

minutes

Audit and Risk Committee

MEETING HELD ON **TUESDAY 7 AUGUST 2018**

TABLE OF CONTENTS

Item No.	Title	Page No.
	Declaration of Opening	3
	Declarations of Interest	4
	Apologies/Leave of absence	4
	Confirmation of Minutes	4
	Announcements by the Presiding Member without discussion	5
	Identification of matters for which the meeting may be closed to the public	5
	Petitions and deputations	5
	Reports	6
1	Risk Management Arrangements	6
2	Executive and Risk Services Program 2018-19 and 2017-18	10
3	Fraud and Misconduct Risk Assessment and Data Analytics Approach - Procurement	14
4	Controls Over Corporate Credit Cards	18
5	Half Yearly Report - Contract Extensions – 1 January to 30 June 2018	25
6	Half Yearly Report – Write-Off Monies – 1 January to 30 June 2018	28
7	Amendments to Local Government Regulations	32
8	Financial Ratios Report for the year ended 30 June 2017	38
9	Confidential - Appointment of External Member to Audit and Risk Committee	43
10	Confidential - Chief Executive Officer's Credit Card Expenditure (January – March 2018)	45
11	Confidential - Chief Executive Officer's Credit Card Expenditure (April – June 2018)	46
	Urgent Business	47
	Motions of which previous notice has been given	47
	Requests for Reports for future consideration	47
	Closure	47

CITY OF JOONDALUP

MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY 7 AUGUST 2018.

ATTENDANCE

Committee Members

Cr Christine Hamilton-Prime
Mayor Hon. Albert Jacob, JP
Cr Tom McLean, JP
Cr Nige Jones
Cr Christopher May
Cr John Logan
Cr Sophie Dwyer

Presiding Member

Deputy Presiding Member

from 5.48pm

Officers

Mr Garry Hunt
Mr Mike Tidy
Mr Brad Sillence
Ms Christine Robinson
Mr Roney Oommen
Mr Peter McGuckin
Mrs Wendy Cowley

Chief Executive Officer
Director Corporate Services
Manager Governance
Manager Executive and Risk Services
Manager Financial Services
Internal Auditor
Governance Officer

DECLARATION OF OPENING

The Presiding Member declared the meeting open at 5.45pm.

DECLARATIONS OF INTEREST**Disclosures of Financial / Proximity Interest**

Nil.

Disclosures of interest affecting impartiality

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

Name/Position	Cr Tom McLean, JP.
Item No./Subject	Item 9 - Confidential - Appointment of External Member to Audit and Risk Committee.
Nature of interest	Interest that may affect impartiality.
Extent of Interest	One of the applicants is known to Cr McLean.

Name/Position	Cr Christine Hamilton-Prime.
Item No./Subject	Item 9 - Confidential - Appointment of External Member to Audit and Risk Committee.
Nature of interest	Interest that may affect impartiality.
Extent of Interest	One of the applicants is known to Cr Hamilton-Prime.

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 10 - Confidential - Chief Executive Officer's Credit Card Expenditure (January – March 2018).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 11 - Confidential - Chief Executive Officer's Credit Card Expenditure (April - June 2018).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

APOLOGIES/LEAVE OF ABSENCE**Apologies:**

Nil.

Leave of Absence Previously Approved:

Cr Russell Poliwka	26 July to 28 August 2018 inclusive;
Cr Kerry Hollywood	27 July to 13 August 2018 inclusive;
Mayor Albert Jacob, JP	28 September to 5 October 2018 inclusive.

CONFIRMATION OF MINUTES

MINUTES OF THE AUDIT AND RISK COMMITTEE HELD ON 6 MARCH 2018

MOVED Cr McLean, SECONDED Cr May that the minutes of the meeting of the Audit and Risk Committee held on 6 March 2018 be confirmed as a true and correct record.

The Motion was Put and

CARRIED (6/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs McLean, Jones, May and Logan.

MINUTES OF THE SPECIAL AUDIT AND RISK COMMITTEE HELD ON 5 JUNE 2018

MOVED Mayor Jacob, SECONDED Cr May that the minutes of the meeting of the Audit and Risk Committee held on 5 June 2018 be confirmed as a true and correct record.

The Motion was Put and

CARRIED (6/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs McLean, Jones, May and Logan.

ANNOUNCEMENTS BY THE PRESIDING MEMBER WITHOUT DISCUSSION

Nil.

IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

In accordance with Clause 5.2 of the City's *Meeting Procedures Local Law 2013*, this meeting was not open to the public.

PETITIONS AND DEPUTATIONS

Nil.

Cr Dwyer entered the room at 5.48pm.

REPORTS**ITEM 1 RISK MANAGEMENT ARRANGEMENTS**

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	49586, 101515
ATTACHMENT	Nil
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

To provide the Audit and Risk Committee with an update on the status of the risk management arrangements at the City.

EXECUTIVE SUMMARY

Sound corporate governance requires integrated risk management processes and strategic planning, reporting and performance measurement. The key to successful integration is streamlining the approach to managing risk by ensuring that everyone uses common language and documents their risks using a consistent approach.

The risk management arrangements at the City continue to be reviewed and improved.

It is therefore recommended that the Audit and Risk Committee NOTES the update on the status of the risk management arrangements at the City.

BACKGROUND

One of the main services of Executive and Risk Services is the risk management program, which allows for the City to remain committed to ensuring that effective risk management remains central to all its internal operations and the delivery of services to the community. The City's *Risk Management Framework* (the Framework) provides the guidance to integrate risk management into significant activities and functions performed by the City, supporting stakeholders and management's ability to use risk management as part of the decision making processes.

A gap analysis of the risk management arrangements at the City was undertaken by the Manager Executive and Risk Services and Internal Auditor which concluded the following:

- The need for real time monitoring of risks.
- The need to be able to consolidate risks occurring throughout the City in a central repository.
- The requirement for increased education of the ownership and treatment of risks.

- Better reporting of risks.
- The ability to analyse how individual risks aggregate or are interrelated.
- The ability to analyse systematic problems and trends.

Most of these gaps will be mitigated following the implementation of an electronic risk and compliance system, which enables risks to be tracked and managed within risk registers and process maps. The provision of a real-time heat map that shows inherent risks (risks without the consideration of controls) and residual risks (risks remaining after consideration of controls) will allow targeted improvements.

A dedicated resource (Risk and Business Continuity Advisor) has been established to assist in raising awareness and provision of ongoing education to minimise risk exposure at the City, as well as system administration of the electronic risk and compliance system.

DETAILS

The City's current risk appetite is 'risk prudent', which accepts the taking of controlled risks, the use of innovative approaches and the development of new opportunities to improve service delivery and achieve its objectives provided that the risks are properly identified, evaluated and managed to ensure that exposures are acceptable.

The Framework is being revised to reflect the updated Australian Standard (*ISO 31000:2018 Risk Management – Guidelines*), as well as new requirement of the Australian Standard (*ISO 9001:2015 Quality Management System*) to identify, address and control risks. This revision also includes an expansion on risk management concepts, responsibilities and definitions.

To effectively embed risk management throughout the City, the Audit and Risk Committee is required to be aware of its responsibilities in relation to reviewing the appropriateness and effectiveness of risk management arrangements. To enhance this understanding, it is proposed that a workshop be held later in the year for members of the Audit and Risk Committee to allow progression of the revised Framework, which has been peer reviewed by external consultants.

Risk Management Framework

The current Framework was adopted by Council at its meeting held on 24 September 2013 (CJ190-09/13 refers) in line with the then current Australian Standard (*AS/NZS ISO 31000:2009*) and is being revised to ensure the continuance of good practice and sound corporate governance. The changes to the Framework include the following:

- Clarification of risk categories – strategic, operational and project risks have been defined.
- Linking risks to the City's strategic objectives.
- Clear delineation between inherent risk (risks without the consideration of controls) and residual risk (risks remaining after consideration of controls) to provide a more transparent view of how effectively the City is managing risk and if there is a need to redirect resources.
- Expansion of the quantitative risk matrix to include consequence descriptors for each classification of impact such as financial loss with insignificant consequence now provides context at this loss being less than \$10,000 and financial loss with catastrophic impact values losses at more than \$10 million.

