

# minutes

## Audit and Risk Committee

MEETING HELD ON **TUESDAY 5 MARCH 2019**

**TABLE OF CONTENTS**

| <b>Item No.</b> | <b>Title</b>   | <b>Page No.</b> |
|-----------------|--|-----------------|
|                 | <b>Declaration of Opening</b>  | <b>4</b>        |
|                 | <b>Declarations of Interest</b>  | <b>5</b>        |
|                 | <b>Apologies / Leave of absence</b>  | <b>6</b>        |
|                 | <b>Confirmation of Minutes</b>   | <b>6</b>        |
|                 | <b>Announcements by the Presiding Member without discussion</b>  | <b>6</b>        |
|                 | <b>Identification of matters for which the meeting may be closed to the public</b>   | <b>6</b>        |
|                 | <b>Petitions and deputations</b>   | <b>6</b>        |
|                 | <b>Reports</b>   | <b>7</b>        |
| 1               | 2018 Compliance Audit Return   | 7               |
| 2               | Three Yearly Reviews of Financial Management Systems and Procedures and Risk Management, Internal Control and Legislative Compliance | 10              |
| 3               | Gift and Contributions to Travel Disclosures by Employees and Elected Members  | 15              |
| 4               | Department of Local Government Sport and Cultural Industries – Report of the Inquiry into the Shire of Wiluna                        | 23              |
| 5               | Western Australian Auditor General Reports during 2018   | 28              |
| 6               | Corruption and Crime Commission Reports  | 36              |
| 7               | Setting 2019 Meeting Date – Audit and Risk Committee   | 45              |
| 8               | Half Yearly Report – Write-off Monies – 1 July to 31 December 2018   | 49              |
| 9               | 2017-18 Annual Financial Audit – Management Letters and Audit Concluding Memorandum  | 52              |
| 10              | Review of Asset Depreciation in the City's Financial Records   | 57              |
| 11              | Significant Changes to Accounting Standards affecting the City   | 64              |
| 12              | Cyber-Security Testing   | 71              |
| 13              | Confidential – Chief Executive Officer's Credit Card Expenditure (July – September 2018)   | 78              |
| 14              | Confidential – Chief Executive Officer's Credit Card Expenditure (October – December 2018)   | 79              |

|  |           |
|--|-----------|
| <b>Urgent Business</b>                                 | <b>80</b> |
| <b>Motions of which previous notice has been given</b> | <b>80</b> |
| <b>Requests for Reports for future consideration</b>   | <b>80</b> |
| <b>Closure</b>   | <b>80</b> |

## CITY OF JOONDALUP

### MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD IN CONFERENCE ROOM 3, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY 5 MARCH 2019.

#### ATTENDANCE

##### Committee Members

|                             |  |                                     |
|-----------------------------|--|-------------------------------------|
| Cr Christine Hamilton-Prime | <i>Presiding Member</i>                  |                                     |
| Mayor Hon. Albert Jacob, JP |  | <i>from 5.55pm</i>                  |
| Cr Tom McLean, JP           |  |                                     |
| Cr Nige Jones               |  | <i>from 5.48pm</i>                  |
| Cr Christopher May          |  | <i>from 5.59pm</i>                  |
| Cr John Chester             | <i>Deputising for Cr John Logan</i>      |                                     |
| Cr Russell Poliwka          | <i>Deputising for Cr Christopher May</i> | <i>from 5.48pm to 5.59pm</i>        |
| Mr Richard Thomas           | <i>External Member</i>                   | <i>absent from 5.52pm to 5.55pm</i> |

##### Officers

|                       |                                     |
|-----------------------|-------------------------------------|
| Mr Garry Hunt         | Chief Executive Officer             |
| Mr Mike Tidy          | Director Corporate Services         |
| Mr Brad Silence       | Manager Governance                  |
| Ms Christine Robinson | Manager Executive and Risk Services |
| Mr Roney Oommen       | Manager Financial Services          |
| Mr David Murnain      | Manager Information Technology      |
| Mr Peter McGuckin     | Internal Auditor                    |
| Mrs Deborah Gouges    | Governance Officer                  |

##### Observer

|                    |                    |
|--------------------|--------------------|
| Cr Russell Poliwka | <i>from 5.59pm</i> |
|--------------------|--------------------|

#### DECLARATION OF OPENING

The Presiding Member declared the meeting open at 5.45pm.

## DECLARATIONS OF INTEREST

### Disclosures of Financial / Proximity Interest

A declaration under this section requires that the nature of the interest must be disclosed. Consequently a member who has made a declaration must not preside, participate in, or be present during any discussion or decision-making procedure relating to the matter the subject of the declaration. An employee is required to disclose their financial interest and if required to do so by the Council must disclose the extent of the interest. Employees are required to disclose their financial interests where they are required to present verbal or written reports to the Council. Employees are able to continue to provide advice to the Council in the decision making process if they have disclosed their interest.

|                           |  |
|---------------------------|--|
| <b>Name/Position</b>      | <b>Mr Richard Thomas.</b>  |
| <b>Item No./Subject</b>   | Item 2 - Three Yearly Reviews of Financial Management Systems and Procedures and Risk Management, Internal Control and Legislative Compliance. |
| <b>Nature of interest</b> | Financial Interest.  |
| <b>Extent of Interest</b> | Mr Thomas receives entitlements under a retirement deed from Deloitte.   |

### 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.

|                           |   |
|---------------------------|---|
| <b>Name/Position</b>      | <b>Mr Garry Hunt, Chief Executive Officer.</b>  |
| <b>Item No./Subject</b>   | Item 13 - Confidential - Chief Executive Officer's Credit Card Expenditure – July - September 2018. |
| <b>Nature of interest</b> | Interest that may affect impartiality.  |
| <b>Extent of Interest</b> | The Chief Executive Officer is the card holder.   |

|                           |   |
|---------------------------|---|
| <b>Name/Position</b>      | <b>Mr Garry Hunt, Chief Executive Officer.</b>  |
| <b>Item No./Subject</b>   | Item 14 - Confidential - Chief Executive Officer's Credit Card Expenditure - October - December 2018. |
| <b>Nature of interest</b> | Interest that may affect impartiality.  |
| <b>Extent of Interest</b> | The Chief Executive Officer is the card holder.   |

*Cr Jones and Cr Poliwka entered the Room at 5.48pm.*

## **APOLOGIES / LEAVE OF ABSENCE**

### **Apologies**

Cr Sophie Dwyer.  
Cr John Logan.

