for appropriateness and effectiveness annually.

## Operating Model

The Town has adopted a “Three Lines of Defence” model for the management of risk. This model ensures roles; responsibilities and accountabilities for decision making are structured to demonstrate effective governance and assurance. By operating within the approved risk appetite and framework, the Council, Management and Community will have assurance that risks are managed effectively to support the delivery of the Strategic, Corporate & Operational Plans.

### First Line of Defence

All operational areas of the Town are considered ‘**1<sup>st</sup> Line**’. They are responsible for ensuring that risks within their scope of operations are identified, assessed, managed, monitored and reported. Ultimately, they bear ownership and responsibility for losses or opportunities from the realisation of risk. Associated responsibilities include;

- Establishing and implementing appropriate processes and controls for the management of risk (in line with these procedures).
- Undertaking adequate analysis (data capture) to support the decision-making process of risk.
- Prepare risk acceptance proposals where necessary, based on level of residual risk.
- Retain primary accountability for the ongoing management of their risk and control environment.

### Second Line of Defence

The Coordinator of Corporate Planning acts as the primary ‘**2<sup>nd</sup> Line**’. This position owns and manages the framework for risk management, drafts and implements governance procedures and provides the necessary tools and training to support the 1st line process. The Senior Staff Group, in their capacity as Risk Committee, supplements the second line of defence.

Maintaining oversight on the application of the framework provides a transparent view and level of assurance to the 1<sup>st</sup> & 3<sup>rd</sup> lines on the risk and control environment. Support can be provided by additional oversight functions completed by other 1<sup>st</sup> Line Teams (where applicable). Additional responsibilities include:

- Providing independent oversight of risk matters as required.
- Monitoring and reporting on emerging risks.
- Co-ordinating the Town’s risk reporting for the CEO & Senior Staff Group and the Audit Committee.

### Third Line of Defence

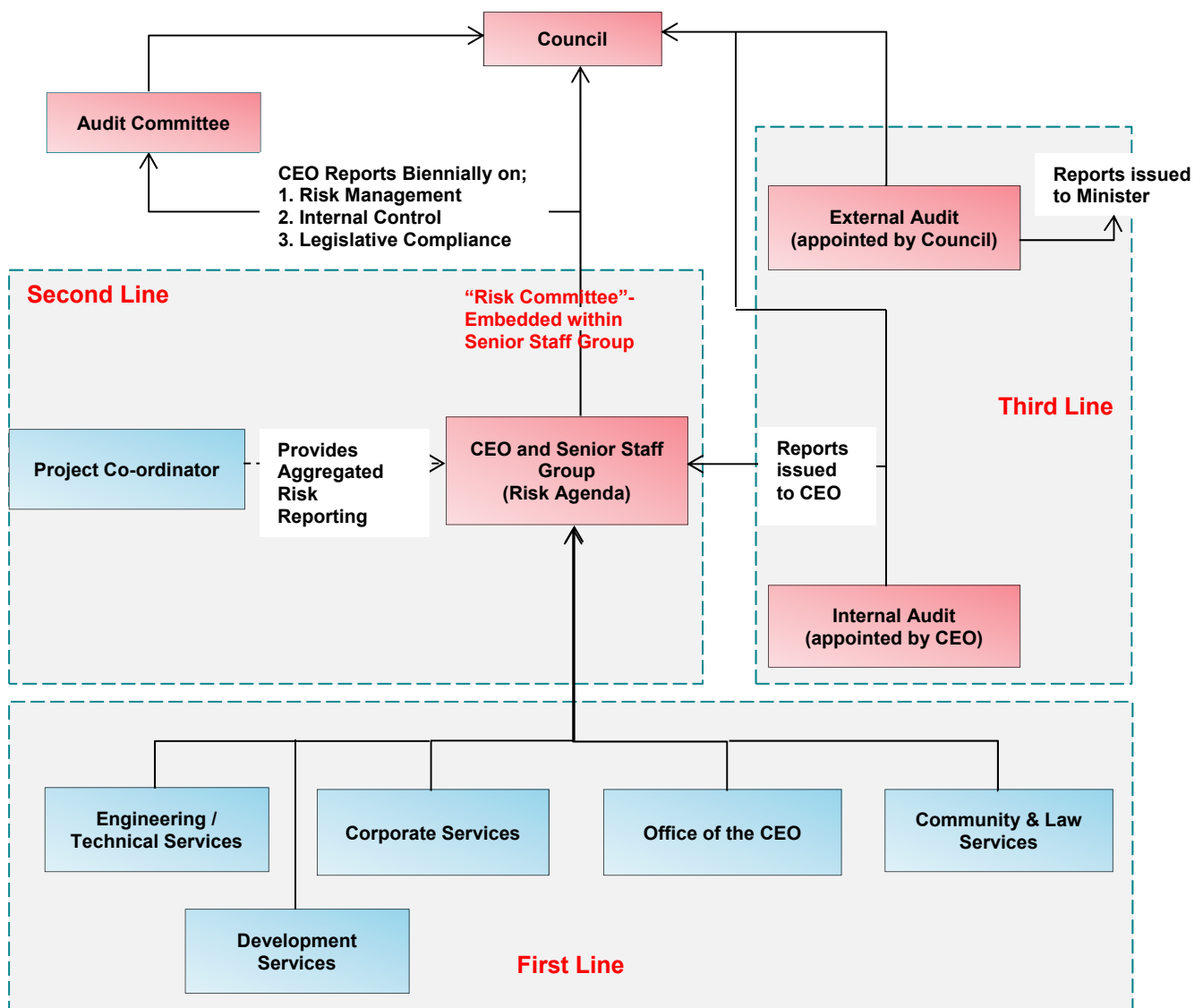
Internal self-audits & External Audits are the '3<sup>rd</sup> Line' of defence, providing assurance to the Council, Audit Committee and Town Management on the effectiveness of business operations and oversight frameworks (1<sup>st</sup> & 2<sup>nd</sup> Line).