- Risk targets and tolerances (from 'acceptable' being low to 'unacceptable in most cases' being extreme) to provide parameters for the level of management and reporting required based on the risk rating, and compliance to agreed risk target levels.
- Use of treatment KPIs to allow fact based effectiveness to be established and the ranking of importance to the risk.
- Using treatment effectiveness to establish a residual risk rating.

Electronic Risk and Compliance System (Promapp)

The increased education of the ownership and treatment of risks is reinforced by the implementation of the Promapp system which assists with:

- real time monitoring of risks
- ability to consolidate risks occurring throughout the City in a central register
- better reporting of risks
- ability to analyse how individual risks aggregate or are interrelated
- ability to analyse systematic problems and trends.

A formal education and training program of the revised Framework and electronic risk and compliance system has been developed to assist employees in the areas of Risk Awareness, Risk Identification, Risk Analysis, and Residual Risk and Treatment Effectiveness.

The Risk Register

Three risk portfolios are to be developed, recorded and maintained using the electronic risk and compliance system, to form a single register, these are as follows:

- Strategic Risk Portfolio to include risks of an internal or external nature that affect the achievement of the City's long-term objectives (as outlined in the *Strategic Community Plan*); these risks require input from Council (via the Audit and Risk Committee) and are managed by the Executive Leadership Team (Chief Executive Officer and Directors).
- Operational Risk Portfolio (by Directorate) to include risks of an internal or external nature that have day to day impact on the City's operational activities; these risks are managed by Directors and Managers.
- Project Risk Portfolio (by individual project) to include risks of an internal or external nature that have an impact on the development and delivery of projects; these risks are managed within the Project Team for the life of the project.

It should be noted that Promapp is already being used for some projects.

Legislation / Strategic Community Plan / policy implications

Legislation *Local Government (Audit) Regulations 1996.*

Strategic Community Plan

Key theme Governance and Leadership.

Objective Corporate capacity.

Strategic initiative Continuously strive to improve performance and service delivery across all corporate functions.

Policy *Risk Management Policy.*

Risk management considerations

The City provides a wide and diverse range of services that are subject to a variety of risks. Having in place a framework that provides a systematic and consistent approach across the City for the identification, assessment and treatment of risks will better place the City to achieve its objectives and provide the services that the community expect.

Input and agreement of the City's revised Framework by the Audit and Risk Committee will assist in embedding a more positive risk management culture within the City.

Financial / budget implications

Not applicable.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

Learnings identified from the recent Australian Institute of Companies Directors course will also be used to enhance the City's risk management arrangements, including better descriptions of risk implications for decisions in Council reports.

VOTING REQUIREMENTS

Simple Majority.

MOVED Mayor Jacob, SECONDED Cr McLean that the Audit and Risk Committee NOTES the update on the status of the risk management arrangements at the City.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

ITEM 2 EXECUTIVE AND RISK SERVICES PROGRAM 2018-19 AND 2017-18

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	49586, 101515
ATTACHMENT	Attachment 1 2018-19 Executive and Risk Services Program Attachment 2 2017-18 Executive and Risk Services Program Status
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit and Risk Committee to note the *Executive and Risk Services Program 2018-19* (which includes the *Internal Audit Program*) and the status of the *Executive and Risk Services Program 2017-18*.

EXECUTIVE SUMMARY

The *Executive and Risk Services Program* sets out the program of audits to guide audit activity, the work of the Internal Auditor and other monitoring and reviewing activities to be undertaken.

The *Internal Audit Program* section allows for Chief Executive Officer and other unspecified management requests, specialist advice and investigations. This section is subject to change and modification during the year on the authorisation of the Chief Executive Officer.

It is therefore recommended that the Audit and Risk Committee NOTES the Executive and Risk Services Program 2018-19 (which includes the Internal Audit Program) and the status of the Executive and Risk Services Program 2017-18 forming Attachment 1 to this Report.

BACKGROUND

With the establishment of the Executive and Risk Services business unit in July 2013 the City continues to reposition itself to gain a better understanding of the risks it is exposed to.

The main services of Executive and Risk Services are as follows:

- *Internal Audit Program* – provides an independent and objective review of City operations and systems; and provides assurance that risk management, controls and compliance processes are effective.

- *Risk Management Program* – for the City to remain committed to ensuring that effective risk management remains central to all its internal operations and the delivery of services to the community. The City's *Risk Management Framework* (the Framework) aims to uphold the City's Primary Values of being transparent, accountable, honest, ethical, respectful, sustainable and professional. The Framework provides the guidance to integrate risk management into significant activities and functions performed by the City, supporting stakeholders and management's ability to use risk management within decision making processes.
- *Service Review Program* – ensures the integrity of data and information, as well as identifying areas to reduce costs by eliminating and identifying waste and improving efficiency and effectiveness throughout the City's operations.

DETAILS

The program incorporates the following areas:

- 1 *Internal Audit Program* – sets out the internal audit activity to be carried out by the City's Internal Auditor (who reports directly to the Chief Executive Officer for assigned activities). This section is established in consultation between the Chief Executive Officer, Manager Executive and Risk Services and the Internal Auditor and where appropriate includes input from Directors to address areas that present risks to the City's operations.

The main focus for this program will be to continue to undertake reviews of the insights of data analytics on procurement and finance data, which is a recommendation from the fraud and misconduct risk assessment.

This program is subject to change and modification during the year on the authorisation of the Chief Executive Officer.

- 2 *Risk Management Program* – sets out the activities to be carried out by the Risk and Business Continuity Advisor to assist in the raising of awareness and provision of ongoing education to minimise risk exposure at the City.
- 3 *Service Review Program* – sets out the reviews to be carried out by the City's Business Performance Analyst. This section is established in consultation between the Chief Executive Officer, Manager Executive and Risk Services and the Business Performance Analyst and where appropriate includes input from Directors or Managers to identify areas to reduce costs by eliminating and identifying waste and improving efficiency and effectiveness throughout the City's operations.

This program is subject to change and modification during the year on the authorisation of the Chief Executive Officer.

- 4 *Local Government Performance Excellence Program* – allows for targeted reviews of the City's performance in the areas of workforce management, financial management, operations management, risk management, corporate leadership and asset management, as well as comparative benchmarking with local governments from Western Australia, New South Wales, Queensland, South Australia and New Zealand.

Legislation / Strategic Community Plan / policy implications

Legislation Regulation 6 of the *Local Government (Financial Management) Regulations 1996*.
Local Government (Audit) Regulations 1996.

Strategic Community Plan

Key theme Governance and Leadership.

Objective Corporate capacity.

Strategic initiative

- Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.
- Continuously strive to improve performance and service delivery across all corporate functions.

Key theme Financial Sustainability.

Objective Effective management.

Strategic initiative To conduct business in a financially sustainable manner.

Policy Not applicable.

Risk management considerations

Internal audit is an independent and objective appraisal service, with audit activity being an important element of risk management and a contributor to the mitigation of risk.

Monitoring and reviewing activities will provide evidence of the appropriateness and effectiveness of systems and procedures in regard to risk management, internal control and legislative compliance, as required by the *Local Government (Audit) Regulations 1996*.

Financial / budget implications

Not applicable.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

Internal audit activity focuses on areas of risk including financial and non-financial systems and compliance with legislation, regulations, policies and best practice. Recommendation Action Plans are developed and agreed with management for audit recommendations and follow-ups conducted to ensure that they are implemented as agreed.

The *Service Review Program* focuses on improving efficiency and effectiveness throughout the City's operations and will follow the method of identifying target services, assessing and identifying opportunities, prioritising opportunities and developing recommendations and monitoring and tracking progress.

Insights gained from the data analytics program continue to allow for an evidence based approach to prioritise areas for audit and review.

The status of the work program for 2017-18 is attached for information (Attachment 2 refers).