### **Leave of Absence previously approved**

Cr Nige Jones            19 to 24 March 2019 inclusive;  
Cr Mike Norman        29 March to 5 April 2019 inclusive;  
Cr Nige Jones            5 to 10 May 2019 inclusive.

## **CONFIRMATION OF MINUTES**

MINUTES OF THE AUDIT AND RISK COMMITTEE MEETINGS HELD ON 7 AUGUST 2018, AND 6 NOVEMBER 2018 AND SPECIAL AUDIT AND RISK COMMITTEE MEETING HELD ON 13 NOVEMBER 2018

**MOVED Cr McLean SECONDED Cr Jones that the following minutes of the meetings of the Audit and Risk Committee be confirmed as a true and correct record:**

- 1        Ordinary meeting of the Audit and Risk Committee held on 7 August 2018;**
- 2        Ordinary meeting of the Audit and Risk Committee held on 6 November 2018;**
- 3        Special Audit and Risk Committee held on 13 November 2018.**

**The Motion was Put and**

**CARRIED (6/0)**

**In favour of the Motion:** Crs Hamilton-Prime, Chester, Jones, McLean, Poliwka and Mr Thomas.

## **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.

**REPORTS****ITEM 1                    2018 COMPLIANCE AUDIT RETURN**

---

|                               |   |
|-------------------------------|---|
| <b>WARD</b>                   | All   |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Garry Hunt<br>Office of the CEO  |
| <b>FILE NUMBER</b>            | 32481, 09492, 101515  |
| <b>ATTACHMENT</b>             | Attachment 1      2018 Compliance Audit Return  |
| <b>AUTHORITY / DISCRETION</b> | Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets. |

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**PURPOSE**

For Council to adopt the City's 2018 Compliance Audit Return (the Return) prior to it being submitted to the Department of Local Government, Sport and Cultural Industries (DLGSC).

**EXECUTIVE SUMMARY**

The DLGSC Compliance Audit Return for the period 1 January 2018 to 31 December 2018 has been completed and is required to be adopted by Council before being submitted to the DLGSC by 31 March 2019.

*It is therefore recommended that Council:*

- 1      ADOPTS the completed 2018 Local Government Compliance Audit Return for the period 1 January 2018 to 31 December 2018 forming Attachment 1 to this Report;*
- 2      In accordance with Regulation 15 of the Local Government (Audit) Regulations 1996, SUBMITS the completed Compliance Audit Return as detailed in Part 1 above, to the Department of Local Government, Sport and Cultural Industries.*

**BACKGROUND**

Regulation 14 of the *Local Government (Audit) Regulations 1996* requires a local government to carry out a compliance audit for the period 1 January to 31 December in each year. After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister. The Audit and Risk Committee is to review the Return before it is presented to Council for adoption.

Regulation 15 requires the Return to be certified by the Mayor and the Chief Executive Officer before being submitted to the DLGSC, along with the relevant section of the minutes, by 31 March next following the period to which the Return relates.

The 2018 Return was made available to local government authorities by the DLGSC via its centralised portal called Smart Hub. The 2018 Return is similar to previous years and focuses on high risk areas of compliance and statutory reporting as prescribed in Regulation 13 of the *Local Government (Audit) Regulations 1996*.

The Return is similar to the previous year, with the exception of the category of elections not being applicable for 2018 and the addition of two new questions, 15 and 16 under the finance category.

## DETAILS

The 2018 Return contains the following compliance categories:

- Commercial Enterprises by Local Governments.
- Delegation of Power / Duty.
- Disclosure of Interest.
- Disposal of Property.
- Finance.
- Integrated Planning and Reporting.
- Local Government Employees.
- Official Conduct.
- Tenders for Providing Goods and Services.

The relevant managers were required to complete the responses to the questions which were approved by their Director before being forwarded to the Internal Auditor for review and input via the Smart Hub on the DLGSC website. The Return has been completed and is now required to be adopted by Council before being finalised and submitted to the DLGSC by 31 March 2019.

It should be noted that the Return indicates one incident of non-compliance at question 7 under the category Disclosure of Interest. One employee did not lodge their annual return by 31 August 2018 as they were on extended personal leave throughout the Return period and did not return to work.

## Legislation / Strategic Community Plan / policy implications

|                                 |  |
|---------------------------------|--|
| <b>Legislation</b>              | Regulations 14 and 15 of the <i>Local Government (Audit) Regulations 1996</i> .                              |
| <b>Strategic Community Plan</b> |  |
| <b>Key theme</b>                | Governance and Leadership.   |
| <b>Objective</b>                | Corporate capacity.  |
| <b>Strategic initiative</b>     | Demonstrate accountability through robust reporting that is relevant and easily accessible by the community. |
| <b>Policy</b>                   | Not applicable.  |

**Risk management considerations**

The risk associated with Council failing to adopt the 2018 Return would result in non-compliance with the legislative requirements of the *Local Government (Audit) Regulations 1996*.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The responses in the 2018 Return reveal a high level of compliance by the City with legislation.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr McLean SECONDED Cr Chester that Council:**

- 1 ADOPTS the 2018 Local Government Compliance Audit Return for the period 1 January 2018 to 31 December 2018 forming Attachment 1 to this Report;**
- 2 In accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996*, SUBMITS the completed 2017 Compliance Audit Return as detailed in Part 1 above to the Department of Local Government, Sport and Cultural Industries.**

**The Motion was Put and**

**CARRIED (6/0)**

**In favour of the Motion:** Crs Hamilton-Prime, Chester, Jones, McLean, Poliwka and Mr Thomas.

*Appendix 1 refers*

*To access this attachment on electronic document, click here: [Attach1minAUDIT190305.pdf](#)*

