



# MINUTES

## Audit Committee Meeting

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### Wednesday, 29 January 2020 at 6.35pm

#### **Disclaimer**

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**MINUTES OF THE ORDINARY MEETING OF THE AUDIT COMMITTEE HELD IN THE POD MEETING ROOM, 135 CANNING HIGHWAY EAST FREMANTLE ON WEDNESDAY, 29 JANUARY 2020.**

**1. DECLARATION OF OPENING OF MEETING/ANNOUNCEMENT OF VISITORS**

In the absence of a Presiding Member, the Chief Executive Officer opened the meeting at 6.35pm.

**2. APPOINTMENT OF PRESIDING MEMBER**

The Chief Executive Officer advised that following the appointment of members to the Committee after the October 2019 Elections, it was now necessary to call for nominations as Presiding Member.

Cr A McPhail nominated Cr Natale for the position of Presiding Member.

Cr Natale accepted the nomination and assumed the Chair.

**3. ACKNOWLEDGEMENT OF COUNTRY**

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

**4. RECORD OF ATTENDANCE**

**4.1 Attendance**

The following members were in attendance:

Mayor J O'Neill  
Cr J Harrington  
Cr A McPhail  
Cr A Natale  
Cr A Watkins

The following staff were in attendance:

Mr G Tuffin	Chief Executive Officer
Mr P Kocian	Executive Manager Corporate Services
Ms B Browning	Minute Secretary

Mr Aram Madnack (Director)	Auditor General's Office
Mr Nazeer Mohammed (Audit Manager)	Auditor General's Office

There were no members of the gallery in attendance

**4.2 Apologies**

Cr M McPhail

**4.3 Leave of Absence**

Nil.

**5. MEMORANDUM OF OUTSTANDING BUSINESS**

Nil.

**6. DISCLOSURES OF INTEREST**

**6.1 Financial**  
Nil

**6.2 Proximity**  
Nil

**6.3 Impartiality**  
Nil

**7. PUBLIC QUESTION TIME**

**7.1 Responses to previous questions from members of the public taken on notice**  
Nil.

**7.2 Public Question Time**  
Nil

**8. PRESENTATIONS/DEPUTATIONS**

**8.1 Presentations**  
Nil.

**8.2 Deputations**  
Nil.

**9. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**

**9.1 Audit Committee (3 July 2019)**

**9.1 OFFICER RECOMMENDATION**

Moved Cr McPhail , seconded Cr Mayor O'Neill

That the minutes of the Audit Committee meeting held on Tuesday, 3 July 2019 be confirmed as a true and correct record of proceedings.

(CARRIED UNANIMOUSLY)

**10. ANNOUNCEMENTS BY THE PRESIDING MEMBER**

Nil.

## 11. REPORTS

### 11.1 Annual Financial Report (Audited) for the Year Ended 30 June 2019 (inclusive of Independent Auditor's Report)

<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>	29 January 2020
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Annual Financial Report (Audited) for the Year Ended 30 June 2019 2. Annual Financial Audit Exit Brief (Private and Confidential) – Separate Attachment

#### Purpose

The purpose of this report is for the Audit Committee to receive the Annual Financial Report (Audited) for the year ended 30 June 2019, and to consider significant matters raised in the Independent Auditor's Report.

#### Executive Summary

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report for the preceding financial year. The financial report is to be prepared and presented in the manner and form prescribed in the *Local Government (Financial Management) Regulations 1996*. Local Governments are required to submit the annual financial report to its auditor by the 30 September.

#### Background

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.

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

The 2018/19 audit timeline included field work from the 23 September to 18 October 2019. An exit meeting was held on the 11 December 2019, receipt of signed financials and representation letter on 11 December 2019, and issue of audit opinion on 13 December 2019.

Part 7 of the *Local Government Act 1995* deals with matters specific to the conduct of local government audit. Section 7.12A requires that a local government do the following amongst other things:

- Examine the audit report;
- Determine if any matters raised by the audit report, require action to be taken;
- Ensure that appropriate action is taken in respect of those matters;
- Prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters;

- Provide a copy of that report to the Minister within 3 months after the audit report is received by the local government; and
- Within 14 days after a local government gives a report to the Minister, the CEO must publish a copy of the report on the local government’s official website.