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Jones, **SECONDED** Mayor Jacob that the Audit and Risk Committee **NOTES** the Executive and Risk Services Program 2018-19 (which includes the Internal Audit Program) and the status of the Executive and Risk Services Program 2017-18 forming Attachment 1 to this Report.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Appendix 1 refers

To access this attachment on electronic document, click here: [Attach1agnAUDIT180807.pdf](#)

ITEM 3 FRAUD AND MISCONDUCT RISK ASSESSMENT AND DATA ANALYTICS APPROACH - PROCUREMENT

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	107481, 105850, 101515
ATTACHMENT	Attachment 1 Recommendations Implementation Status
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit and Risk Committee to note the status of the implementation of recommendations from the Report *Fraud and Misconduct Risk Assessment – Procurement* prepared by KPMG and the subsequent data analytics approach being adopted by the City.

EXECUTIVE SUMMARY

Following the review of procurement practices in five local governments, including the City, the Corruption and Crime Commission recommended that the City undertake an assessment of its susceptibility to fraud and misconduct risks in its procurement practices. The City engaged KPMG to independently undertake the assessment which was completed and the first Report *Fraud and Misconduct Risk Assessment – Procurement* was issued in August 2016.

The report recommended a number of actions for improvement, which all but one were accepted by the City. A recurring recommendation was that the City consider periodically conducting data analytics on procurement and finance data.

It is therefore recommended that the Audit and Risk Committee NOTES the status of the implementation of recommendations from the Report Fraud and Misconduct Risk Assessment – Procurement forming Attachment 1 to this Report and the data analytics approach currently being developed by the City.

BACKGROUND

The objectives of the fraud and misconduct risk assessment were to assist the City to identify and document specific fraud and misconduct risks and related controls in procurement and set out actions to improve controls to help mitigate those risks.

KPMG completed the assessment and issued the *Report Fraud and Misconduct Risk Assessment – Procurement* which was initially presented to the former Audit Committee at its meeting held on 10 August 2015. At this meeting the former Audit Committee requested some clarifications on the KPMG report, which was subsequently updated and presented to the former Audit Committee at its meeting held on 29 February 2016.

The report highlighted 13 risk areas and assessed the level of risk applying criteria contained in the Risk Matrix in the City's *Risk Management Framework*. This assessment included consideration of the City's controls that were in place and concluded that of the 13 risk areas seven were rated 'low' and six were rated 'moderate'. None of the risk areas were assessed as 'high' or 'extreme'.

A key recommendation was that the City consider periodically conducting data analytics on procurement and finance data to:

- identify potential anomalies or red flags that may indicate possible payment of false invoices
- changes in bank account numbers and follow up with confirmation of authorisation
- rates charged, and testing for both variations in these per contractor and with reference to the contract agreed rates
- identify spending patterns that indicate attempts by employees to split purchase orders or remain under thresholds (especially the \$5,000 threshold)
- variations from the process, in terms of any invoices being paid without goods receipted, or invoices being paid without services provided
- variations from the process, in terms of any purchases above thresholds, where a tender has not been undertaken as required
- identify expenditure and track number of quotations obtained.

DETAILS

Fraud and Misconduct Risk Assessment

The report detailed 13 individual fraud risk areas, six of which were rated 'moderate' and seven rated 'low' with regards to the controls in place. The risk ratings were applied using the risk matrix contained in the City's *Risk Management Framework*.

The City has many systems and controls to prevent, detect and report on any fraudulent or corrupt activity and misconduct. These include but are not limited to the following:

- *Fraud, Corruption and Misconduct Control Policy.*
- *Purchasing Policy.*
- *Purchasing Protocols.*
- Financial controls.
- Delegated authorities.
- Recruitment / employment policies and procedures.
- *Governance Framework.*
- *Code of Conduct.*
- Induction and training for employees and Elected Members.
- Primary and Annual Returns.
- Conflict of interest declarations.
- Gift registers.
- Internal Audit.
- Financial Review Taskforce.

Nine improvement recommendations were made, ranging from specific processes through to broader policy development, all but one of which the City accepted and proceeded to implement. The risks, proposed actions and the status of those actions are detailed in Attachment 1 to this Report. The controls are continually under review and improvements made where necessary.

Data Analytics by Deloitte

Following a quotation process Deloitte was engaged in May 2016 to provide advanced analytics testing and visualisation of key procurement, contract and payroll data and to assist the City to develop in-house capability to maintain data analysis on an ongoing basis.

The period of analysis was 1 January 2015 to 30 June 2016. The City provided all accounts payable data requested by Deloitte to undertake the analysis, although the City restricted the release of some payroll data.

Deloitte provided their final report and a high-level summary of findings in May 2017. Following this Deloitte made presentations of the data analytics insights to the Chief Executive Officer and the City's data owners including the relevant Managers and Directors.

Internal audit review of the data analytics results has taken place and a report provided to the Chief Executive Officer. This has identified some areas of risk exposure for the City and recommended that further investigation is undertaken. The Chief Executive Officer has approved further detailed internal audit investigation which is currently underway.

Data Analytics: The Way Forward

Deloitte has been partnering with the City to develop an advanced analytics testing approach which includes developing the ability to maintain an in-house testing approach on an ongoing basis. The City met with Deloitte on 24 April 2018 to discuss the best options available to support the development of in-house capability. These discussions determined that the best and most appropriate approach would be to continue the partnership with Deloitte to test, develop and optimise existing Tableau data models maintained by Deloitte to enable development and smooth transition to the City's Power BI dashboards.

Based on these discussions Deloitte submitted a proposal on 15 May 2018 for the Accounts Payable, Contracts and Human Resources Handover Project, which the Chief Executive Officer approved.

Legislation / Strategic Community Plan / policy implications**Legislation**

Corruption, Crime and Misconduct Act 2003.
Local Government (Audit) Regulations 1996.

Strategic Community Plan**Key theme**

Governance and Leadership.

Objective

Corporate capacity.

Strategic initiative

Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.

Policy

Purchasing Policy.
Risk Management Policy.
Fraud, Corruption and Misconduct Control Policy.

Risk management considerations

Without adequate controls procurement and financial systems are at increased risks to fraud, corruption and misconduct. Implementation of the recommendations made by KPMG following the fraud and misconduct risk assessment and partnering with Deloitte to develop advanced in-house data analytics testing will further enhance existing controls and mitigate these risks.

Financial / budget implicationsCurrent financial year impact

Account no.	1.210.A2301.3265.000.
Budget Item	Consultancy.
Budget amount	\$114,386
Amount spent to date	\$ 0
Proposed cost	\$ 59,386
Balance	\$ 55,000

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

Data analytics will inform the work of the Internal Auditor and feed into future Annual Internal Audit Plans. Data analysis allows for the capture and analysis of entire populations of data which helps identify trends, relationships and high-risk areas for more effective and efficient targeted audit testing. The City is committed to establishing an effective in-house data analytics regime to identify weaknesses and risks and to improve controls to mitigate those risks. Data analysis can also be utilised to gather information and support better decision making across the City.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Jones, **SECONDED** Mayor Jacob that the Audit and Risk Committee **NOTES** the status of the implementation of recommendations from the Report *Fraud and Misconduct Risk Assessment – Procurement* forming Attachment 1 to this Report and the data analytics approach currently being developed by the City.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Appendix 2 refers

To access this attachment on electronic document, click here: [Attach2agnAUDIT180807.pdf](#)

ITEM 4 CONTROLS OVER CORPORATE CREDIT CARDS

WARD	All
RESPONSIBLE DIRECTOR	Mr Garry Hunt Office of the CEO
FILE NUMBER	18049, 101515
ATTACHMENT	Attachment 1 Western Australian Auditor General's Report – Controls Over Corporate Credit Cards
AUTHORITY / DISCRETION	Information – includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit and Risk Committee to note the results of the internal audit of the City's controls over the use of corporate credit cards and the results of the Western Australian Auditor General's Report following an audit of controls over corporate credit cards within local government.

EXECUTIVE SUMMARY

An audit of the City's corporate credit cards was conducted by the City's Internal Auditor to determine if effective controls are exercised over their use. This report provides the results of that audit.

The Western Australian Auditor General also conducted an audit to determine if local governments have effective control over the use of corporate credit cards. This report provides the results of that audit.

It is therefore recommended that the Audit and Risk Committee NOTES the results of the internal audit of the controls over City's corporate credit cards and the Western Australian Auditor General's audit of the controls over local government corporate credit cards.