**Disclosure of Financial Interest**

|                           |  |
|---------------------------|--|
| <b>Name/Position</b>      | <b>Mr Richard Thomas.</b>  |
| <b>Item No./Subject</b>   | Item 2 - Three Yearly Reviews of Financial Management Systems and Procedures and Risk Management, Internal Control and Legislative Compliance. |
| <b>Nature of interest</b> | Financial Interest.  |
| <b>Extent of Interest</b> | Mr Thomas receives entitlements under a retirement deed from Deloitte.   |

*Mr Thomas left the Room at 5.52pm.*

## **ITEM 2                    THREE YEARLY REVIEWS OF FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES AND RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE**

|                               |  |
|-------------------------------|--|
| <b>WARD</b>                   | All  |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Garry Hunt<br>Office of the CEO   |
| <b>FILE NUMBER</b>            | 17871, 10011, 101515   |
| <b>ATTACHMENT</b>             | Nil  |
| <b>AUTHORITY / DISCRETION</b> | 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 progress of the Chief Executive Officer's three yearly review into the appropriateness and effectiveness of:

- financial management systems and procedures
- systems and procedures in relation to risk management, internal control and legislative compliance.

**EXECUTIVE SUMMARY**

The *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer of a local government to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every three financial years) and report to the local government the results of those reviews.

The *Local Government (Audit) Regulations 1996* requires the Chief Executive Officer to review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and legislative compliance not less than once in every three financial years and report to the Audit and Risk Committee the results of that review.

The City's Chief Executive Officer has commenced both these reviews and this report provides details on their progress.

*It is therefore recommended that the Audit and Risk Committee:*

- 1 *NOTES the progress on the Chief Executive Officer's three yearly review into the appropriateness and effectiveness of financial management systems and procedures;*
- 2 *NOTES the progress on the Chief Executive Officer's three yearly review into the appropriateness and effectiveness of systems and procedures in relation to risk management, internal control and legislative compliance.*

## **BACKGROUND**

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* requires that the Chief Executive Officer of a local government is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every three financial years) and report to the local government the results of those reviews.

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the Chief Executive Officer to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:

- (a) risk management
- (b) internal control
- (c) legislative compliance.

The review may relate to any or all of the matters referred to, but each of those matters is to be subject of a review not less than once in every three financial years. The Chief Executive Officer is to report to the Audit and Risk Committee the results of that review.

Previously the review of financial management systems was every four years and the review of risk management, internal control and legislative compliance every two years. The timing of the reviews now being changed to every three years has streamlined the process, as they are both now required in the same year. The previous review of risk management, internal control and legislative compliance was performed by the City, however the City has utilised the services of Deloitte for the current reviews.

## **DETAILS**

The City issued a scope of requirements and requests for quotations to three companies on 17 September 2018 to undertake the Chief Executive Officer's reviews of the appropriateness and effectiveness of the City's:

- financial management systems and procedures
- systems and procedures in relation to risk management, internal control and legislative compliance.

The companies requested to provide quotes were Deloitte, Grant Thornton and RSM. Responses were requested by the close of business on 15 October 2018. Deloitte and RSM provided their proposals and quotations with Grant Thornton not responding to the request.

Following a review of the Deloitte and RSM proposals, the Chief Executive Officer approved the engagement of Deloitte on 2 November 2018 to undertake both of the reviews.

Details of the City's requirements contained in the scope and request for quotations were:

- **Requirement 1 – Review of Financial Management Systems and Procedures**

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* requires that the Chief Executive Officer of a local government is to “undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every three financial years) and report to the local government the results of those reviews”.

The financial management duties of the Chief Executive Officer of a local government are provided for in regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*. They state that efficient systems and procedures are to be established by the CEO of a local government:

- (a) for the proper collection of money owing to the local government
  - (b) for the safe custody and security of all money collected or held by the local government
  - (c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process)
  - (d) to ensure proper accounting for municipal or trust:
    - (i) revenue received or receivable
    - (ii) expenses paid or payable
    - (iii) assets and liabilities
  - (e) to ensure proper authorisation for the incurring of liabilities and the making of payments
  - (f) for the maintenance of payroll, stock control and costing records
  - (g) to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.
- **Requirement 2 – Review of systems and procedures in relation to risk management, internal control and legislative compliance**

Regulation 17 of the *Local Government (Audit) Regulations 1996* states “the Chief Executive Officer to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:

- (a) risk management
- (b) internal control
- (c) legislative compliance.”

The review is to be carried out not less than once in every three financial years and the Chief Executive Officer’ is to report to the Audit and Risk Committee the results of that review.

The Department of Local Government, Sport and Cultural Industries – Operational Guideline Number 9 (Appendix 3) provides further details and information on issues that should be considered for inclusion in the Chief Executive Officer’s review of risk management, internal control and legislative compliance.

### Progress to Date

Deloitte visited the City the week commencing 3 December 2018 to begin the review of the City’s financial management systems and procedures. The site visits and field work, including meetings and interviews with relevant City staff, has been completed by Deloitte. It is expected that a draft report will be received during early March 2019.

Preliminary meetings have taken place between the City and Deloitte regarding the review of internal control, risk management and legislative compliance. Deloitte have been provided with information and documentation, however the full review is yet to commence. It is expected that site visits and testing will commence in early March 2019.

### **Legislation / Strategic Community Plan / Policy implications**

**Legislation** Regulation 5 (2) (c) of the *Local Government (Financial Management) Regulations 1996*.

Regulation 17 of the *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.*

### **Risk management considerations**

The Chief Executive Officer’s reviews allows for systems to be independently tested to determine the effectiveness of internal controls. Improvements will be made to address any risks and weaknesses identified.

**Financial / budget implications**Current financial year impact

|                             |                       |
|-----------------------------|-----------------------|
| <b>Account no.</b>          | 1.210.A2301.3265.0000 |
| <b>Budget Item</b>          | Consultancy.          |
| <b>Budget amount</b>        | \$ 50,000             |
| <b>Amount spent to date</b> | \$ 0                  |
| <b>Proposed cost</b>        | \$ 33,795             |
| <b>Balance</b>              | \$ 33,795             |

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Independent, external consultants were engaged by the Chief Executive Officer to undertake both reviews.

**COMMENT**

The Chief Executive Officer will provide the results of both reviews to the Audit and Risk Committee at its meeting to be held on 6 August 2019 prior to being provided to Council.

**VOTING REQUIREMENTS**

Simple Majority.