**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.

After the annual financial report has been audited, the CEO is to sign and append to the report a declaration. A copy of the annual financial report is then to be submitted to the Departmental CEO within 30 days of the receipt by the local government’s CEO of the auditor’s report on that financial report.

**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**

The Town accrued expenditure of \$30,000 in audit fees for 2018/19, being the indicative audit fee previously advised. The Office of Auditor General confirmed on the 11 December 2019 that the final audit fee would be \$40,184 (compared to an actual audit cost of \$173,317). A number of complex issues were resolved during the audit, as outlined in the Annual Financial Audit Exit Brief. This resulted in the higher actual cost.

**Risk Implications**

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Town receives a qualified audit report	Possible (3)	Moderate (3)	Moderate (5-9)	Reputation/Compliance	Control through robust internal controls and staff development

### Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme
		1	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)

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 and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

<b>Risk Rating</b>	9
<b>Does this item need to be added to the Town's Risk Register</b>	No
<b>Is a Risk Treatment Plan Required</b>	No

### 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 Independent Auditor's Report is appended to the Annual Financial Report. The Auditor has provided the opinion that the financial report of the Town of East Fremantle:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The Auditor has however raised a number of 'significant' matters that meet the review and reporting requirements of section 7.12A (3)(4) of the *Local Government Act 1995*. These matters are listed below, along with management comment. This agenda report is to be provided to the Minister, and will be published on the Town's website as per requirements.

### Significant Finding 1

The following material matter indicates a significant adverse trend in the financial position of the Town:

- a. The Operating Surplus Ratio has been below the Department of Local Government, Sports and Cultural Industries basic standard for the past 3 years. The financial ratios are reported in Note 33 of the annual financial report.

### **Management Comment**

Council adopted a 15-year Strategic Resource Plan (combined asset management and long term financial plan) at its ordinary meeting of May 2019. Section 5.11 of this document discusses the forecast operating ratios from 2019-2034. The Operating Surplus Ratio is not projected to meet the Department's standard of 1.00% until the 2028-29 financial year. Council is aware of this, with the following comment provided in the agenda report of May 2019:

*Council has a legislative requirement to comply with the principles of sound financial management, of which a key component is the preparation of a Long Term Financial Plan. The Office of Auditor General is also required to undertake a performance audit of adverse financial trends in the financial position or the financial management practices of the local government. This will be limited a high level assessment of whether the 7 financial ratios reported in the notes to the financial report achieved the standards set by the Department of Local Government, Sport and Cultural Industries. Council therefore needs to be cognizant of the ratio analysis included in the Forecast Financial Statements as 3 of the ratios are below benchmark.*

A number of assumptions underpin the Strategic Resource Plan, including a 3% annual rate increase. Every endeavour will be made to ensure operating revenue grows at a faster rate than operating expenditure in order to achieve an improved Operating Surplus Ratio. A review of depreciation expense (and underlying valuation methodology) in 2019/20 may also result in a favourable improvement to this ratio.

The following are material matters identified by the Auditor indicating non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law.

### **Significant Finding 2**

For 75% of purchases we sampled below the tender threshold, there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market, and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement. This could also result in favouring certain suppliers, although our audit did not identify any instances.

### **Management Comment**

The Town's purchasing policy states that where the value of a purchase is between \$5,001 and \$20,000, efforts should be made to obtain at least two written quotes.

During the Auditor's procurement testing, 6 purchases were identified in this range, out of a sample of 8, where there was insufficient documentation to indicate that the requisite number of quotations had been obtained.

Extended security permissions, including a purchasing requisition system, were implemented in June 2019. Staff are now required to upload evidence of quotations for purchases in excess of \$5,000 against a requisition request, which is converted into a purchase order only after it has been reviewed and approved by a Manager.