Internal Audit – Appointed by the CEO to report on the adequacy and effectiveness of internal control processes and procedures. The scope of which would be determined by the CEO with input from the Audit Committee.

External Audit – Appointed by the Council on the recommendation of the Audit Committee to report independently to the President and CEO on the annual financial statements only.

### Governance Structure

The following diagram depicts the current operating structure for risk management within the Town.



## Roles & Responsibilities

### CEO / Council

- Review and approve the Town's Risk Management Policy and Risk Assessment & Acceptance Criteria.
- Appoint / Engage External Auditors to report on financial statements annually.
- Establish and maintain an Audit Committee in terms of the Local Government Act.

### Audit Committee

- Support Council in providing effective corporate governance.
- Oversight of all matters that relate to the conduct of External Audits.
- Independent, objective and autonomous in deliberations.
- Recommendations to Council on External Auditor appointments.

### CEO / Senior Staff Group

- Undertake internal Audits as required under Local Government (Audit) regulations.
- Liaise with Council in relation to risk acceptance requirements.
- Approve and review the appropriateness and effectiveness of the Risk Management Framework.
- Drive consistent embedding of a risk management culture.
- Analyse and discuss emerging risks, issues and trends.
- Document decisions and actions arising from risk matters.
- Own and manage the Risk Profiles at Town Level.

### Project Co-ordinator

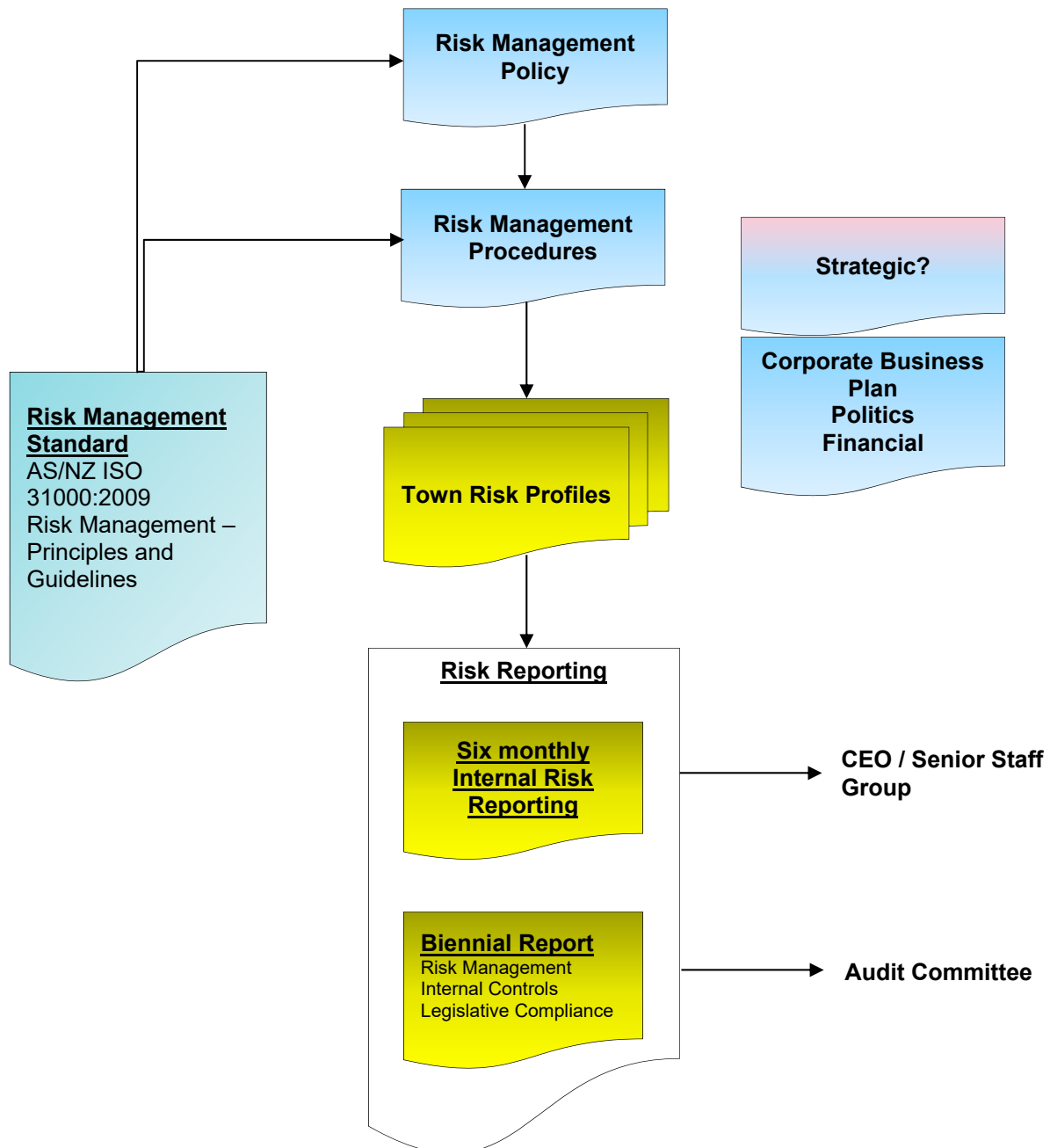
- Oversee and facilitate the Risk Management Framework.
- Support reporting requirements for risk matters.