BACKGROUND

The City has four corporate credit cards which are allocated to the Chief Executive Officer, Manager Financial Services, Purchasing Officer and Civic Functions Officer. The credit cards are used for the purchase of goods and services on behalf of the City within set financial limits. Each credit card is subject to review by an assigned approving officer.

City Protocol – Use of Corporate Credit Cards, provides guidance on the use of the City's corporate credit cards. The City's Internal Auditor conducted an audit of the City's corporate credit cards for the financial year 2016-17 to determine if effective controls are in place to ensure all transactions are for legitimate City business and that all purchases are properly authorised and records of expenditure maintained. The Internal Auditor provided the results of the audit in a report to the Chief Executive Officer on 12 March 2018. The report concluded that effective systems and controls are in place to ensure that all expenditure made on corporate credit cards is for legitimate City business and is appropriately approved and recorded. The report did not make any recommendations for improvement.

The Western Australian Auditor General conducted an audit of a sample of eight local governments to determine if they had effective controls over the use of corporate credit cards. The City was not included in the sample. The audit resulted in the Auditor General presenting his first audit report under the *Local Government Amendment (Auditing) Act 2017* to Parliament on 9 May 2018. The report titled *Controls over Corporate Credit Cards* concluded that the local governments in the sample generally had satisfactory controls in place to manage the use of corporate credit cards. However, some shortcomings were noted and the report made several recommendations for improvement.

DETAILS

Internal Audit Report: Corporate Credit Cards 2016-17

Audit Approach

The audit was conducted by reviewing all corporate credit card transactions along with the associated statements, invoices, receipts and other relevant documentation for the financial year 2016-17.

System Overview

Monthly statements are received by the City for each corporate credit card and are required to be signed by the cardholder to verify that the details are correct. Each transaction must be supported by invoices, charge slips or receipts. Requests by employees for purchases from the Purchasing Officer's credit card must be supported by a Purchasing Card Request Form authorised by the relevant manager/supervisor. The statements are then signed by the cardholder's manager/supervisor as evidence that the transactions have been examined and approved. The Chief Executive Officer's statement is countersigned by the Director Corporate Services. It is also a requirement, by resolution of Council, that the Chief Executive Officer's credit card expenditure is presented to the Audit and Risk Committee for review.

Observations and Recommendations

1 Credit Card Transactions and Approvals

Audit testing confirmed that for the financial year 2016-17 all transactions made on the City's corporate credit cards:

- were for legitimate City business and were supported by evidence of expenditure (or an appropriately authorised declaration for lost receipts)
- all statements were independently reviewed and authorised by the appropriate officer
- requests by employees for purchases from the Purchasing Officer's credit card were supported by an appropriately authorised Purchasing Card Request Form.

As required by resolution of Council the Chief Executive Officer's credit card expenditure for the year was presented to the Audit Committee (known as the Audit and Risk Committee from November 2017) for its review as follows:

2016-17 Quarter	Committee Meeting
July to September 2016	1 November 2016
October to December 2016	7 March 2017
January to March 2017	7 August 2017
April to June 2017	7 August 2017

During the year the City developed a declaration form for the Chief Executive Officer to distinguish between a lost receipt/invoice and where a vendor provided a non-tax receipt only.

Conclusion

Effective systems and controls are in place to ensure that all expenditure made on corporate credit cards is for legitimate City business and is appropriately approved and recorded.

Recommendations

Not applicable.

2 Inadvertent Personal Purchase by Employee

Observations

It was noted that an invoice was issued by the City to an employee for reimbursement of personal transactions of \$1.49 and \$12.09 made on the Purchasing Officer's credit card. Enquiries revealed that this was due to the employee using the same terminal and website previously used by the Purchasing Officer to make a transaction using the corporate credit card. It appears the website had retained the City's corporate credit card details and then applied these when a personal transaction was being made. The transaction was identified as personal and was subsequently reimbursed by the employee.

Conclusion

The personal purchase was inadvertently applied to the City's corporate credit card due to the website's cookie settings retaining the corporate card details from the previous transaction. This appears to be a one-off occurrence and was quickly identified and rectified. Although a similar future incident is unlikely it appears that current systems and controls are adequate in order to identify this if it did occur.

Recommendations

Not applicable.

Western Australian Auditor General's Report: Controls Over Corporate Credit Cards

Audit Approach

The focus of the Auditor General's Audit was to determine if local governments in the sample have effective controls over the use of corporate credit cards and if there was adequate independent review of the credit card use of the Chief Executive Officers. The policies and practices of a sample of eight local governments were assessed over the period 1 January 2017 to 30 September 2017 using the following lines of inquiry:

- 1 Do local governments have appropriate policies and administrative systems in place for corporate credit cards?
- 2 Are suitable controls in place to monitor and manage the issue and use of cards and the timely approval of card transactions?
- 3 Do management periodically review their use of corporate credit cards and act on any identified shortcomings?

The eight local governments selected for the audit were:

- City of Kalamunda.
- City of Rockingham.
- City of Wanneroo.
- Shire of Carnarvon.
- Shire of Cranbrook.
- Shire of Dandaragan.
- Shire of Denmark.
- Town of Port Hedland.

Audit Findings

The audit findings are summarised as follows:

- **Line of Inquiry 1** – Appropriate policies and administrative systems were generally in place however:
 - policies at two local governments did not specify timelines for acquitting and approving monthly credit card statements
 - two instances were found at one local government of cardholders not completing cardholder agreements.
- **Line of Inquiry 2** – With the exception of one local government control weaknesses were found at all local governments which included the following:
 - Absence of appropriate independent approval of transactions and self-approval of transactions by the cardholder.
 - CEO credit card transactions were approved by a subordinate and were self-approved at four local governments.
 - Sharing of credit cards at three local governments.
 - Delays in cancelling cards when staff resigned.
 - Adequate documentation to support purchases was not maintained by three local governments.
 - Four local governments were not acquitting credit card transactions in a timely manner or in line with their own policy.
- **Line of Inquiry 3** – All the local governments were reviewing the use of credit cards in some way on a regular basis. It was pleasing to note that two local governments had recently audited their credit cards. Reporting to Council on credit card expenditure was inconsistent.

Recommendations

The Auditor General's Report recommended that local governments should:

- (a) ensure policies specify requirements for all key credit card processes
- (b) keep adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval
- (c) cancel redundant cards in a timely manner to avoid loss and/or misuse of cards
- (d) regularly monitor outstanding transactions to identify and follow up on long outstanding un-acquitted transactions
- (e) ensure senior management periodically reviews credit card use, to confirm compliance with policies and to identify any abnormal trends. The results of these reviews should be documented and retained.

In a letter to the City's Chief Executive Officer on 9 May 2018 the Auditor General stated "*I encourage you to assess your own management of corporate credit cards against the findings and recommendations in this report and to take action where required*". Notwithstanding that the City had completed an internal audit just prior to the Auditor General's Report the City has assessed the Auditor General's recommendations. The results of this assessment are detailed in the following table:

Auditor General Recommendations	City's Response	Further Actions Required
(a) ensure policies specify requirements for all key credit card processes.	The City does not have a policy relating to corporate credit cards however it does have a <i>Protocol – Use of Corporate Credit Cards</i> , which does cover all the key processes for operation of the corporate credit cards. The protocol references the City's <i>Purchasing Policy, Code of Conduct and Regulation 11(1) (a) of the Local Government (Financial Management) Regulations 1996</i> .	Not applicable.
(b) keep adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval.	Internal Audit Report – Corporate Credit Cards 2016-17 concluded that adequate records were maintained to support all transactions and there was evidence of appropriate review and approval.	Not applicable.
(c) cancel redundant cards in a timely manner to avoid loss and/or misuse of cards.	<i>Protocol – Use of Corporate Credit Cards</i> describes how cards are to be surrendered prior to termination of position or employment. The protocol also describes the actions to be taken to deal with lost or stolen credit cards.	Not applicable.