*Mayor Jacob entered the Room at 5.55pm.*

**MOVED Cr Jones SECONDED Cr Chester that the Audit and Risk Committee:**

- 1 NOTES the progress on the Chief Executive Officer's three yearly review into the appropriateness and effectiveness of financial management systems and procedures;**
- 2 NOTES the progress on the Chief Executive Officer's three yearly review into the appropriateness and effectiveness of systems and procedures in relation to risk management, internal control and legislative compliance.**

**The Motion was Put and**

**CARRIED (6/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, McLean and Poliwka.

*Mr Thomas entered the Room at 5.55pm.*

### **ITEM 3                    GIFT    AND    CONTRIBUTIONS    TO    TRAVEL DISCLOSURES BY EMPLOYEES AND ELECTED MEMBERS**

|                                 |  |
|---------------------------------|--|
| <b>WARD</b>                     | All  |
| <b>RESPONSIBLE<br/>DIRECTOR</b> | Mr Garry Hunt<br>Office of the CEO   |
| <b>FILE NUMBER</b>              | 106127, 101515   |
| <b>ATTACHMENTS</b>              | Attachment 1    Register of Gift Disclosures (February<br>2018 to January 2019)<br>Attachment 2    Register of Gifts and Contributions to<br>Travel (July 2015 to 31 January 2019) |
| <b>AUTHORITY / DISCRETION</b>   | Information - includes items provided to Council for<br>information purposes only that do not require a decision of<br>Council (that is for 'noting').                             |

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#### **PURPOSE**

For the Audit and Risk Committee to note the information on the City's electronic gift and contributions to travel register and the disclosures made by employees and Elected Members.

#### **EXECUTIVE SUMMARY**

The City has discontinued the use of hard copy gift registers for employees and Elected Members for making gift disclosures. Gift and contributions to travel disclosures are now being made using the electronic system, Attain. This report is to provide the Audit and Risk Committee with information on Attain and all disclosures made by employees and Elected Members from February 2018 to January 2019, as well as the City's Register of Gifts and Contributions to Travel (July 2015 to 31 January 2019) which is published on the City's website.

Since March 2016 the City has been using an electronic system, Attain, for employees to make gift and contributions to travel disclosures. Since March 2018 Elected Members have been required to use Attain for the same purpose. The Attain system enables live monitoring of disclosures to help ensure that gifts accepted are in compliance with relevant legislation and that prohibited gifts are not accepted. Gift and contributions to travel disclosures made by designated employees and Elected Members that are required to be published on the City's website are also identified.

*It is therefore recommended that the Audit and Risk Committee NOTES the information provided in this report on the City's electronic system for making disclosures and the details of gift and contributions to travel disclosures made by employees and Elected Members forming Attachments 1 and 2 to this Report.*

## BACKGROUND

The City's Internal Auditor undertook audits of the City's gift registers for employees and Elected Members to determine if disclosures were being made in compliance with the relevant legislation and the City's *Code of Conduct*. The first audit for the years 2012-13 and 2013-14 reviewed both gift registers and annual returns for employees and Elected Members and a report was presented to the Chief Executive Officer dated 3 July 2015. A follow-up audit on gift disclosures was undertaken for the years 2014-15 and 2015-16 and a report presented to the Chief Executive Officer dated 11 August 2016.

During these audits, the Corruption and Crime Commission (CCC) commenced an investigation on 17 April 2015 to determine whether the City of Perth Lord Mayor Lisa Scaffidi and / or any other public officer had engaged in serious misconduct with respect to Mayor Scaffidi's acceptance and disclosure of gifts and travel contributions.

The CCC's *Report on an Investigation into Acceptance and Disclosure of Gifts and Travel Contributions by the Lord Mayor of the City of Perth* was tabled in State Parliament on 5 October 2015. The CCC formed opinions in the Report of misconduct and serious misconduct relating to Lord Mayor Scaffidi's acceptance of, and failure to disclose, various hospitality packages.

On 26 November 2015 the Director General of the then Department of Local Government and Communities authorised an inquiry in accordance with section 8.3(2) of the *Local Government Act 1995* (the Act) ". . . to inquire into and report on whether the Lord Mayor of the City of Perth, Ms Lisa Scaffidi, complied with Division 6 of Part 5 of the Act and regulations 11 and 12 of the *Local Government (Rules of Conduct) Regulations 2007 (WA)* in relation to:

- (a) each gift received by Ms Scaffidi
- (b) each financial or other contribution that was made to any travel undertaken by Ms Scaffidi, including accommodation incidental to a journey,

*between 1 January 2008 and 12 October 2015 (inclusive of both those dates)."*

The *Report of the Inquiry into the Lord Mayor of the City of Perth Ms Lisa Scaffidi* was published in May 2016. The Report alleged that Lord Mayor Scaffidi breached the Act 45 times by accepting prohibited gifts and failing to properly disclose others between 2008 and 2015. The Report recommended that consideration be given to commencing disciplinary action against Lord Mayor Scaffidi in relation to the allegations; which was subsequently considered by the State Administrative Tribunal. On 24 July 2018 the State Administrative Tribunal handed down its decision (DR 212 of 2016) finding that Lord Mayor Lisa Scaffidi committed 19 serious breaches under the *Local Government Act 1995* for late lodgement of an annual return, failure to disclose gifts and failure to disclose travel contributions.

The CCC's June 2014 *Report on Fraud and Corruption in Procurement in WA Health: Dealing with the Risks*, highlighted weaknesses in WA Health's Gifts Policy and ongoing failures by staff to make appropriate and full declarations. This included gift registers being incomplete, including blank spaces for data that was key information, such as whether the gift giver was in a commercial relationship with WA Health. Data in the gift registers was also unreliable. Several gifts were identified as coming from major pharmaceutical suppliers to WA Health, yet the gift giver was described as not being in a commercial relationship with WA Health.

Prior to the commencement of the CCC investigation into the City of Perth and WA Health, the City had been undertaking periodic reviews of gift and hospitality disclosures made by employees and Elected Members.