### Work Areas

- Drive risk management culture within work areas.
- Own, manage and report on specific risk issues as required.
- Assist in the Risk & Control Management process as required.
- Highlight any emerging risks or issues accordingly.
- Incorporate 'Risk Management' into Management Meetings, by incorporating the following agenda items;
  - New or emerging risks.
  - Review existing risks.
  - Control adequacy.
  - Outstanding issues and actions.

### Document Structure (Framework)

The following diagram depicts the relationship between the Risk Management Policy, Procedures and supporting documentation and reports.



## Risk & Control Management

All Work Areas of the Town are required to assess and manage the Risk Profiles on an ongoing basis.

Each Manager, in conjunction with the Coordinator of Corporate Planning is accountable for ensuring that Risk Profiles are:

- Reflective of the material risk landscape of the Town.
- Reviewed on at least a six monthly basis, or sooner if there has been a material restructure or change in the risk and control environment.
- Maintained in the standard format.

This process is supported by the use of data inputs, workshops and ongoing business engagement.

### Risk & Control Assessment

To ensure alignment with AS/NZ ISO 31000:2009 Risk Management, the following approach is to be adopted from a Risk & Control Assessment perspective:

#### A: Establishing the Context

The first step in the risk management process is to understand the context within which the risks are to be assessed and what is being assessed, this forms two elements:

##### Organisational Context

The Town's Risk Management Procedures provide the basic information and guidance regarding the organisational context to conduct a risk assessment; this includes Risk Assessment and Acceptance Criteria (Appendix A) and any other tolerance tables as developed. In addition, existing Risk Themes are to be utilised (Appendix C) where possible to assist in the categorisation of related risks.

Any changes or additions to the Risk Themes must be approved by the Governance Officer and CEO.

All risk assessments are to utilise these documents to allow consistent and comparable risk information to be developed and considered within planning and decision making processes.

##### Specific Risk Assessment Context

To direct the identification of risks, the specific risk assessment context is to be determined prior to and used within the risk assessment process.

For risk assessment purposes the Town has been divided into three levels of risk assessment context:

#### 1. Strategic Context

This constitutes the Town's external environment and high-level direction. Inputs to establishing the strategic risk assessment environment may include;

- Organisation's Vision
- Stakeholder Analysis
- Environment Scan / SWOT Analysis
- Existing Strategies / Objectives / Goals

## 2. Operational Context

The Town's day to day activities, functions, infrastructure and services. Prior to identifying operational risks, the operational area should identify its Key Activities i.e. what is trying to be achieved. Note: these may already be documented in business plans, budgets etc.

## 3. Project Context

Project Risk has two main components:

- **Direct** refers to the risks that may arise as a result of project activity (i.e. impacting on current or future process, resources or IT systems) which may prevent the Town from meeting its objectives
- **Indirect** refers to the risks which threaten the delivery of project outcomes.

In addition to understanding what is to be assessed, it is also important to understand who are the key stakeholders or areas of expertise that may need to be included within the risk assessment.

## B: Risk Identification

Using the specific risk assessment context as the foundation, and in conjunction with relevant stakeholders, answer the following questions, capture and review the information within each Risk Profile.

- What can go wrong? / What are areas of uncertainty? (Risk Description)
- How could this risk eventuate? (Potential Causes)
- What are the current measurable activities that mitigate this risk from eventuating? (Controls)
- What are the potential consequential outcomes of the risk eventuating? (Consequences)

## C: Risk Analysis

To analyse the risks, the Town's Risk Assessment and Acceptance Criteria (Appendix A) is applied:

- Based on the documented controls, analyse the risk in terms of Existing Control Ratings
- Determine relevant consequence categories and rate how bad it could be if the risk eventuated with existing controls in place (Consequence)
- Determine how likely it is that the risk will eventuate to the determined level of consequence with existing controls in place (Likelihood)
- By combining the measures of consequence and likelihood, determine the risk rating (Level of Risk)

## D: Risk Evaluation

The Town is to verify the risk analysis and make a risk acceptance decision based on:

- Controls Assurance (i.e. are the existing controls in use, effective, documented, up to date and relevant)
- Existing Control Rating
- Level of Risk
- Risk Acceptance Criteria (Appendix A)
- Risk versus Reward / Opportunity

The risk acceptance decision needs to be documented and acceptable risks are then subject to the monitor and review process. Note: Individual Risks or Issues may need to be escalated due to urgency, level of risk or systemic nature.



### **E: Risk Treatment**

For unacceptable risks, determine treatment options that may improve existing controls and/or reduce consequence / likelihood to an acceptable level.

Risk treatments may involve actions such as avoid, share, transfer or reduce the risk with the treatment selection and implementation to be based on;

- Cost versus benefit
- Ease of implementation
- Alignment to organisational values / objectives

Once a treatment has been fully implemented, the Governance Officer is to review the risk information and acceptance decision with the treatment now noted as a control and those risks that are acceptable then become subject to the monitor and review process (Refer to Risk Acceptance section).