Auditor General Recommendations	City's Response	Further Actions Required
(d) regularly monitor outstanding transactions to identify and follow up on long outstanding un-acquitted transactions.	Although the protocol does not detail the importance of timely acquittal the recent internal audit did not identify any issues relating to untimely acquittal processes.	When City <i>Protocol – Use of Corporate Credit Cards</i> is next being reviewed consideration will be given to including timelines for acquittal processes.
(e) ensure senior management periodically reviews credit card use, to confirm compliance with policies and to identify any abnormal trends. The results of these reviews should be documented and retained.	Every corporate credit card is subject to independent review and approval by a senior officer. The Chief Executive Officer's credit card expenditure is reviewed and approved by the Director Corporate Services and also presented to the Audit and Risk Committee. Corporate credit cards are also subject to independent internal audit, the most recent audit reports being 13 April 2016 for the year 2014-15 and 12 March 2018 for the year 2016-17.	Not applicable.

Reporting of Credit Card Expenditure to Council

The Auditor General's Report noted that local governments interpreted regulation 13 of the *Local Government (Financial Management) Regulations 1996* inconsistently and reporting to Council on credit card expenditure was inconsistent as:

- half the local governments reported payment of the outstanding credit card balance
- the others reported individual purchases made on the credit card.

The City's interpretation is that Regulation 13 requires that all payments from the Municipal and Trust Funds paid under delegated authority by the Chief Executive Officer must show relevant details to identify the transaction. The City's practice has been to not recognise credit card transactions as payments from the Municipal Fund until the credit card reimbursement is paid from the Municipal Fund. A similar practice applies in relation to reimbursement of petty cash advances. In both cases individual transactions must be appropriately authorised and approved.

The Auditor General's Report does not contain a specific recommendation on this issue.

Legislation / Strategic Community Plan / policy implications

Legislation

Regulation 11(1) of the *Local Government (Financial Management) Regulations 1996* requires a local government to develop procedures for the authorisation and payment of accounts to ensure that there is effective security for, and properly authorised use of credit cards.

Local Government Amendment (Auditing) Act 2017.
Auditor General Act 2006.

Strategic Plan Community

Key theme Financial Sustainability.

Objective Effective management.

Strategic initiative Not applicable.

Policy Not applicable.

Risk management considerations

Without proper controls in place corporate credit cards can be open to misuse or abuse.

Financial / budget implications

Expenditures paid for by the corporate credit cards are incurred under the approved budget.

Regional significance

Not applicable.

Sustainability implications

By ensuring that expenditure is incurred in accordance with procedures and within budget parameters, financial viability and sustainability is maintained.

Consultation

Simple Majority.

COMMENT

The internal audit concluded that the use of the City's corporate credit cards is in compliance with the *Protocol: Use of Corporate Credit Cards*. An assessment undertaken by the City against the recommendations made by the Auditor General following his review of the use of corporate credit cards within local government did not identify any areas of weakness.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Jones, SECONDED Cr McLean that the Audit and Risk Committee NOTES the results of the internal audit of the controls over City's corporate credit cards and the Western Australian Auditor General's audit of the controls over local government corporate credit cards.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Appendix 3 refers

To access this attachment on electronic document, click here: [Attach3agnAUDIT180807.pdf](#)

ITEM 5 HALF YEARLY REPORT - CONTRACT EXTENSIONS – 1 JANUARY TO 30 JUNE 2018

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	07032, 101515
ATTACHMENT	Attachment 1 Contract Expenditure Report
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit and Risk Committee to note the details of contracts extended by the Chief Executive Officer between 1 January 2018 to 30 June 2018.

EXECUTIVE SUMMARY

The schedule of contracts extended by the Chief Executive Officer during the period 1 January 2018 to 30 June 2018 is provided in Attachment 1.

It is recommended that the Audit and Risk Committee NOTES the contracts extended by the Chief Executive Officer during the period 1 January 2018 to 30 June 2018, forming Attachment 1 to this Report.

BACKGROUND

At its meeting held on 1 November 2005 (Item CJ231-11/05 refers), Council resolved that a half-yearly report be prepared for the (former) Audit Committee detailing contracts that were originally approved by Council and have subsequently been extended by the Chief Executive Officer.

DETAILS

Council has delegated to the Chief Executive Officer the authority to approve all contract extensions on tenders approved by Council subject to a report to the Audit and Risk Committee being prepared on a half-yearly basis providing details of those contracts extended.

During the period 1 January 2018 to 30 June 2018 one contract was extended.

Issues and options considered

The option to extend the contracts by the Chief Executive Officer is required to maintain continuity of the applicable services to the City.

Legislation / Strategic Community Plan / policy implications**Legislation**

The City's legal advice is that under section 5.41(d) of the *Local Government Act 1995* the Chief Executive Officer may be delegated the power to extend a contract – provided the Chief Executive Officer does not extend the contract beyond the "total term of the Contract" specified by the Council in the resolution.

Strategic Community Plan**Key theme**

Governance and Leadership.

Objective

Corporate capacity.

Strategic initiative

Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.

Policy

Not applicable.

Risk management considerations

The delegated authority to extend contracts is limited to the original terms and conditions approved by resolution of Council when the tender was first awarded.

Financial/budget implications

In accordance with each individual contract and approved budget limits.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

This report provides the Audit and Risk Committee with details of contracts originally approved by Council or by the Chief Executive Officer under delegated authority, which have subsequently been extended by the Chief Executive Officer during the period from 1 January 2018 to 30 June 2018.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Jones, **SECONDED** Cr May that the Audit and Risk Committee **NOTES** the contracts extended by the Chief Executive Officer during the period 1 January 2018 to 30 June 2018, forming Attachment 1 to this Report.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Appendix 4 refers

To access this attachment on electronic document, click here: [Attach4agnAUDIT180807.pdf](#)

ITEM 6 HALF YEARLY REPORT – WRITE-OFF MONIES – 1 JANUARY TO 30 JUNE 2018

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	07032, 101515
ATTACHMENTS	Nil
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit and Risk Committee to note the amounts of monies written-off under delegated authority.

EXECUTIVE SUMMARY

The total amount written off under delegated authority during the six months ended 30 June 2018 was \$8,837.27. This amount mainly consisted of 6,448 small amounts of unpaid rates below the \$100 reportable limit totalling \$6,845.96.

The total amount includes an item of illegal dumping removal charges of \$1,096.25 written off on the recommendation of the City's debt collection agency.

It is therefore recommended that the Audit and Risk Committee RECEIVES the report of amounts written off under delegated authority for the period 1 January to 30 June 2018.

BACKGROUND

Section 6.12(1)(c) of the *Local Government Act 1995* gives the Council the power to write-off any amount of money owing to the City.

At its meeting held on 6 June 2006 (CJ079-06/06 refers), Council approved to delegate to the CEO the authority to write-off monies owed to the City, subject to a report being provided to the Audit and Risk Committee on a six-monthly basis on the exercise of this delegation for amounts between \$100 and \$20,000. The CEO under section 5.44 has delegated his authority to nominated employees, up to the limits provided in the instrument of delegation.

DETAILS

During the six months ended 30 June 2018 a total amount of \$8,837.27 was written-off as unrecoverable. This amount included the following:

- 6,448 items of small rates balances that are below the reportable limit, totalling \$6,845.96, representing in the main rounding decimals or minor penalty interest charges for a few days overdue payment where ratepayers did not pay the penalty or the full penalty and the cost of collection was, for all practical purposes, proving to be uneconomical.
- Two items of legal fees related to rates recovery totalling \$391.42, being court costs written off as agreed with the ratepayers on reaching a settlement of their dues.

The following table provides the details of four reportable amounts written off during the six-month period.

Item	Date of Invoice	Debtor's Name	Nature of Debt	Amount \$
1	14/12/2015	Christopher D Labriola	Illegal dumping removal charges	1,096.25
2	31/08/2017	Dylan Catalfama	CLC soccer team fee arrears	123.64
3	31/08/2017	Steven Mastroianni	CLC basketball team fee arrears	256.36
4	31/08/2017	Eddy Goddard	CLC Futsal team fee arrears	123.64
			Total	1,599.89

- Item 1 was for removal of illegal dumping at 90 Coolibah Drive, Greenwood, WA 6024. Since the follow up actions by City staff for the overdue amount proved unsuccessful, the debt was referred to the debt collection agency. All efforts to trace the debtor including field calls to the address provided proved unsuccessful. The debt being uneconomical for any further action, it was recommended for write-off.
- Items 2 to 4 related to arrears of fees due from sporting teams at Craigie Leisure Centre. Follow up actions by City staff to recover the amounts proved unsuccessful. Initiating any further debt recovery actions on these debts would be uneconomical and the debts were recommended for write off.