The Internal Audit Work Plan for 2020 also proposes that an internal audit of all requisitions over \$5,000 be completed, and presented to the Audit Committee in July 2020. This will ensure a complete sample and identify all instances of non-compliance. Findings will then inform areas for improvement, education, and if deemed appropriate, removal of financial delegation.



### **Significant Finding 3**

No evidence was retained to demonstrate whether changes to supplier and employee master files, including bank account details, were being authorised by an officer other than the person making the amendment. This increases the risk that unauthorised changes may be made, resulting in errors or funds being inappropriately transferred. Our audit did not identify and instances of unauthorised changes.

### **Management Comment**

These findings were included in the Interim Audit Management Letter from June 2019. Management Comment is repeated as follows:

#### **Changes to Supplier Master File:**

The Town has implemented a "New / Update Creditor Details" form which is completed by the supplier, entered into the Supplier Master File by the Finance Officer, then reviewed by the Manager Finance and Administration, and approved by the Executive Manager Corporate Service. Adherence to the completion of this form will demonstrate evidence that changes to a Supplier Master File are properly authorised.

The Finance Officer also checks the Supplier Details to the ABN Lookup website to ensure a correct ABN has been provided.

A telephone number is also obtained from an independent source such as a website, and that the creditor then be contacted to verify the information.

The Town has also created a "Bank Audit Update Report" for suppliers. This report is automatically generated on a fortnightly basis on the week suppliers are paid. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration and going forward kept with the "New / Update Creditor Details" forms file. The creation of this report demonstrates that The Town is vigilant in ensuring that the possibility of fraud is minimised.

When reviewing a supplier payment batch, both the Finance Officer and the Manager Finance and Administration check the bank account details on the invoice to the Creditor Batch Report before posting to the general ledger. The Manager Finance and Administration also checks the supplier's bank account number to the ABA/EFT file uploaded into CommBiz. The Town considers these two checks imperative in ensuring the minimisation of fraud and this has been our standard practice.

The Town will also engage IT Vision, the service provider of the Town's finance system, SynergySoft, to review user access to the Supplier Master File so that members of the Finance Team can only make changes.

#### **Changes to Employee Master File:**

The appointment of a new employee is created through the human resources process. Once appointed the relevant documentation for data entry into the Payroll System is provided by the Human Resources Coordinator to the Finance Officer. The Finance Officer then creates the new employee in the Payroll System. The documentation is then given to the Manager Finance and Administration for review. This is standard practice.

To show evidence in support of our standard practice a "New / Update Employee Details" form has been created, which will be prepared by the Finance Officer and Reviewed by the Manager Finance

and Administration. The implementation of this form will provide evidence that changes to the Employee Master File are properly authorised. The form will be filed in the employee's personnel file.

A "Bank Audit Update Report" has also been created for Payroll. This report is automatically generated on a fortnightly basis on payroll week. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration when reviewing payroll. Going forward we will implement the process of keeping this report with the fortnightly payroll file.

#### **Significant Finding 4**

Controls over changes to the Town's key systems were inadequate for ensuring that only approved changes are implemented. This could affect the availability or integrity of systems or information; however our audit testing did not identify any related adverse trends.

#### **Management Comment**

The Town's IT Service Provider is in the process of implementing an ICT Change Management system within the current service desk platform to ensure Service tickets can be escalated or associated with Change Management Tickets. Changes will be reported to Management during the Quarterly IT Management meeting.

The Town will also review the Change Management Resources available on the Public Sector Commissioner website, and determine whether any of these would be appropriate for customisation and adoption:

- Template: Change Management Plan
- Template: Change Management Group Terms of Reference
- Template: Human Resources Plan
- Template: Change Management Questionnaire