### **F: Monitoring & Review**

The Town is to review all Risk Profiles at least on a six monthly basis or if triggered by one of the following;

- Changes to context,
- A treatment is implemented,
- An incident occurs or due to audit/regulator findings.

The Coordinator of Corporate Planning is to monitor the status of risk treatment implementation and report on, if required.

The CEO & Senior Staff Group will monitor significant risks and treatment implementation as part of their normal agenda item on a quarterly basis with specific attention given to risks that meet any of the following criteria:

- Risks with a Level of Risk of High or Extreme
- Risks with Inadequate Existing Control Rating
- Risks with Consequence Rating of Extreme
- Risks with Likelihood Rating of Almost Certain

The design and focus of the Risk Summary report will be determined from time to time on the direction of the CEO & Senior Staff Group. They will also monitor the effectiveness of the Risk Management Framework ensuring it is practical and appropriate to the Town.

### **G: Communication & Consultation**

Throughout the risk management process, stakeholders will be identified, and where relevant, be involved in or informed of outputs from the risk management process.

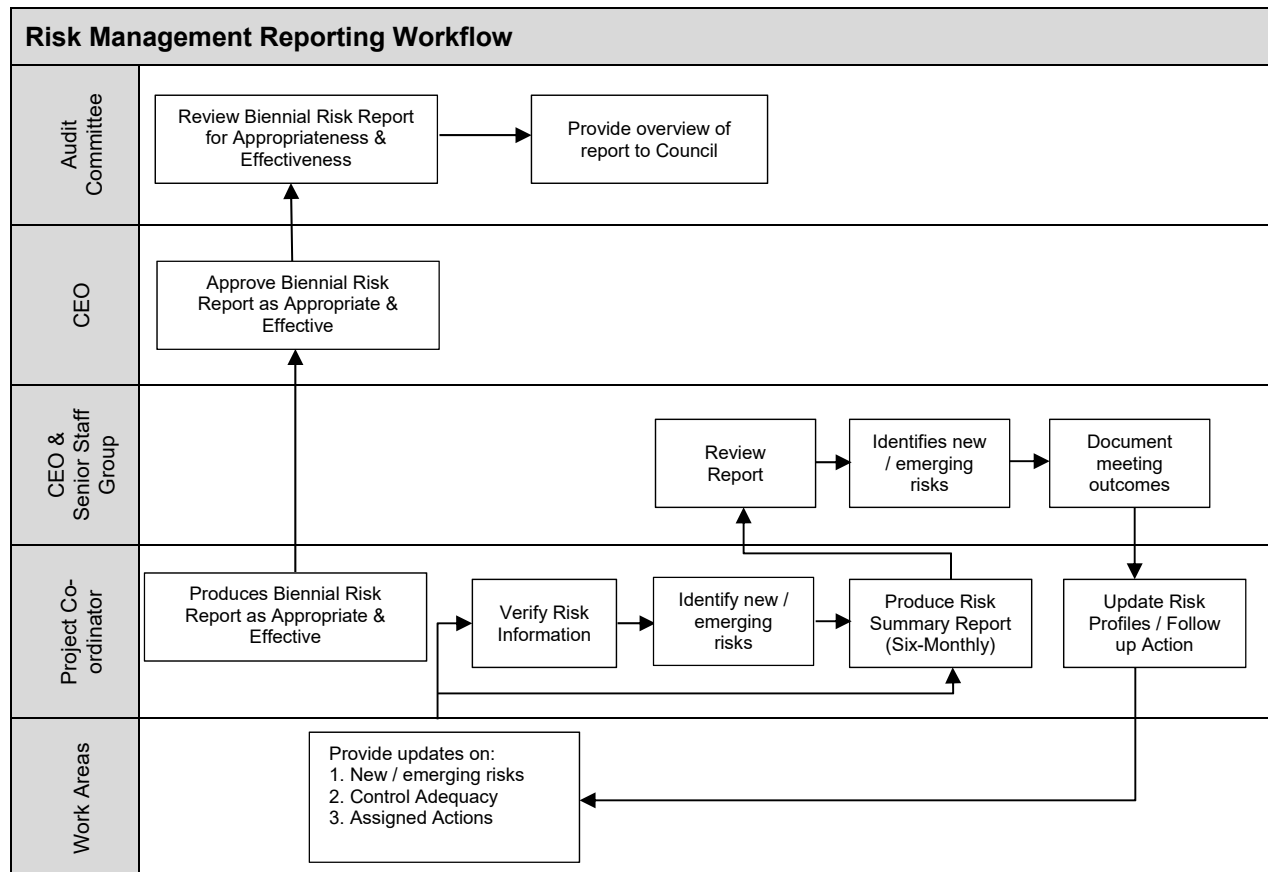
Risk management awareness and training will be provided to staff as part of their OS&H Program.

Risk management will be included within the employee induction process to ensure new employees are introduced to the Town's risk management culture.

## Reporting Requirements

### Coverage & Frequency

The following diagram provides a high level view of the ongoing reporting process for Risk Management.



Each Work Area is responsible for ensuring:

- They continually provide updates in relation to new and emerging risks, control effectiveness and indicator performance to the Coordinator of Corporate Planning.
- Work through assigned actions and provide relevant updates to the Coordinator of Corporate Planning.
- Risks / Issues reported to the CEO & Senior Staff Group are reflective of the current risk and control environment.