## DETAILS

A notifiable gift received by an employee must be recorded in the City's gift register as required by regulation 34B of the *Local Government (Administration) Regulations 1996*. A notifiable gift received by an Elected Member must be recorded in a gift register as required by regulation 12 of the *Local Government (Rules of Conduct) Regulations 2007*. A notifiable gift in relation to an employee and an Elected Member is defined as:

(a) a gift worth between \$50 and \$300:

or

(b) a gift that is one of two or more gifts given by the same person within a period of six months that is in total worth between \$50 and \$300.

Any gift that results in the value exceeding \$300 for either of the above is prohibited and must not be accepted. Where the actual value of a gift is not known a best estimate is acceptable.

Following the internal audits, the City commenced the introduction of an electronic system, Attain, for making disclosures. The system is a live system that allows continual monitoring of gift disclosures by the Internal Auditor and the Manager Executive and Risk Services.

### Audits of Hard Copy Gift Registers

Internal audits were conducted by reviewing the details entered in the hard copy gifts registers by employees and Elected Members for the years 2012-13, 2013-14, 2014-15 and 2015-16.

For the periods under review a total of 311 gift disclosures were made by employees, of which 17 were declined. Elected Members made a total of 186 gift disclosures, of which 95 were declined.

The audits identified a number of issues which were detailed in internal audit reports provided to the Chief Executive Officer.

The main issues identified were as follows:

- Gift registers not being fully completed, such as:
  - nature of relationship to the person offering the gift not being entered on all occasions
  - not declaring if the gift was, or was not, one of two or more gifts given by the same person within a period of six months
  - not declaring if the gift/s were accepted or declined
  - not entering the date that the gift/s were accepted or declined
  - register not signed or dated.
- Details of gifts being entered in the gift register by another employee, the receiver of the gift did not complete or sign the gift register.
- Nature of relationships being entered as 'none' when the gift giver was a City supplier, contractor or stakeholder.
- Potential undervaluing of corporate boxes for events.
- Employees not seeking approval before accepting gifts of hospitality.
- Gift disclosures being made a significant period of time after the gift was accepted.

- Acceptance of prohibited gifts.
- Gifts accepted but not being declared.

#### Electronic System for Declaring Gifts and Contributions to Travel

In March 2016 the City purchased an electronic system called 'Attain' that has been specifically designed for Western Australian local governments to assist in the management of annual returns, primary returns, register of delegated authority, related party disclosures (since September 2017) and gift and contributions to travel disclosures. The main features of the system include the following:

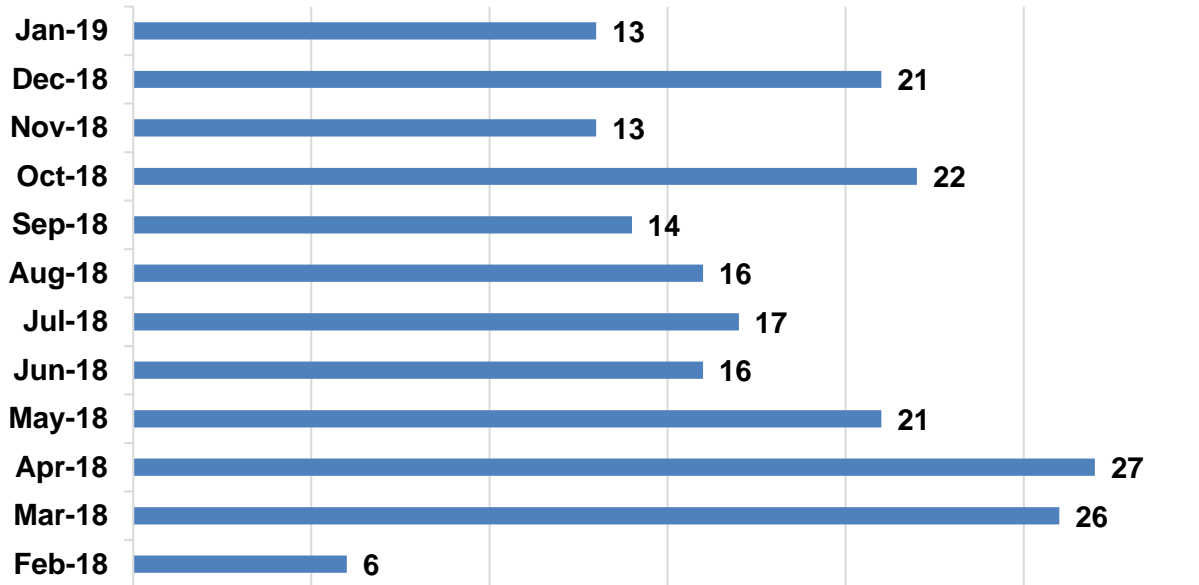
- Gift and contributions to travel disclosures and returns can be completed remotely from any device with internet connection.
- Full audit trail and time stamp.
- Administrative oversight and management.
- Paperless system with automated email reminders, receipts and acknowledgements of all disclosures and returns submitted.
- Quick access to printable and exportable registers.

Other advantages of the system include the following:

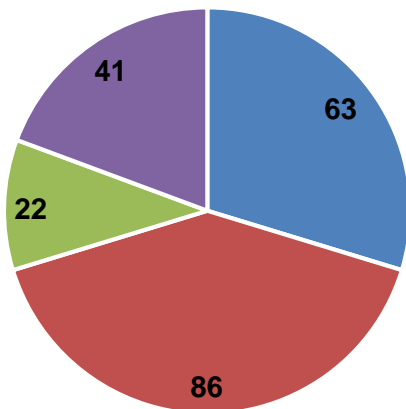
- Prevention of many of the issues identified in the internal audits and previous CCC investigations.
- Capturing dates and gift values which are linked to previous entries providing alerts to a potential prohibited gift.
- Guidance and reference to applicable legislation provided to the person making the disclosure.
- Employees based at various locations are not required to visit the Administration Building in order to make a disclosure.
- Elected Members are not required to visit the Civic Centre in order to make a disclosure.
- Hard copy registers can be damaged, lost, stolen or altered.
- Real time notification of disclosures that need to be transferred to the City's website (as per the changes to the *Local Government Act 1995*).
- Directors and managers are notified of disclosures made by their staff in a timely manner.
- Easy and quick export of data for monitoring and reporting purposes.