### **11.1 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A010120**

**Moved Mayor O'Neill , seconded Cr A McPhail**

**The Audit Committee recommend that Council:**

- 1. receive the Annual Financial Report for the Year Ended 30 June 2019, inclusive of the Independent Auditor's Report.**
- 2. request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor's Report.**
- 3. note the 'significant' matters raised in the Independent Auditor's Report, and the Management Comment, as discussed in the body of this agenda report.**
- 4. request that the Chief Executive Officer submit a copy of this agenda report and minutes to the Minister, within 3 months from the date of the Independent Auditor's Report (i.e. 3 months from 13 December 2019).**
- 5. request that a copy of this agenda report and minutes be published on the Town of East Fremantle website, within 14 days of the report being provided to the Minister.**

**(CARRIED UNANIMOUSLY)**

## 11.2 Audit Management Letters

<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>	29 January 2020
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Audit Management Letter for Year Ended 30 June 2019 2. Interim Management Letter

### Purpose

The purpose of this report is for the Audit Committee to receive the Audit Management Letters from the 2019 interim and annual audits.

### Executive Summary

Interim and Annual Audit results for the year ended 30 June 2019 are presented to the Audit Committee in the attached management letters. The focus of the interim audit was to evaluate the Town's overall control environment and to obtain an understanding of the key business processes, risks and internal controls relevant to the audit of the annual financial report.

### 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 2019 received clearance from the Auditors for signing by the CEO on 11 December 2019. The Audit Report and Audit Management Letter 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.

### Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Key findings from the interim and annual audits are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance	Control through Audit Committee monitoring of status report

### Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	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)

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 and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any

items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

<b>Risk Rating</b>	4
<b>Does this item need to be added to the Town's Risk Register</b>	No
<b>Is a Risk Treatment Plan Required</b>	No

### 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

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.

All of the key findings from the interim and annual audit will be incorporated into the standing Status Report, and will be presented to the Audit Committee for ongoing monitoring.

### 11.2 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A020120

Moved Cr McPhail, seconded Cr Mayor O'Neill

That the Audit Committee recommend Council:

1. receive the Audit Management letters for the Year Ended 30 June 2019, as presented as attachments 1 and 2.
2. note that the key audit findings will be incorporated into the standing Status Report, and will be presented to the Audit Committee for ongoing monitoring.

(CARRIED UNANIMOUSLY)

### 11.3 General Computer Control Audit

<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>	29 January 2020
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	<ol style="list-style-type: none"><li>1. ISO Gap Analysis</li><li>2. Capability Maturity Assessment</li><li>3. General Computer Control Audit Management Letter</li><li>4. Information Systems Audit (Additional Information) – Private and Confidential – Separate Attachment</li><li>5. Quote from Focus Networks – Private and Confidential – Separate Attachment</li></ol>

#### **Purpose**

The Audit Committee is requested to receive the findings from the General Computer Control Audit as detailed in attachments 1-4, with key findings from the management letter to be incorporated into the Audit Committee Status Report for monitoring.

#### **Executive Summary**

The Office of the Auditor General recently performed a General Computer Control Audit of the Town of East Fremantle. The following is a summary of the audit methodology:

#### **Scope:** the audit focused on:

- Policies and procedures – The entity should ensure that they have appropriate policies and procedures in place for key areas such as IT risk management, information security, business continuity and change control.
- Management of IT risks - The entity need to ensure that IT risks are identified, assessed and treated within appropriate timeframes and that these practices become a core part of business activities.
- Information security - The entity should ensure good security practices are implemented, up-to-date and regularly tested and enforced for key computer systems. Agencies must conduct ongoing reviews for user access to systems to ensure they are appropriate at all times.
- Business continuity - The entity should have a business continuity plan, a disaster recovery plan and an incident response plan. These plans should be tested on a periodic basis.
- Change control - change control processes should be well developed and consistently followed for changes to computer systems. All changes should be subject to thorough planning and impact assessment to minimise the likelihood of problems. Change control documentation should be current, and approved changes formally tracked.
- Physical security – The entity should develop and implement physical and environmental control mechanisms to prevent unauthorised access or accidental damage to computing infrastructure and systems.

#### **Approach:** as follows:

- Determine whether appropriate controls are in place;
- Prepare and execute test plans to obtain assurance of the operation of controls,
- Review appropriate documentation,
- Evaluate the effectiveness of the controls.