The Project Co-ordinator is responsible for:

- Ensuring Town Risk Profiles are formally reviewed and updated, at least on a six monthly basis or when there has been a material restructure, change in risk ownership or change in the external environment.
- Producing a six-monthly Risk Report for the CEO & Senior Staff Group which contains an overview Risk Summary for the Town.
- Annual Compliance Audit Return completion and lodgement.

## Indicators

Indicators are required to be used for monitoring and validating risks and controls. The following describes the process for the creation and reporting of Indicators:

### Identification

The following represent the minimum standards when identifying appropriate Indicator risks and controls:

- The risk description and casual factors are fully understood
- The Indicator is fully relevant to the risk or control
- Predictive Indicators are adopted wherever possible
- Indicators provide adequate coverage over monitoring risks and controls

### Validity of Source

In all cases an assessment of the data quality, integrity and frequency must be completed to ensure that the Indicator data is relevant to the risk or Control.

Where possible the source of the data (data owner) should be independent to the risk owner. Overlapping Indicators can be used to provide a level of assurance on data integrity.

If the data or source changes during the life of the Indicator, the data is required to be revalidated to ensure reporting of the Indicator against a consistent baseline.

### Tolerances

Tolerances are set based on the Town's Risk Appetite. They may be set and agreed over three levels:

- Green – within appetite; no action required.
- Amber – the Indicator must be closely monitored and relevant actions set and implemented to bring the measure back within the green tolerance.
- Red – outside risk appetite; the Indicator must be escalated to the CEO & Senior Staff Group where appropriate management actions are to be set and implemented to bring the measure back within appetite.

### Monitor & Review

All active Indicators are updated as per their stated frequency of the data source.

When monitoring and reviewing Indicators, the overall trend should be considered over a longer timeframe than individual data movements. The trend of the Indicators is specifically used as an input to the risk and control assessment.

## Risk Acceptance

Day-to-day operational management decisions are generally managed under the delegated authority framework of the Town.

Risk Acceptance outside of the appetite framework is a management decision to accept, within authority levels, material risks which will remain outside appetite framework (refer Appendix A – Risk Assessment & Acceptance Criteria) for an extended period of time (generally 3 months or longer).

The following process is designed to provide a framework for those outside appetite framework identified risks.

The 'Risk Acceptance' must be in writing, signed by the relevant Manager and cover:

- A description of the risk.
- An assessment of the risk (e.g. Impact consequence, materiality, likelihood, working assumptions etc)
- Details of any mitigating action plans or treatment options in place
- An estimate of the expected remediation date.

Reasonable action should be taken to mitigate the risk. A lack of budget to remediate a material risk outside of appetite is not sufficient justification in itself to accept a risk.

Accepted risks must be continually reviewed through standard operating reporting structure (i.e. Senior Staff Group)

# Appendix A – Risk Assessment and Acceptance Criteria

## Town of East Fremantle Measures of Consequence

Rating (Level)	Health	Financial Impact	Service Interruption	Compliance	Reputational	Property	Environment
<b>Insignificant (1)</b>	Near-Miss or First Aid	Less than \$10,000	No material service interruption	Minor regulatory or statutory impact	Unsubstantiated, low impact, low profile or 'no news' item	Inconsequential damage.	Contained, reversible impact managed by on site response
<b>Minor (2)</b>	Medical type injuries	\$10,001 - \$50,000	Short term temporary interruption – backlog cleared < 1 day	Some temporary non-compliances	Substantiated, low impact, low news item	Localised damage rectified by routine internal procedures	Contained, reversible impact managed by internal response
<b>Moderate (3)</b>	Lost time injury >14 Days	\$50,001 - \$250,000	Medium term temporary interruption – backlog cleared by additional resources < 1 week	Short term non- compliance but with significant regulatory requirements imposed	Substantiated, public embarrassment, moderate impact, moderate news profile	Localised damage requiring external resources to rectify	Contained, reversible impact managed by external agencies
<b>Major (4)</b>	Long-term disability / multiple injuries	\$250,001 - \$1,000,000	Prolonged interruption of services – additional resources; performance affected < 1 month	Non-compliance results in termination of services or imposed penalties	Substantiated, public embarrassment, high impact, high news profile, third party actions	Significant damage requiring internal & external resources to rectify	Uncontained, reversible impact managed by a coordinated response from external agencies
<b>Extreme (5)</b>	Fatality, permanent disability	More than \$1,000,000	Indeterminate prolonged interruption of services – non- performance > 1 month	Non-compliance results in litigation, criminal charges or significant damages or penalties	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Extensive damage requiring prolonged period of restitution Complete loss of plant, equipment & building	Uncontained, irreversible impact

ATTACHMENT 1

Town of East Fremantle Measures of Likelihood			
Level	Rating	Description	Frequency
5	Almost Certain	The event is expected to occur in most circumstances	More than once per year
4	Likely	The event will probably occur in most circumstances	At least once per year
3	Possible	The event should occur at some time	At least once in 3 years
2	Unlikely	The event could occur at some time	At least once in 10 years
1	Rare	The event may only occur in exceptional circumstances	Less than once in 15 years

Town of East Fremantle Risk Matrix						
Likelihood	Consequence	Insignificant	Minor	Moderate	Major	Extreme
		A?	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

