



# MINUTES

Audit Committee Meeting

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Wednesday, 7 November 2018 at 6.34pm

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**5.3.2 Cr A McPhail**

Cr A McPhail stated that Anderson Munro & Wyllie were engaged by some of his work clients.

**6. PUBLIC QUESTION TIME**

**6.1 Responses to previous questions from members of the public taken on notice**

Nil.

**6.2 Public Question Time**

Nil.

**7. PRESENTATIONS/DEPUTATIONS**

**7.1 Presentations**

Nil.

**7.2 Deputations**

Nil.

**8. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**

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

**8.1 OFFICER RECOMMENDATION**

Moved Cr A McPhail, seconded Cr White

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

(CARRIED UNANIMOUSLY)

**9. ANNOUNCEMENTS BY THE PRESIDING MEMBER**

The Presiding Member welcomed Mr Michael St John of Anderson Munro & Wyllie to the meeting.

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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

#### **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.

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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/COMMITTEE RESOLUTION A011118**

Moved Cr A McPhail, seconded Cr Natale

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 the Town's appointed Auditor, Mr Michael St John's, attendance at the Audit Committee to discuss the Audit Report and Management Letter, and any other matters relevant to the scope of Audit.

(CARRIED UNANIMOUSLY)

*Prior to carrying the above resolution, discussion took place on the Management Report in relation to:*

- *Leave liability*
- *Operating expenditure treated as Capital.*

*Incorrect notations against items 2 and 3 were identified in the table contained within the Management Report.*

*The Presiding Member thanked Anderson Munro & Wyllie for the completion of the 2017/18 audit and their service to the Town.*

## 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/COMMITTEE RESOLUTION A021118**

Moved Cr White, seconded Cr Natale

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	6.30pm	Council Chambers
Wednesday 3 July 2019	6.30pm	Council Chambers
Tuesday 26 November 2019	6.30pm	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>

(CARRIED UNANIMOUSLY)

### 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.

### 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/COMMITTEE RESOLUTION A031118**

Moved Cr White, seconded Cr Watkins

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).

(CARRIED UNANIMOUSLY)

**10.3 COMMITTEE RESOLUTION A041118**

Moved Cr White, seconded Cr Watkins

That the Audit Committee recommend to Council that the CEO write to the Office of the Auditor General (OAG) to clarify the 2018/19 Audit Schedule, the ability to influence the appointment of audit subcontractors, the estimated fee for the OAG/subcontractor service and process for determination of the audit fee.

(CARRIED UNANIMOUSLY)

## 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/COMMITTEE RESOLUTION A051118**

**Moved Cr Natale, seconded Cr Watkins**

**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.**

**(CARRIED UNANIMOUSLY)**

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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/COMMITTEE RESOLUTION A061118**

**Moved Mayor O'Neill, seconded Cr White**

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

(CARRIED UNANIMOUSLY)

11. **MATTERS BEHIND CLOSED DOORS**

Nil.

12. **CLOSURE OF MEETING**

There being no further business, the Presiding Member declared the meeting closed at 8.17pm.

*I hereby certify that the Minutes of the ordinary meeting of the **Audit Committee** of the Town of East Fremantle, held on **7 November 2018**, Minute Book reference **1 to 12** were confirmed at the meeting of the Committee on*

*26 FEBRUARY 2019*



*Presiding Member*