- Internal vulnerability scans of Finance, HR systems and key operational systems identified.

**Focused Audit:** in addition to the above, a focus audit was performed against the ISO 27002:2015 standard.

The testing focused on the International Security Standard 27002 (A/NZS ISO/IEC 27002: 2015). The standard sets out controls to ensure computer systems are designed, configured and managed to preserve the confidentiality, integrity and availability of information. A gap analysis of the entity's controls against the standard was performed.

Results from these audits are published in the attachments, and will form part of the Office of Auditor General's Annual Information Systems Audit Report to Parliament.

### Background

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.

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.

### Consultation

Office of Auditor General

### Statutory Environment

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

- e. *the local government is to do everything in its power to –*
  - iii. *assist the auditor to conduct an audit and carry out his or her other duties under the Act; and*
  - iv. *ensure that audits are conducted successfully and expeditiously;*
- f. *a local government is to meet with its auditor at least once in every year;*
- g. *a local government is to examine the report of the auditor and is to –*
  - iii. *determine if any matters raised require action to be taken by the local government; and*
  - iv. *ensure that appropriate action is taken in respect of those matters;*
- h. *local government is to –*
  - iii. *prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and*
  - iv. *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.*

### Policy Implications

There are no Council Policies relevant to this item.

### Financial Implications

See attachment 5 – Quote from Focus Networks.

### Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key findings from the GCC Audit are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Service Interruption	Control through Audit Committee monitoring and ensuring adequate budget allocation

### Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	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)

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 and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	9
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

### 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 following table identifies the index of findings from the General Computer Control Audit and their respective risk ratings. The findings will be incorporated into the Audit Committee Status Report, and reported to each meeting for monitoring.



INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
<b>Findings identified in the current audit</b>			
1. Information Security Management		✓	
2. HR Security		✓	
3. Information Risk Management		✓	
4. Access Management		✓	
5. Privileged Access Rights		✓	
6. Logging and Monitoring		✓	
7. Change Management		✓	
8. Management of Removable Media		✓	
9. Unauthorised Network Devices		✓	
10. Management of Technical Vulnerabilities		✓	
11. Network Device Management		✓	
12. Maintenance of Smoke Alarms		✓	

It needs to be noted that a number of the above items will require significant resource effort, and hence the 30 June 2020 has been nominated as the completion date for most items. The Town has a limited ICT budget, and any expenditures related to the implementation of the above controls will be captured and reported against each activity.

The Town's IT Provider, Focus Networks, has provided a quote to address the various OAG improvement findings identified above. It is recommended that the Audit Committee endorse this scope of works and quote for formal consideration by Council.

**11.3 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A030120**

**Moved Cr A McPhail, seconded Mayor O'Neill**

**That the Audit Committee recommends Council:**

- 1. receive the findings from the General Computer Control Audit, and note that the key findings will be incorporated into the Audit Committee Status Report for ongoing monitoring.**
- 2. endorse the scope of works and quote as presented in Attachment 5, for recommendation to full Council.**

(CARRIED UNANIMOUSLY)

#### 11.4 Review of Financial Management and Risk and Internal Control Systems

<b>File ref</b>	F/AUD1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate & Community Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting Date</b>	29 January 2020
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	<ol style="list-style-type: none"><li>1. Consolidated Report – Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls</li><li>2. Improvements Register</li></ol>

#### **Purpose**

The Audit Committee is requested to receive the Review of the Town's Financial Management, Risk Management, Legislative Compliance and Internal Controls, and note the Improvement Register, which will be incorporated with the standing Status Report.

#### **Executive Summary**

In order to meet the requirements under Regulation 5 (2)(c) of the *Local Government (Financial Management) Regulations 1996* and Regulation 17 of the *Local Government (Audit) Regulations 1996*, an independent consolidated report has been prepared by Moore Stephens following a review undertaken during November 2019 of the Town's financial management, risk management, legislative compliance, and internal control systems.