Town of East Fremantle Risk Acceptance Criteria			
Risk Rank	Description	Criteria	Responsibility
<b>LOW (1-4)</b>	Acceptable	Risk acceptable with adequate controls, managed by routine procedures and subject to annual monitoring	Operational Manager
<b>MODERATE (5-9)</b>	Monitor	Risk acceptable with adequate controls, managed by specific procedures and subject to semi-annual monitoring	Operational Manager
<b>HIGH (10-16)</b>	Urgent Attention Required	Risk acceptable with excellent controls, managed by senior management / executive and subject to monthly monitoring	Director / CEO
<b>EXTREME (17-25)</b>	Unacceptable	Risk only acceptable with excellent controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority and subject to continuous monitoring	CEO / Council

Town of East Fremantle Existing Controls Ratings		
Rating	Foreseeable	Description
<b>Effective</b>	There is little scope for improvement.	Processes (Controls) operating as intended and / or aligned to Policies & Procedures; are subject to ongoing maintenance and monitoring and are being continuously reviewed and tested.
<b>Adequate</b>	There is some scope for improvement.	Whilst some inadequacies have been identified; Processes (Controls) are in place, are being addressed / complied with and are subject to periodic review and testing.
<b>Inadequate</b>	A need for corrective and / or improvement actions exist.	Processes (Controls) not operating as intended, do not exist, or are not being addressed / complied with, or have not been reviewed or tested for some time.



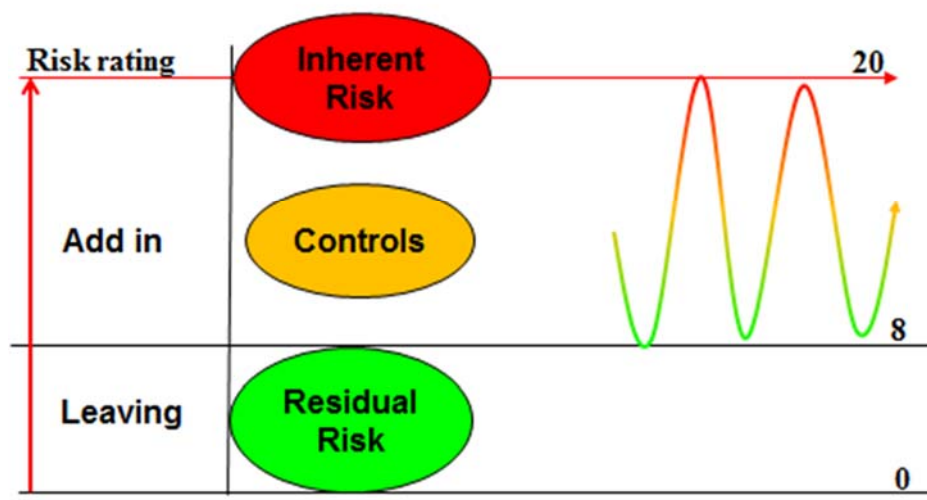
## Appendix B – Risk Profile Template

Risk Theme			Date
<b><u>This Risk Theme is defined as:</u></b> <i>Definition of Theme</i>			
<b><u>Potential causes include:</u></b> <i>List of potential causes</i>			
Controls	Type	Date	Town Rating
<i>List of Controls</i>			
Overall Control Ratings:			
Consequence Category	Risk Ratings		Town Rating
	Consequence:		
	Likelihood:		
Overall Risk Ratings:			
Indicators	Tolerance	Date	Overall Town Result
<i>List of Indicators</i>			
<b><u>Comments</u></b> <i>Rationale for all above ratings</i>			
Current Issues / Actions / Treatments		Due Date	Responsibility
<i>List current issues / actions / treatments</i>			



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## The importance of controls





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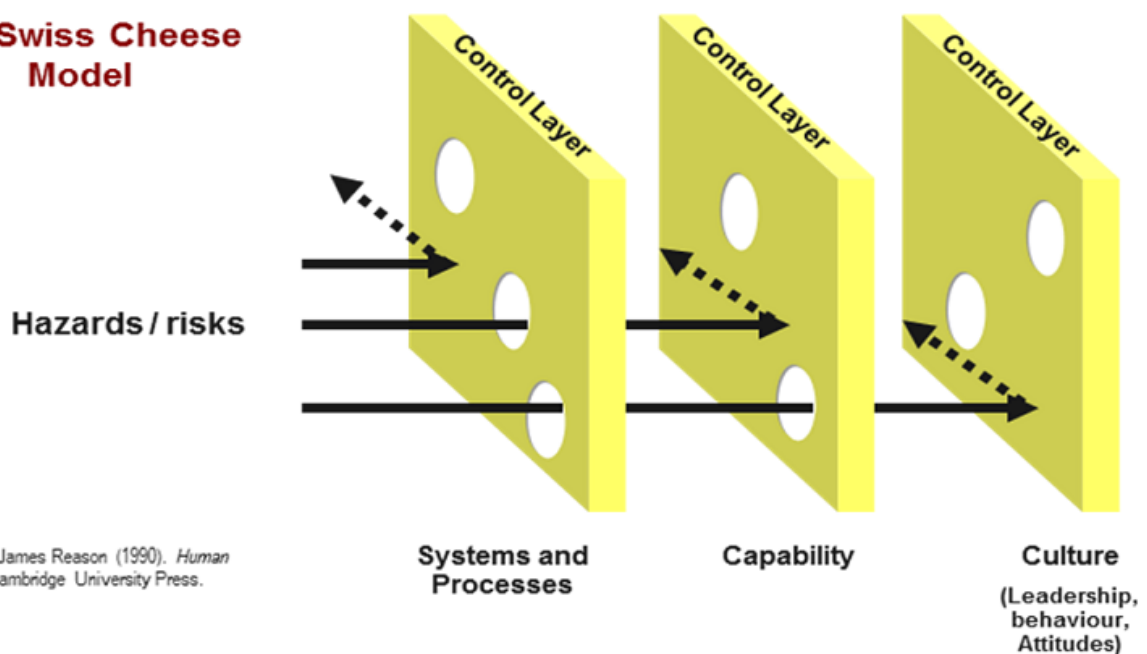
### MEASURES OF CONSEQUENCE (PROJECT)