Issues and options considered

Not applicable.

Legislation / Strategic Community Plan / policy implications**Legislation**

Section 6.12(1)(c) of the *Local Government Act 1995*.
 Section 5.42 of the *Local Government Act 1995*.
 Section 5.44 of the *Local Government Act 1995*.

Strategic Community Plan

Key theme	Financial Sustainability.
Objective	Effective management.
Strategic initiative	Not applicable.
Policy	Not applicable.

Risk management considerations

The amounts written-off are immaterial in value and are either unrecoverable or uneconomical to recover, none of which represent a noteworthy financial risk to the City.

Financial/budget implications

Account no.	3256.
Budget Item	Bad Debts written-off.
Annual Budget	\$ 14,129
Year to Date Budget	\$ 16,727
Year to Date Actual	\$ 16,727
Year to Date variance	\$ (2,598)

Regional significance

Not applicable.

Sustainability implications

Not applicable.

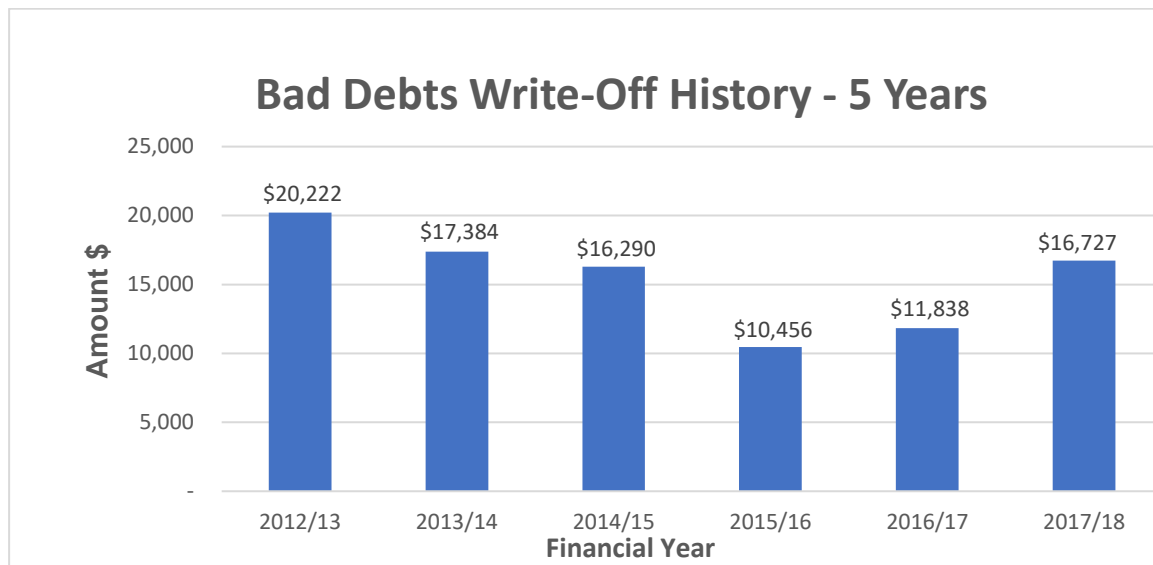
Consultation

Not applicable.

COMMENT

Monies written-off under delegated authority comprised 6,448 small items of unpaid rates totalling \$6,845.96, all of which were below the \$100 reportable limit and an amount of \$391.42 due from two rate payers towards legal costs. The remaining four items totalling \$1,599.89 were all written-off following unsuccessful debt recovery action.

History of bad debts written off over the past five financial years is below:



VOTING REQUIREMENTS

Simple Majority.

MOVED Mayor Jacob, SECONDED Cr May that the Audit and Risk Committee RECEIVES the report of monies written off under delegated authority for the period 1 January to 30 June 2018.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

ITEM 7 AMENDMENTS TO LOCAL GOVERNMENT REGULATIONS

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	12283, 101515
ATTACHMENT	Attachment 1 DLGSCI Guide to Local Government Auditing Reforms Attachment 2 Proposed New Terms of Reference for the Audit and Risk Committee
AUTHORITY / DISCRETION	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.

PURPOSE

For Council to note the recent amendments to the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996* and to adopt a new terms of reference for the Audit and Risk Committee.

EXECUTIVE SUMMARY

Amendments to the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996* were gazetted on 26 June 2018. Changes include revisions to requirements for review of audit systems and financial management systems, changes to asset fair value requirements and changes to the responsibilities of audit committees including recognising that audits are now to be undertaken by the Office of the Auditor General of Western Australia.

It is therefore recommended that Council:

- 1 *NOTES the latest amendments to the Local Government (Financial Management) Regulations 1996 and the Local Government (Audit) Regulations 1996;*
- 2 *BY AN ABSOLUTE MAJORITY ADOPTS the new Terms of Reference for the Audit and Risk Committee as per Attachment 2 to this Report to replace the previous Terms of Reference.*

BACKGROUND

In 2017 changes were made to the *Local Government Act 1995* to give effect to the Office of the Auditor General of Western Australia taking responsibility for financial and supplementary audits of local governments in Western Australia. A review of certain provisions of the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996* was then undertaken to support these changes. The Department of Local Government, Sport and Cultural Industries (DLGSCI) has now advised that amendments to the regulations were effected and gazetted on 26 June 2018.

DETAILS

The *Local Government Act 1995* was amended in 2017 to provide for the Auditor General of Western Australia to take responsibility for financial and related audits of local governments in Western Australia.

Subsequent to this, changes were proposed to the related regulations, namely the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996*. Local governments were afforded the opportunity to provide comment on the proposed changes. The City also participated in this process.

On 26 June 2018, amendments were gazetted as the *Local Government Regulations Amendment (Auditing) Regulations 2018*.

Key amendments to the *Local Government (Audit) Regulations 1996*

Regulation	Description of change	Effective Date
3, 8, & 9	<p><u>Change</u> Minor amendments have been made to tidy up various provisions with updated references to accounting bodies, agencies and department head and updated definitions.</p> <p><u>Implication</u> None.</p>	27/06/18
9A	<p><u>Change</u> A new regulation has been inserted to define “audit document” and the requirement that the CEO must provide these to the Auditor General within 14 days of a request. An audit document includes the <i>Strategic Community Plan</i>, <i>Corporate Business Plan</i> and any other plan, informing strategy or document the Auditor General specifies.</p> <p><u>Implication</u> Documents would normally be provided as a matter of course as part of an audit.</p>	27/06/18
16	<p><u>Change</u> This regulation sets out the functions of the audit committee. The existing regulation has been replaced with new one with the functions of the audit committee expanded to increase involvement in guiding and assisting the local government.</p> <p><u>Implication</u> Previously the functions referred to guiding and assisting the local government in regard to its functions under Part 7 Audit, this now also includes Part 6 Financial Management. Previously referred to reviewing a report provided to it by the CEO into a review of risk management, internal control and legislative compliance.</p>	27/06/18

Regulation	Description of change	Effective Date
	This now also includes guiding and assisting the CEO in regard to that review and also now extends to the review of financial management systems and procedures required to be undertaken by the CEO (under the <i>Local Government (Financial Management) Regulations</i>). The functions now also include a provision that the committee support the auditor to conduct the audit and oversee the implementation of any actions required.	
17(2)	<p><u>Change</u> The review by the CEO of risk management, internal control and legislative compliance amended from at least once every two calendar years to not less than once in every three financial years.</p> <p><u>Implication</u> None, will now align with a similar change to the review of financial management systems and procedures required to be undertaken by the CEO (under the <i>Local Government (Financial Management) Regulations</i>).</p>	27/06/18

Key amendments to the *Local Government (Financial Management) Regulations 1996*

Regulation	Description of change	Effective Date
5(2)(c)	<p><u>Change</u> The requirement for the CEO to undertake a review of the financial management systems and procedures at least once every four financial years changed to at least once every three financial years.</p> <p><u>Implication</u> None, will now align with a similar change to the review of risk management, internal control and legislative compliance required to be undertaken by the CEO (under the <i>Local Government (Audit) Regulations</i>).</p>	27/06/18
17A	<p><u>Change</u> Regulation relates to assets, valuation of for financial reports. A new definition of carrying amount has been inserted. The requirement to revalue classes of assets according to the specified schedule every three years has been amended to allow local governments to revalue any asset whenever fair value may be materially different from carrying value. The new regulation also permits revaluation of an asset to occur up to five years after its last valuation. There is also a new provision that explicitly excludes from consideration as an asset, any asset with a value less than \$5,000 on the date of acquisition.</p> <p><u>Implication</u> None, these changes largely accord with current City practice.</p>	01/07/18

Regulation	Description of change	Effective Date
17B	<p><u>Change</u> A new regulation inserted that requires the CEO to take all reasonable steps to safeguard assets that are below the \$5,000 threshold (referred to in regulation 17A) or are otherwise portable or attractive.</p> <p><u>Implication</u> The City will review current controls over portable and attractive assets under \$5,000.</p>	01/07/18

The DLGSCI has published a *Guide to Local Government Audit Reforms* which provides more details of the amendments passed. This is included as Attachment 1.