#### **Background**

The objective and scope of the review is as follows:

##### Financial Management Review

Once every three (3) years the Chief Executive Officer is required to review the appropriateness and effectiveness of the financial management systems and procedures, as required by Financial Management Regulation 5 (2)(c). The review covers the systems and procedures established by the Town in performing the duties defined by Financial Management Regulation 5 (1), including, but not limited to the following:

- Collection of money owed;
- Custody and security of money held;
- Maintenance and security of financial records;
- Accounting for revenue and expenses;
- Accounting for assets and liabilities;
- Accounting for trust transactions;
- Authorisation of purchases;
- Authorisation of payments;
- Maintenance and processing of payroll;
- Stock control and costing records;
- Preparation of budgets and budget reviews; and
- Preparation of financial reports.

##### Systems and Procedures Review

Likewise, at least once every three (3) years the Chief Executive Officer is required to report on the appropriateness and effectiveness of the Town's risk management, internal controls and legislative

compliance systems and procedures, every three years, as required by Audit Regulation 17. The results of the review are to be reported by the CEO to the Audit Committee. The Audit Committee is required to review the CEO's report and then report to the Council. The report from the Audit Committee to the Council is required to have attached a copy of the CEO's report to the Audit Committee.

To ensure independence of process, Moore Stephens were engaged to undertake the review (November 2019), and involved the following methodology:

- Conduct onsite interviews with key personnel involved in risk management, financial management and ensuring the Town's adherence to legislative compliance;
- Identify the extent of commitment and mandate to Risk Management principles (using AS/NZS ISO 31000:2018 as the framework) within the overall risk management framework;
- Review each component (risk management, legislative compliance and internal controls) after considering the overall risk environment, governance structure and internal control environment;
- Assess the gaps (if any) between the current processes and the expected risk management, internal controls and legislative compliance systems and procedures and recommend suggested improvements; and
- Report on the appropriateness and the effectiveness of current systems and procedures.

#### Consultation

Chief Executive Officer  
Moore Stephens (External Auditors)

#### Statutory Environment

Local Government Act 1995  
Local Government (Audit) Regulations 1996 Regulation 17  
Local Government (Financial Management) Regulations 1996

#### Policy Implications

F8.7 Significant Accounting Policies

#### Financial Implications

The cost of the engagement with Moore Stephens was \$18,750 (GST ex). This is within budget allocation.

#### Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key findings from the FMR/Reg 17 Review are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance	Control through oversight by the Audit Committee and ensuring adequate budget allocation for resourcing

### Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme
		1	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)

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 and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	9
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

### Strategic Implications

#### **Strategic Priority 5 – Leadership and Governance**

- 5.1 Strengthen organisational accountability and transparency
- 5.3 Strive for excellence in leadership and governance

### Site Inspection

Not applicable

### Comment

An Improvement Register detailing 47 findings has been prepared and is appended to this report. This register also includes a risk rating and proposed mitigation and management strategies. This register will be presented to the Audit Committee as a standing item.

#### **11.4 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A040120**

Moved Cr Watkins, seconded Mayor O'Neill

That the Audit Committee:

1. receive the consolidated report from the Chief Executive Officer on the appropriateness and effectiveness of the Town's financial managements systems, risk management, internal controls and legislative compliance systems and procedures as required by Regulation 5 (2)(c) of the *Local Government (Financial Management) Regulations 1996* and Regulation 17 of the *Local Government (Audit) Regulations 1996*;
2. recommend that the review be presented to Council, and that the Improvement Register be incorporated into a Status Report for ongoing review and monitoring.

(CARRIED UNANIMOUSLY)

## 11.5 Compliance Audit Return 2019

<b>Applicant</b>	Town of East Fremantle
<b>File ref</b>	A/DLG1
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Date of Meeting</b>	29 January 2020
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	1. Compliance Audit Return 2019

### Purpose

To facilitate the adoption of the Compliance Audit Return 2019 for submission to the Department of Local Government, Sport and Cultural Industries (DLGSC) by 31 March 2020.

### Executive Summary

The statutory Compliance Audit Return runs on a calendar year basis and is for the period 1 January to 31 December 2019.