LEVEL	RATING	Project TIME	Project COST	Project SCOPE / QUALITY
1	Insignificant	Exceeds deadline by >5% of project timeline	Exceeds project budget by 2%	Minor variations to project scope or quality
2	Minor	Exceeds deadline by >10% of project timeline	Exceeds project budget by 5%	Scope creep requiring additional work, time or resources. Reduced perception of quality by Stakeholders.
3	Moderate	Exceeds deadline by >15% of project timeline	Exceeds project budget by 7.5%	Scope creep requiring additional work, time and resources or shortcuts being taken. Stakeholder concerns.
4	Major	Exceeds deadline by >20% of project timeline	Exceeds project budget by 15%	Project goals, deliverables, costs and/or deadline failures. Project no longer aligned with the project scope Stakeholder intervention in project.
5	Extreme	Exceeds deadline by 25% of project timeline	Exceeds project budget by 20%	Failure to meet project objectives. Project outcomes negatively affecting the community or the environment. Public embarrassment, third party actions.

Programme:	
Programme Owner:	
Project Ref:	
Project Name:	
Project Manager:	
Directorate:	
Business Unit:	
Date of Assessment:	
Assessor:	

Context	Screening Question	Yes/No	Project Impact	Yes/No	Level of Project Risk	Instructions	Organisational Impact	Yes/No	Level of Organisational Risk	Instructions	Additional Supporting Comments
Health & Safety	1. Is there a risk that the project may cause harm to persons (staff, contractor, public)										
Financial	2. Is there a risk that the project may exceed budget?										
Time	3. Is there a risk that the project deadline is exceeded?										
Scope / Quality	4. Is there a risk that the project scope or quality may vary?										
Environment	5. Is there a risk that the project may impact the natural environment?										

### The Swiss Cheese Model





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## 10.5 Recurrent Status Report – Risk Management, Internal Controls and Legislative Compliance

<b>File ref</b>	F/AUD1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting Date:</b>	7 November 2018
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Status Report

### Purpose

It is recommended that the Audit Committee receive a status report on all outstanding matters raised in external audit reports, financial management reviews, performance audits, internal audit reports and any other review relevant to the Audit Committee's Terms of Reference.

### Executive Summary

A status report has been prepared reporting against identified issues with respect to audit, risk management, internal controls, procurement matters and legislative compliance. The status report is not an exhaustive listing and will become a living document and updated as issues are identified. It is presented to the Audit Committee to assist in their role to report to Council and provide advice and recommendations on matters relevant to its terms of reference.

### Background

The Department of Local Government has published an Operational Guideline on Audit in Local Government. Appendix 3 of this Guideline lists a number of matters that should be presented to an Audit Committee for review and monitoring:

#### Risk Management:

- Reviewing whether the local government has an effective risk management system;
- Reviewing whether the local government has a current and effective business continuity plan;
- Reviewing areas of potential non-compliance with legislation, regulations and standards and local governments policies;
- Reviewing the following; litigation and claims, misconduct, and significant business risks;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local governments internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.

#### Internal Control Systems:

- Separation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;

- Limit of direct physical access to assets and records;
- Control of computer applications and information system standards;
- Regular maintenance and review of financial control accounts and trial balances;
- Comparison and analysis of financial results with budgeted amounts;
- Report, review and approval of financial payments and reconciliations;
- Comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review managements plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Considering the internal auditors role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.

**Consultation**

Chief Executive Officer

**Statutory Environment**

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

**Policy Implications**

There are no Council Policies relevant to this item.

**Financial Implications**

There are no financial implications relevant to this item.

**Strategic Implications**

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

**Comment**

The Chief Executive Officer presented the review of the appropriateness and effectiveness of the Town's systems and procedures in relation to risk management, internal controls and legislative compliance to Council in March 2017. The assessment was undertaken using the Local Government Insurance Services Risk Profile Tool.