Audit and Risk Committee Terms of Reference

The current terms of reference of the Audit and Risk Committee were set prior to the legislative changes described above. As a result of the changes there are elements of the terms of reference that no longer apply and as well new requirements for the role of the Audit and Risk Committee that are currently not reflected.

The current terms of reference are as follows:

Terms of Reference

The role of the Audit and Risk Committee is to provide guidance and assistance to Council as to:

- *the carrying out of functions in relation to audits under the Local Government Act 1995*
- *the development of a process used to select and appoint a person to be the City's auditor*
- *matters to be audited and the scope of audits*
- *the carrying out of functions relating to other audits and other matters related to financial management*
- *the review, the appropriateness and effectiveness of the City's systems and procedures in relation to:*
 - *risk management*
 - *internal control*
 - *legislative compliance*
 - *internal and external audit reporting.*

The following at least needs to change:

- The second dot point – the City no longer appoints the Auditor.
- The third dot point – the City no longer has control to set the scope of the audit.
- The fourth dot point – there are additional responsibilities.

It is proposed that a new set of Terms of Reference be considered to replace the existing. A draft is as at Attachment 2. The proposed Terms of Reference address the key requirements of the legislation in parts one to four and the City's internal requirements in part five.

Legislation / Strategic Community Plan / policy implications

Legislation *Local Government (Financial Management) Regulations 1996.*
Local Government (Audit) Regulations 1996.

Strategic Community Plan

Key theme Not applicable.

Objective Not applicable.

Strategic initiative Not applicable.

Policy Not applicable.

Risk management considerations

The changes to the *Local Government (Audit) Regulations 1996* and the *Local Government (Financial Management) Regulations 1996* as far as they pertain to risk are intended to assist in mitigating risk and not add to it.

There is a minor risk in terms of potential non-compliance with the regulations however there are few new requirements, they are mostly changes to existing requirements.

Financial / budget implications

The changes to asset revaluation requirements to allow up to five years between compulsory valuations may result in a reduction in costs, over the long term, that the City incurs on the use of third parties for valuations and peer reviews of various asset classes.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

Not applicable.

COMMENT

The City will be required to comply with the amended regulations from the effective date stipulated for each change. Changes to asset revaluation requirements will not be applicable for the 2017-18 financial year.

The proposed new Terms of Reference for the Audit and Risk Committee will ensure the Committee is fulfilling its statutory obligations as well as meeting the City's own internal requirements.

VOTING REQUIREMENTS

Absolute Majority.

MOVED Cr Dwyer, **SECONDED** Cr McLean that Council:

- 1** **NOTES** the latest amendments to the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996*;
- 2** **BY AN ABSOLUTE MAJORITY ADOPTS** the new Terms of Reference for the Audit and Risk Committee as per Attachment 2 to this Report to replace the previous Terms of Reference.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Appendix 5 refers

To access this attachment on electronic document, click here: [Attach5agnAUDIT180807.pdf](#)

ITEM 8 FINANCIAL RATIOS REPORT FOR THE YEAR ENDED 30 JUNE 2017

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	12283, 101515
ATTACHMENT	Attachment 1 Moore Stephens Financial Ratios Report for the year ended 30 June 2017
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

PURPOSE

For the Audit and Risk Committee to receive the Financial Ratios report from Moore Stephens for the year ended 30 June 2017.

EXECUTIVE SUMMARY

At the Audit and Risk Committee meeting held on 13 November 2017, the City's audited Annual Financial Statements for the year ended 30 June 2017 were presented, along with the auditor's management report. The auditors, Moore Stephens, provided some commentary on the City's financial ratios in the report and advised that a broader financial ratio report comparing the City to other local governments in Western Australia could be provided if required. The Chief Executive Officer agreed to engage Moore Stephens to prepare a report comparing the City to other local governments.

This report is presented for the consideration of the Audit and Risk Committee.

It is therefore recommended that the Audit and Risk Committee RECEIVES the Financial Ratios Report prepared by Moore Stephens.

BACKGROUND

As requested at the Audit and Risk Committee meeting held on 13 November 2017, the City engaged Moore Stephens to prepare a Financial Ratios report covering actual results up to and including the year ended 30 June 2017 and, also, utilising budget information from the budget year ending 30 June 2018.

Apart from the standard comparative analysis, the City also requested Moore Stephens to provide specific comparison to a selected group of local governments.

DETAILS

The City's auditor, Moore Stephens has prepared a Financial Ratios report using financial ratios mandated in the *Local Government (Financial Management) Regulations 1996* to compare local governments in Western Australia. The City engaged Moore Stephens to prepare the report using actual financial results up to and including the year ended 30 June 2017, as well as budget information for the year ending 30 June 2018. In the report, Moore Stephens has used actual financial information from the year ended 30 June 2012 to highlight trends and patterns.

The City also requested Moore Stephens to provide additional comparative analysis of actual ratios to the following selected local governments (referred to hereafter as "the Six"):

- City of Gosnells.
- City of Melville.
- City of Perth.
- City of Stirling.
- City of Swan.
- City of Wanneroo.

The report also includes comparative analysis of financial ratios to these six local governments using 2018-19 budget information.

Issues and options considered

The report applies the Department of Local Government, Sport and Cultural Industries' *Operational Guideline No. 18 - Financial Ratios* in considering the City's statutory financial ratios. The guideline defines standards for ratios, as follows:

- ratio below standard
- ratio within a basic standard or meets standard
- ratio meets in intermediate standard or ratio improving
- ratio above standard or meets an advanced standard.

Not all local governments had financial information available for the year ended 30 June 2017, at the time the report was prepared.

Appendix A of the report provides definitions for each ratio.

A comparison of the City's ratios for the year ended 30 June 2017 across the spectrum of local governments included in the report highlights the following:

Current ratio

Measures the extent to which current (short-term) assets are available to meet current (short term) liabilities, after taking into account cash holdings restricted for specific purpose reserves.

The City's ratio is slightly below standard, with the trend being relatively stable over five years. As the current ratio is a snapshot in time at 30 June, a ratio below one does not automatically imply liquidity concerns, particularly since the local government trajectory of liquidity rises just after rates notices are issued and then progressively declines towards 30 June where it is close to its lowest point. Comparable results can be observed in other local governments such as City of Wanneroo.

In general, the current ratio does depend on the extent to which cash is restricted for specific purpose reserves. A significant proportion of the City's cash equivalents is held in reserve for specific purposes.

Debt Service Cover ratio

Measures the extent to which cash operating surplus (before interest and depreciation costs) is available to meet debt repayment obligations.

The City's ratio meets the advanced standard, as do most other local governments. Very few fall below the advanced standard, such as City of Perth which achieves the basic standard and City of Gosnells which is below standard. City of Stirling does not feature in this ratio as it holds no borrowings.

Operating Surplus ratio

Measures the operating surplus (deficit) as a percentage of own source operating revenue (such as revenue excluding grants).