The statutory Compliance Audit Return has been completed by self-assessment by the Chief Executive Officer.

### Background

The Compliance Audit Return is required to be:

1. reviewed by the Audit Committee,
2. presented to an Ordinary Meeting of Council,
3. adopted by Council; and
4. recorded in the minutes of the meeting at which it is adopted.

After the Compliance Audit Return (CAR) has been presented to Council, a certified copy of the return signed by the Mayor and Chief Executive Officer, along with the relevant section of the minutes and any additional information detailing the contents of the return are to be submitted to the DLGSC by 31 March 2020.

### Statutory Environment

Section 7.13(i) of the *Local Government Act 1995* requires that each local government carry out a compliance audit for the period 1 January to 31 December each year.

Regulations 14 & 15 of the *Local Government (Audit) Regulations 1996* specify requirements with respect to the compliance audit.

### Policy Implications

There are no policy implications.

### Financial Implications

There are no financial implications.

### Strategic Implications

The Town of East Fremantle Strategic Community Plan 2017 – 2027 states as follows:

#### **STRATEGIC PRIORITY 5: Leadership and Governance**

***A proactive, approachable Council which values community consultation, transparency and accountability.***

*5.1 Strengthen organisational accountability and transparency.*

### Site Inspection

N/A

### Comment

The statutory Compliance Audit Return has been completed.

The independent Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls dated November 2019 prepared by Moore Stephens, does identify matters of non-compliance, detailed below, which have been noted in the Compliance Audit Return.

Component	Purpose/Goal	Matters Identified/Improvements
Gifts Register	Statutory register of gifts received as required under section 5.89A of the <i>Local Government Act 1995</i>	We noted the register of gifts contains record of disclosures made under the former provisions of the LGA and are published on the Town's website as required. We did not observe a register of gifts in the prescribed form as required. Improvement: Establish a register of gifts in the prescribed form and publish on the Town's official website as required.
Notifiable Gifts Register	Statutory register of gifts received (other than as required under section 5.89A of the <i>Local Government Act 1995</i> )	A notifiable gifts register was not available for our inspection or published on the Town's website as required by Regulation 34B (5) of the <i>Local Government (Administration) Regulations 1996</i> Improvement: Maintain a register to record details of notifications given in relation to gifts as required, and publish on the website.
Financial Interest Register	Record details required under the Act relating to financial circumstances of relevant persons	The current register of financial interests contains returns for an individual who has ceased to be a relevant person. These returns are required to be removed and retained in a register of non-current returns for a period of five years as required under section 5.88 (4) of the LGA. Improvement: Review filing of returns and disclosures from individuals who have ceased to be

		relevant persons of the organisation.
Tender Register	Statutory register of tenders called	Inspection of the register noted it was not compliant with some requirements of the <i>Local Government (Functions and General) Regulations 1996</i> . The value of the consideration being sought by tenderers is recorded within the register, contrary to Regulation 16 (3)(c) of the <i>Local Government (Functions and General) Regulations 1996</i> . Improvement: Ensure the tender register complies with Regulation 16 & 17 of the <i>Local Government (Functions and General) Regulations 1996</i> for future tenders called.
Monthly Statement of Financial Activity	Monthly statements of financial activity prepared in accordance with legislative compliance	We noted an explanation of material variances was not included in the documents supporting the statement of financial activity as required by regulation 34 (2)(b) of the <i>Local Government (Financial Management) Regulations 1996</i> . This occurred for the monthly statement of financial activity for the periods ended 31 July 2018, 31 August 2018, 30 September 2018 and 30 June 2019. Improvement: Ensure the monthly statement of financial activity contains all items required by legislation.

The Independent Auditor's Report, which forms part of the Annual Financial Report (and Annual Report), also raises a matter of non-compliance with Council's Purchasing Policy. This has been noted in the Compliance Audit Return, and is discussed in more detail in a separated agenda report to the Audit Committee.