The main findings from this review included:

- Finalisation of the Business Continuity Plan
- Development of a Risk Register
- Requirement to undertake 4 yearly Financial Management Review (completed 2017)
- Requirement to develop further policies and procedures with regards to complaints management
- Develop Customer Service Charter
- Develop Annual Staff Training program
- Review the Municipal Heritage Inventory
- Review Procurement Processes/Review Purchasing History (Tender Compliance)
- Develop full set of Asset Management Plans
- Develop Event Management Processes and Procedures
- Update Lease Register
- Develop Annual Playground Inspection Program
- Develop and Implement Disaster Recovery Plan
- Archives Records Management
- Develop Project Management Framework
- Develop Contract Register and Contract Management System

The last Financial Management Review was completed by Anderson Munro and Wyllie in May 2017. The following were the main findings:

- That all balance sheet reconciliations be reviewed and signed by a senior responsible employee (risk rating – medium)
- That procedures be developed to ensure completed purchase orders are cleared from the creditors listing (risk rating – low)
- That the Credit Card Policy be reviewed to ensure compliance with the Department's Operational Guidelines (risk rating – medium)
- That staff leave accruals be managed to reduce liability (risk rating – low)
- That Council take necessary actions to improve its financial ratios, namely the Operating Surplus Ratio and Asset Sustainability Ratio (risk rating – low)
- That Council prepare a Disaster Recovery and Business Continuity Plan (risk rating – high)
- That a Risk Register be presented to the Audit Committee (risk rating – high)

Audit Management Letters have also been reviewed for 2016/17 and 2017/18 with the following issues identified:

- All long service leave application forms are to be retained on the employee's personnel file
- Incorrect payment of long service leave to an employee on two occasions
- Large long service leave balances

The above findings have been incorporated into the attached status report.

#### **10.5 OFFICER RECOMMENDATION**

**That the Audit Committee receives the status report on items relevant to its Terms of Reference.**

## Audit Committee - Status Report

Findings	Ref	Risk Rating	Progress Update	Officer Status
Finalisation of the Business Continuity Plan	Reg 17 Review	High	Underway	Draft completed
Development of a Risk Register	Reg 17 Review	High	Underway	Risk Management Governance Framework adopted March 2017. Risk assessments to be included in all agenda items.
Requirement to undertake 4 yearly Financial Management	Reg 17 Review	High	Completed	Presented to Audit Committee/Council 2017
Requirement to develop further policies and procedures with regards to complaints management	Reg 17 Review	Medium	Completed	External Complaints Policy established May 2017; to be reviewed as part of the Customer Service Improvement Project.
Develop Customer Service Charter	Reg 17 Review	Low	Underway	Customer Service Charter has been drafted and will be presented to Council in November 2018.
Develop Annual Staff Training program				Training and Development Policy established 2017. Staff Education and Study Leave Policy approved, and communicated. Annual Training Plan in place, as part of the annual PDR process.
Review the Municipal Heritage Inventory	Reg 17 Review	Low	Completed	
Review Procurement Processes/Review Purchasing History (Tender Compliance)	Reg 17 Review	Medium	Underway	WALGA has been engaged to undertake this project. Report will be presented to the Audit Committee.
Develop full set of Asset Management Plans	Reg 17 Review	High	Completed	Asset Management Plans will now be incorporated into an
Develop Event Management Processes and Procedures	Reg 17 Review	Medium	Completed	Checklist, Workflow and Fact Sheet has been prepared.
Update Lease Register	Reg 17 Review	Medium	Underway	Leases that are currently being held over are being progressed as well as new leases. A property management framework is being
Develop Annual Playground Inspection Program	Reg 17 Review	Medium		
Develop and Implement Disaster Recovery Plan	Reg 17 Review	High	Underway	The 2016 Disaster Recovery Plan is being updated as part of the review of the Town's Record Keeping Plan.
Archives Records Management	Reg 17 Review	Medium	Underway	A proposal has been received for the archiving of basement records, and a tender prepared for the digitisation of
Develop Project Management Framework	Reg 17 Review	Medium	Underway	A Project Plan template has been implemented.
Develop Contract Register and Contract Management	Reg 17 Review	High	Underway	A review of vital records has commenced.
That all balance sheet reconciliations be reviewed and signed by a senior responsible employee	FMR	Medium	Completed	EMCS is signing off on all end of month reconciliations.
That procedures be developed to ensure completed purchase orders are cleared from the creditors listing	FMR	Low	Underway	Open Purchase Order reports are being redistributed and reviewed monthly.



Findings		Ref	Risk Rating	Progress Update	Officer Status
That the Credit Card Policy be reviewed to ensure compliance with the Department's Operational Guidelines		FMR	Medium	Underway	Existing Policy has been reviewed. A new Credit Card Policy has been drafted including a Conditions of Use form to be signed by the cardholder.
That staff leave accruals be managed to reduce liability		FMR	Low	Underway	Monthly leave accrual reports are being distributed to Managers.
That Council take necessary actions to improve its financial ratios, namely the Operating Surplus Ratio and Asset Sustainability Ratio		FMR	Low	Underway	The draft Long Term Financial Plan includes ratio projections over 15 years. Depreciation expense will reduce significantly in 19/20 leading to an improvement in ratios.
That Council prepare a Disaster Recovery and Business		FMR	High	Underway	IT Disaster Recovery Plan 2016 to be reviewed
That a Risk Register be presented to the Audit Committee		FMR	High	Underway	As above
All long service leave application forms are to be retained on the employee's personnel file		Management Letter	Medium	Completed	All leave forms are being saved in the H:drive under Payroll
Incorrect payment of long service leave to an employee on two occasions		Management Letter	Medium	Completed	The affected Officer agreed to accept the reduced accrual as there was no disadvantage
Large long service leave balances		Management Letter	Medium	Underway	As above

- 11. MATTERS BEHIND CLOSED DOORS**
- 12. CLOSURE OF MEETING**