The City has run an operating deficit for a number of years, reflecting the reality that operating revenues have not grown in line with operating expenses. This is compounded by the effect of increased depreciation levels in the past five years, as a result of the requirement to report assets at fair value. A number of initiatives to address the operating deficit have been progressed in the 2018-19 Budget, with a strategy outlined in the *20 Year Strategic Financial Plan* to move to an operating surplus position in the medium term. There are a number of other local governments, such as Cities of Canning, Gosnells, Rockingham and Subiaco which also report operating deficits. Most of the other large local governments, such as the Cities of Wanneroo, Stirling and Melville meet either the basic or advanced standard. It may be noted that most of these generate significantly higher revenue from rates compared to the City of Joondalup.

The normal distribution curve for the operating surplus ratio (page 19) shows that the City is close to the median across the spectrum of local governments, suggesting that the City's operating result is comparable to the majority of local governments included in the report, rather than an outlier.

The requirement for this ratio to look at own source operating revenue does tend to skew the result for local governments that derive a significant part of operating revenue from government grants.

Own Source Revenue Coverage ratio

Measures the extent to which own source revenue (rates, fees and charges, non-grant revenue) covers operating expenses.

The City meets the advanced standard for this ratio and is also well above the state average. Most other local governments have achieved either an intermediate or advanced standard.

Asset Sustainability ratio

Measures the extent to which assets are replaced as they approach the end of their useful lives.

The City is below standard on this ratio. However, the relatively younger age of the City's assets means that renewal and replacement is not required to the same extent as an older asset base, while depreciation remains relatively high due to fair value asset accounting. Some other local governments, such as the Cities of Wanneroo, Gosnells and Perth also report ratios below standard. City of Stirling reports a significantly high ratio meaning that renewal and replacement expenditure is not in line with depreciation.

Asset Consumption ratio

Measures the ageing of the asset base.

The City meets the intermediate standard, reflecting the relatively lower age of the City's assets. Most other local governments report results at this level, except for a few such as the Cities of Perth and Swan that meet the basic standard.

Asset Renewal Funding ratio

Measures planned asset renewal to support required service levels.

The City is below standard on this, similar to several other local governments. The lower level of asset renewals complements the result on the Asset Sustainability ratio, reflecting the relatively lower age and reasonably good condition of the City's assets. Some other local governments, including the City of Wanneroo, report a similar ratio.

The report also includes additional ratio comparison to selected local governments using 2017-18 Budget data, subject to availability. The results are comparable to the actuals for the year ended 30 June 2017.

Legislation / Strategic Community Plan / policy implications

Legislation Not applicable.

Strategic Community Plan

Key theme Financial Sustainability.

Objective Effective management.

Strategic initiative Not applicable.

Policy Not applicable.

Risk management considerations

Not applicable.

Financial / budget implications

Not applicable.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

The attached report was prepared by Moore Stephens, the City's auditor for the year ended 30 June 2017.

COMMENT

The Financial Ratios Report provides insight into the City's financial performance and position in relation to other local governments. The ongoing operating deficit requires monitoring and has been addressed in the 2018-19 budget process as well as the *20 Year Strategic Financial Plan*.

VOTING REQUIREMENTS

Simple Majority.

MOVED Cr Dwyer, SECONDED Cr McLean that the Audit and Risk Committee RECEIVES the Financial Ratios Report prepared by Moore Stephens.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Appendix 6 refers

To access this attachment on electronic document, click here: [Attach6agnAUDIT180807.pdf](#)

Disclosures of interest affecting impartiality

Name/Position	Cr Tom McLean, JP.
Item No./Subject	Item 9 - Confidential - Appointment of External Member to Audit and Risk Committee.
Nature of interest	Interest that may affect impartiality.
Extent of Interest	One of the applicants is known to Cr McLean.

Name/Position	Cr Christine Hamilton-Prime.
Item No./Subject	Item 9 - Confidential - Appointment of External Member to Audit and Risk Committee.
Nature of interest	Interest that may affect impartiality.
Extent of Interest	One of the applicants is known to Cr Hamilton-Prime.

ITEM 9 **CONFIDENTIAL - APPOINTMENT OF EXTERNAL MEMBER TO AUDIT AND RISK COMMITTEE**

WARD All

RESPONSIBLE DIRECTOR Mr Garry Hunt
Office of the CEO

FILE NUMBER 107022, 101515

ATTACHMENTS Attachment 1 Confidential Expression of Interest No. 1
Attachment 2 Confidential Expression of Interest No. 2
Attachment 3 Confidential Expression of Interest No. 3
Attachment 4 Confidential Expression of Interest No. 4

(Please Note: The Report and Attachments are confidential and will appear in the official Minute Book only)

AUTHORITY / DISCRETION Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.

This report is confidential in accordance with Section 5.23(2)(b) of the *Local Government Act 1995*, which also permits the meeting to be closed to the public for business relating to the following:

- *the personal affairs of any person.*

A full report was provided to Elected Members under separate cover. The report is not for publication.

OFFICER'S RECOMMENDATION

That Council AUTHORISES the Chief Executive Officer, Presiding Member and one other member of the Audit and Risk Committee to interview the preferred candidate, with a further report to be submitted to Council for formal appointment.

MOVED Cr Jones, SECONDED Mayor Jacob that Council AUTHORISES the Chief Executive Officer, the Presiding Member of the Audit and Risk Committee and Mayor Jacob to interview the preferred candidate as detailed in Attachment 3 to this Report and the second preferred candidate as detailed in Attachment 4 to this Report, with a further report to be submitted to Council for formal appointment.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Disclosure of interest affecting impartiality

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 10 - Confidential - Chief Executive Officer's Credit Card Expenditure (January – March 2018).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

ITEM 10 CONFIDENTIAL - CHIEF EXECUTIVE OFFICER'S CREDIT CARD EXPENDITURE (JANUARY – MARCH 2018)

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	09882, 101515
ATTACHMENT	Attachment 1 Chief Executive Officer's Credit Card Expenditure – Quarter Ended 31 March 2018 (Please Note: The Report and Attachment are confidential and will appear in the official Minute Book only)
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

This report is confidential in accordance with Section 5.23(2)(a) of the *Local Government Act 1995*, which also permits the meeting to be closed to the public for business relating to the following:

- *a matter affecting an employee.*

A full report was provided to Elected Members under separate cover. The report is not for publication.

MOVED Cr Logan, SECONDED Cr McLean that the Audit and Risk Committee NOTES the report on the corporate credit card usage of the Chief Executive Officer for the quarter ended 31 March 2018.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

Disclosure of interest affecting impartiality

Name/Position	Mr Garry Hunt, Chief Executive Officer.
Item No./Subject	Item 11 - Confidential - Chief Executive Officer's Credit Card Expenditure (April - June 2018).
Nature of interest	Interest that may affect impartiality.
Extent of Interest	The Chief Executive Officer is the card holder.

ITEM 11 CONFIDENTIAL - CHIEF EXECUTIVE OFFICER'S CREDIT CARD EXPENDITURE (APRIL – JUNE 2018)

WARD	All
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services
FILE NUMBER	09882, 101515
ATTACHMENT	Attachment 1 Chief Executive Officer's Credit Card Expenditure – Quarter Ended 30 June 2018 (Please Note: The Report and Attachment are confidential and will appear in the official Minute Book only)
AUTHORITY / DISCRETION	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

This report is confidential in accordance with Section 5.23(2)(a) of the *Local Government Act 1995*, which also permits the meeting to be closed to the public for business relating to the following:

- *a matter affecting an employee.*

A full report was provided to Elected Members under separate cover. The report is not for publication.

MOVED Cr Dwyer, **SECONDED** Mayor Jacob that the Audit and Risk Committee **NOTES** the report on the corporate credit card usage of the Chief Executive Officer for the quarter ended 30 June 2018.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr Hamilton-Prime, Mayor Jacob, Crs Dwyer, Jones, Logan, McLean and May.

URGENT BUSINESS

Nil.

MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil.

REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION

Nil.

CLOSURE

There being no further business, the Presiding Member declared the meeting closed at 6.53pm; the following Committee Members being present at that time:

Cr Christine Hamilton-Prime
Mayor Hon. Albert Jacob, JP
Cr Tom McLean, JP
Cr Nige Jones
Cr Christopher May
Cr John Logan
Cr Sophie Dwyer