The number and types of gift disclosures made by employees and Elected Members in ‘Attain’ for the last 12 months (February 2018 to January 2019) are detailed below.

**Number of Gift Disclosures**



**Types of Gift Disclosures**



■ Notifiable - 30% ■ Gift - 41% ■ Token - 10% ■ Declined - 19%

- **Notifiable** – as per the *Local Government (Administration) Regulations 1996* and *Local Government (Rules of Conduct) Regulations 2007*.
- **Gift** – as per the *Local Government Act 1995*.
- **Token** – valued under disclosable threshold.

### Gifts and Contributions to Travel Disclosures Published on the City's Website

Previously, disclosures of gifts and contributions to travel with a value exceeding \$200, or more than one gift from the same person where the aggregate value is more than \$200, occurred once a year as part of the annual return process. From 4 March 2016 changes to the *Local Government Act 1995* require designated employees and Elected Members to make the disclosure within 10 days from when the gift or contribution was received. The City is also required to publish the disclosures on the City's website. The Internal Auditor and Manager Executive and Risk Services monitor all disclosures to identify those that must be published on the City's website.

#### Current Status

The 'Attain' system is now being used by employees and Elected Members to make gift and contributions to travel disclosures with the hard copy registers being discontinued. All disclosures are continually monitored by the Internal Auditor and the Manager Executive and Risk Services. The electronic system has a number of advantages over hard copy gift registers and has contributed significantly to a reduction in the issues identified during the internal audits.

All gift disclosures made by employees and Elected Members for the last 12 months (February 2018 to January 2019) is included as Attachment 1.

The Register of Gifts and Contributions to Travel published on the City's website as at 31 January 2019 is included as Attachment 2.

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

**Legislation** *Local Government Act 1995.*  
*Local Government (Administration) Regulations 1996.*  
*Local Government (Rules of Conduct) Regulations 2007.*

#### **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.

**Policy** Not applicable.

#### **Risk management considerations**

Non-compliance with legislation and the City's *Code of Conduct* in relation to the disclosure of gifts and hospitality presents a number of risk exposures for employees, Elected Members and the City including:

- breach of legislation and the City's *Code of Conduct*
- external agency investigations including the CCC, the Auditor General and the Department of Local Government, Sport and Cultural Industries

- impartiality in decision-making questioned
- allegations of improper relationships being developed
- reputational damage to individuals and the City.

It is important that regular monitoring of gift disclosures is undertaken in order to reduce risk exposures.

### **Financial / budget implications**

#### Current financial year impact

|                             |   |
|-----------------------------|---|
| <b>Account no.</b>          | Various.  |
| <b>Budget Item</b>          | Computer software subscriptions.<br>Other sundry administration expenses. |
| <b>Budget amount</b>        | \$ 21,400   |
| <b>Amount spent to date</b> | \$ 21,400 (for 2018/19)   |
| <b>Proposed cost</b>        | \$ 21,400   |
| <b>Balance</b>              | \$ 0  |

#### **Regional significance**

Not applicable.

#### **Sustainability implications**

Not applicable.

#### **Consultation**

Not applicable.

### **COMMENT**

In recent years the City has been constantly monitoring its systems in relation to gift disclosures being made by employees and Elected Members to ensure compliance with relevant legislation and the City's *Code of Conduct*. Increased external focus and scrutiny is being applied in this area that will require the City to continually monitor, and when necessary, improve systems and controls.

'Attain' has improved the efficiency for making gift and contributions to travel disclosures and feedback received through awareness sessions and those using the system has been very positive.

Attain has many advantages over the hard copy system for making disclosures and reduces the risks associated with the acceptance of prohibited gifts. The use of 'Attain' has resulted in a change of behaviour, including the declining of gifts that have previously been accepted. There has also been an increase in the number of disclosures being made for gifts that have been declined and for token gifts accepted that is less than the \$50 threshold.

The City has taken, and will continue to take, the necessary action to deal with instances of prohibited gifts being accepted or notifiable gifts not being disclosed, which includes the necessary referral to external agencies.

### **VOTING REQUIREMENTS**

Simple Majority.

*Cr May entered the Room at 5.59pm.*

**MOVED Cr Chester SECONDED Mayor Jacob that the Audit and Risk Committee NOTES the information provided in this report on the City's electronic system for making disclosures and the details of gift and contributions to travel disclosures made by employees and Elected Members forming Attachments 1 and 2 to this Report.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

*Appendix 2 refers*

*To access this attachment on electronic document, click here: [Attach2agnAUDIT190305.pdf](#)*

## **ITEM 4 DEPARTMENT OF LOCAL GOVERNMENT SPORT AND CULTURAL INDUSTRIES – REPORT OF THE INQUIRY INTO THE SHIRE OF WILUNA**

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|                               |  |
|-------------------------------|--|
| <b>WARD</b>                   | All  |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Garry Hunt<br>Office of the CEO   |
| <b>FILE NUMBER</b>            | 103278, 02004, 101515  |
| <b>ATTACHMENTS</b>            | Nil  |
| <b>AUTHORITY / DISCRETION</b> | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting'). |

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### **PURPOSE**

For the Audit and Risk Committee to note details of the Department of Local Government Sport and Cultural Industries (the Department) *Report of the Inquiry into the Shire of Wiluna*.

### **EXECUTIVE SUMMARY**

The Department and the Corruption and Crime Commission (CCC) commenced a cooperative investigation in December 2016 into serious misconduct in the Shire of Wiluna, jointly using their powers to obtain relevant information and documents. In early 2017 the Director General of the Department endorsed an inquiry pursuant to Part 8 of the *Local Government Act 1995* and appointed Department investigators. By mid-2017 the CCC formally handed the investigation back to the Department. The Department issued their report in August 2018 which concluded that there was no corruption or serious misconduct, but rather incompetence and mismanagement on the part of Elected Members and staff, as a result of a lack of understanding of their obligations.

This report provides details of the Department's inquiry and the *Report of the Inquiry into the Shire of Wiluna*.