**11.5 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A050120**

**Moved Cr A McPhail, seconded Cr Watkins**

**That the Audit Committee endorse the submission of 2019 Compliance Audit Return to Council for adoption, noting that the matters of non-compliance have been addressed in a separate report which will be provided to the Minister for Local Government pursuant to section 7.9 of the *Local Government Act 1995*.**

(CARRIED UNANIMOUSLY)

## 11.6 2020 Audit Work Plan and 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>	29 January 2020
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	Nil

### Purpose

The Audit Committee is requested to endorse the proposed work plan and meeting schedule for the 2020 calendar year.

### Executive Summary

This report provides an overview of the local government audit framework. It also recommends an internal audit work 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 has fallen 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.

**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) 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

Council has adopted an Internal Audit Charter, which outlines a number of objectives with respect to internal audit activities.

### Financial Implications

Council has approved a budget of \$150,000 for Strategic and Business Planning. Internal audit activities that are outsourced can be funded under this budget.

### Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Lack of resourcing to support an Internal Audit function	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance	Manage by ensuring adequate budget allocation

### Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	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)

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 and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

<b>Risk Rating</b>	9
<b>Does this item need to be added to the Town's Risk Register</b>	No
<b>Is a Risk Treatment Plan Required</b>	No

### 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 Audit Committee Terms of Reference requires the Audit Committee to meet at least three times per year, with the dates to be set each year by Council, with authority to convene additional meetings, as circumstances require.

Clause 6.7 of the Terms of Reference also requires the Audit Committee to develop a forward meeting schedule that includes the dates, location, and proposed work plan for each meeting for the forthcoming year, that cover all the responsibilities outlined. These responsibilities include:

- Risk Management
- Business Continuity
- Internal Control
- Review of Annual Financial Statements
- Internal/external performance audits

**11.6 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A060120**

Moved Cr Harrington, seconded Cr Watkins

That the Audit Committee:

**1. endorse the proposed meeting dates for 2020 as follows:**

Date	Time	Place
4 March 2020	6.30pm	Council Chambers
29 June 2020	6.30pm	Council Chambers
4 November 2020	6.30pm	Council Chambers

**2. endorse the following work plan for 2020 with items to be presented to the Audit Committee**

Date	Items
March 2020	<ul style="list-style-type: none"> <li>- Midyear budget review</li> <li>- Compliance Audit Return</li> <li>- Review of Finance Policies</li> <li>- Standing status report</li> </ul>
June 2020	<ul style="list-style-type: none"> <li>- Interim Audit Management Letter</li> <li>- Internal audit of all requisitions over \$5k and evidence of quotations</li> <li>- Close out report on implementation of recommendations from the General Computer Control Audit</li> <li>- Standing status report</li> </ul>
November 2020	<ul style="list-style-type: none"> <li>- Annual Financial Statements</li> <li>- Audit Report and Management Letter</li> <li>- Annual meeting with Auditor</li> <li>- Standing status report</li> </ul>

(CARRIED)

## 11.7 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>	29 January 2020
<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  
Manager Finance and Administration

**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.

### Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key findings are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance	Control through oversight by the Audit Committee and ensuring adequate budget allocation for resourcing

### Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	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)

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 and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

<b>Risk Rating</b>	4
<b>Does this item need to be added to the Town's Risk Register</b>	No
<b>Is a Risk Treatment Plan Required</b>	No

### 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 status sheet has been updated accordingly.

### 11.7 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A070120

Moved Mayor O'Neill, seconded Cr Harrington

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

(CARRIED UNANIMOUSLY)

NB: The Presiding Member, Mayor and CEO thanked the Office of the Auditor General and Town staff for their exemplary efforts.

**12. MATTERS BEHIND CLOSED DOORS**

Nil.

**13. CLOSURE OF MEETING**

There being no further business, the Presiding Member declared the meeting closed at 7.57pm.

*I hereby certify that the Minutes of the ordinary meeting of the **Audit Committee** of the Town of East Fremantle, held on **29 January 2020**, Minute Book reference **1.** to **13.** were confirmed at the meeting of the Committee on*

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*Presiding Member*

UNCONFIRMED