*It is therefore recommended that the Audit and Risk Committee NOTES the details of the Report of the Inquiry into the Shire of Wiluna as detailed in this Report.*

### **BACKGROUND**

Section 8.3 of the *Local Government Act 1995* (the Act) gives the Director General of the Department the authority to inquire into the operations and affairs of all local governments. On 19 January 2017 the former Director General of the Department (known then as the Department of Local Government and Communities) authorised an inquiry in accordance with section 8.3(2) of the Act. The terms of reference directed the inquiry to the following aspects of the Shire of Wiluna (the Shire) and its operations and affairs beginning July 2015 to:

- a. the Council's relationship with, and management of, the Shire's former Chief Executive Officer, Mr Dean Taylor
- b. the conduct of the Council and employees of the Shire including but not limited to:
  - i. tendering, purchasing and procurement and contract management
  - ii. improper or undue influence
- c. the appointment of Executive and other employees at the Shire and the appropriateness of the processes used for those appointments
- d. the manner in which open and accountable policies and procedures are adhered to
- e. whether the Shire of Wiluna has provided good governance in respect of these matters
- f. any other issues that are determined to be of relevance to the above.

The Department concluded their inquiry and issued the *Report of the Inquiry into the Shire of Wiluna* in August 2018.

## DETAILS

The report on the outcomes of the Department's inquiry was compiled in accordance with section 8.13 of the Act by three officers of the Department who were authorised to conduct the inquiry (Authorised Persons). The Authorised Persons issued 11 directions to the Shire under section 8.5 of the Act to provide documents, information or property. One of the directions issued to the Shire on 30 June 2017 required one member of Council and two Shire staff to participate in formal records of interview. Interviews took place on 18 July 2017. The former Chief Executive Officer and various Councillors were given the opportunity to comment on the report in draft format. Only one written submission from a Councillor was received and was taken into account in finalising the report.

Key points to note are as follows:

- Mr Taylor was engaged by the Shire between 31 August 2015 and 26 November 2016.
- At the time of Mr Taylor's engagement, Ms Andrea Nunan was the Chief Executive Officer. Her contract was due to expire on 22 September 2016; however, her employment was terminated on 30 November 2015. Ms Nunan was absent from duty for much of 2015.
- Minutes for the Special Council Meeting held on 27 August 2015 record that given the absence of a Chief Executive Officer, the Council appointed Mr Taylor to the position of 'Contract Project Manager'.
- Mr Taylor commenced as Contract Project Manager on 31 August 2015 and immediately began performing informal acting Chief Executive Officer duties.
- The Ordinary Council Meeting (OCM) to appoint an acting Chief Executive Officer occurred on 14 December 2015.
- During the OCM held on 14 December 2015, the Council was presented with the following options:

- seek an appropriately qualified and experienced person through WALGA
- appoint an existing staff member
- continue with the current arrangement and formally appoint Mr Taylor or
- appoint someone else.

(Note: In his role as Contract Project Manager, Mr Taylor was responsible for compiling this meeting item).

- The minutes note that due to Mr Taylor's extensive experience as a local government Chief Executive Officer he had been informally acting in the role as Chief Executive Officer.
- Council was advised that Mr Taylor was not an employee of the local government and would not be undertaking the acting Chief Executive Officer position as an employee but rather as a contractor through his personal business, Red Tail Ridge Consulting and paid an hourly rate.
- Council unanimously agreed to appoint Mr Taylor as acting Chief Executive Officer of the Shire until a permanent Chief Executive Officer could be recruited. There was no written contract between the Shire and Mr Taylor, and the Shire was invoiced by Red Tail Ridge Consulting based on a schedule of fees.
- It was not until 23 November 2016 that Mr Colin Bastow was appointed as acting Chief Executive Officer of the Shire.

### Summary of Key Findings

- 1 Mr Taylor was not validly appointed as acting Chief Executive Officer.

Mr Taylor purported to perform the role of acting Chief Executive Officer through his company, Red Tail Ridge Consulting, without a written employment contract with the Shire. As Mr Taylor was not an employee of the Shire, his appointment by the Council to the position of acting Chief Executive Officer was contrary to sections 5.36(1) and 5.39(1) of the Act. As the purported appointment of Mr Taylor as acting Chief Executive Officer was contrary to sections 5.36(1) and 5.39(1) of the Act, there was no Chief Executive Officer or acting Chief Executive Officer employed by the Shire between 14 December 2015 and 22 November 2016.

- 2 No delegation of powers to Mr Taylor during the inquiry period.

There is no evidence that Council delegated or attempted to delegate its powers to Mr Taylor while he was acting in the Chief Executive Officer role, nor at any other time during the inquiry period. In any event, Mr Taylor was not eligible to be delegated any powers by the Shire.

- 3 Unauthorised payments to Red Tail Ridge Consulting.

A total of 75 invoices were submitted to the Shire by Mr Taylor through his company, Red Tail Ridge Consulting, for his purported role as Chief Executive Officer. All payment for these invoices did not comply with Shire Policy as they were approved by at least one unauthorised person. It was observed that:

- five of these payments were authorised by Mr Taylor himself
- twenty-one payments were authorised by two Elected Members of the Shire, without authorisation from Council or a Chief Executive Officer for them to do so.

#### 4 Unauthorised payments for goods and services by Mr Taylor.

While acting as Chief Executive Officer Mr Taylor raised purchase orders and authorised payments for the purchase of goods and services. As Mr Taylor was not validly appointed as acting Chief Executive Officer, nor an employee, he was not authorised to approve payments on behalf of the Shire.

#### 5 General inquiry findings relating to the Shire of Wiluna.

- There were many instances of staff raising purchase orders and authorising payments without, or in excess of, their delegated power.
- The Shire made payments in relation to certain tenders in excess of the amounts approved by Council and raised in purchase orders.
- On many occasions Shire staff failed to comply with Shire Policy by not obtaining the necessary number of quotes before purchasing goods and services.
- Inclusion of a company, Michael Gooch Consulting, on a pre-approved panel despite not having submitted a compliant tender.
- Possible breach of the Act by not publicly inviting tenders for work awarded to Elite Electrical Contracting, when consideration of the value of the work greatly exceeded the tender limit. Elite provided the Shire with \$598,208 worth of services in less than two years without inviting tenders.

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

**Legislation** *Local Government Act 1995.*

#### **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.

**Policy** Not applicable.

**Risk management considerations**

Reviewing the Department's report following an inquiry into another local government provides the City with an opportunity to review its own systems against the Department's findings to identify risks and implement improvements as appropriate.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The City continuously reviews and monitors its purchasing systems and related policies and protocols and updates them whenever necessary. The City is also using data analytics to test areas such as potential false or duplicate invoices, changes to supplier bank details, employee to supplier relationships, supplier to supplier relationships and employee to employee relationships.

All delegations by Council to the Chief Executive Officer, and by the Chief Executive Officer to employees, are in compliance with the Act and reviewed regularly. Council will approve the process to be used for the selection and appointment of a future Chief Executive Officer before the position is advertised.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr Jones SECONDED Mayor Jacob that the Audit and Risk Committee NOTES the details of the Department of Local Government, Sport and Cultural Industries Report of the Inquiry into the Shire of Wiluna as detailed in this Report.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

## **ITEM 5 WESTERN AUSTRALIAN AUDITOR GENERAL REPORTS DURING 2018**

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|                               |  |
|-------------------------------|--|
| <b>WARD</b>                   | All  |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Garry Hunt<br>Office of the CEO   |
| <b>FILE NUMBER</b>            | 106169, 101515   |
| <b>ATTACHMENTS</b>            | Attachment 1 Timely Payment of Suppliers<br>Attachment 2 Information Systems Audit Report 2018<br>Attachment 3 Local Government Procurement      |
| <b>AUTHORITY / DISCRETION</b> | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting'). |

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### **PURPOSE**

For the Audit and Risk Committee to note the details of reports issued by the Western Australian Auditor General following audits into Western Australian local governments and other public sector agencies.

### **EXECUTIVE SUMMARY**

The Western Australian Auditor General has undertaken a number of audits within Western Australian local governments and public sector agencies during 2018. The first audit finalised was into the controls over corporate credit cards which resulted in the Auditor General's first report initiated by the *Local Government Amendment (Auditing) Act 2017* being presented to Parliament on 9 May 2018. The details of that audit, along with the City's Internal Auditor's report on the same subject, was presented to the Audit and Risk Committee at its meeting held on 7 August 2018.

This report presents the details of further audit reports presented by the Auditor General during 2018 following audits of WA local governments and public sector agencies.

*It is therefore recommended that the Audit and Risk Committee NOTES the details of the reports presented by the Auditor General during 2018 following audits of WA local governments and public sector agencies forming Attachments 1, 2 and 3 to this Report.*

### **BACKGROUND**

Under the *Local Government Act 1995* the Western Australian Auditor General is responsible for undertaking audits into the operation of local governments within Western Australia. The first audit finalised by the Auditor General was into the controls over corporate credit cards and the report was presented to Parliament on 9 May 2018. The details of that report, along with the City's Internal Auditor's report on the same subject, was presented to the Audit and Risk Committee at its meeting held on 7 August 2018.

Therefore, this report will not repeat the details of those reports and will present the details of further audits undertaken by the Auditor General during 2018. Those audits and the report dates are as follows:

- 1 Timely Payment of Suppliers (10 June 2018).
- 2 Information Systems Audit Report 2018 (1 August 2018).
- 3 Local Government Procurement (5 October 2018).

## **DETAILS**

### **Timely Payment of Suppliers**

#### Background

Each year local governments spend hundreds of millions of dollars purchasing goods and services. By making timely payments local governments can assist the viability of businesses in Western Australia and help small businesses manage cash flow and administrative costs. Local government regulations do not specify payment timeframes and therefore the audit required judgement and regard to better practice and the policies and practices of the sampled local governments.

#### Audit Approach

The policies and practices of a sample of 10 local governments were assessed over an 11 month period from 1 January to 30 November 2017. This involved the audit of 600 transactions with a total value of \$68.9 million. The audit focused on the following lines of inquiry:

- (i) Have local governments developed procedures and controls for ensuring that payments are made on a timely basis?
- (ii) Are suppliers being paid on a timely basis?

The 10 local governments included in the sample were as follows:

- City of Armadale.
- Shire of Bruce Rock.
- City of Cockburn.
- Shire of Cunderin.
- Shire of Kellerberrin.
- Shire of Kojonup.
- Shire of Merredin.
- City of Swan.
- Shire of Tammin.
- Shire of York.

### Audit Findings

The summary of findings from both lines of inquiry are:

- 1 Only three metropolitan local governments had policies or procedures that addressed the timely payment of suppliers. For these three local governments 15% of payments did not comply with their policies and procedures.
- 2 At four local governments there was no documented evidence that someone had checked that goods and services were received prior to payment.
- 3 13% of payments were made later than the suppliers' terms or the local governments policies or procedures without a valid reason.

### Recommendations

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

- 1 have policies or procedures that clearly require payment of invoices within specified periods after receiving the invoice or after the receipt of goods and services (whichever is later)
- 2 ensure they improve administrative processes so that all payments are made in accordance with their policies and procedures
- 3 improve recordkeeping to ensure that for all payments there are records of the date that the invoice and goods or services were received. Ideally, this information should be recorded in the financial information management system and used as a key date for determining when payments should be made.

## **Information Systems Audit Report 2018**

### Background

This was the 10<sup>th</sup> annual Information Systems Audit Report by the Auditor General. The information systems audit focused on the computer environments of agencies to determine if these effectively support the confidentiality, integrity and availability of information they hold. The Report summarises the results of the 2017 annual cycle of audits, plus an examination of passwords and application reviews completed since last year's report.

It should be noted that these audits did not include any local government authorities.

### Audit Approach

The audits focused on the following three areas:

- Password Management in Western Australia State Government – the processes and controls in place to manage passwords and privileged accounts were assessed for 17 agencies. Approximately 234,000 enabled accounts were reviewed across these agencies.
- Application Controls Audits – the controls of key business applications at five agencies were reviewed to ensure data is completely and accurately captured, processed and maintained.

- General Computer Controls and Capability Assessments – 40 agencies were audited to determine whether computer controls effectively support the confidentiality, integrity and availability of information systems.

### Audit Findings

The audits identified a number of weaknesses and risks which are summarised as follows:

- Password Management in Western Australia State Government
  - 60,000 (26%) of accounts had weak or commonly used passwords. Many of these passwords still complied with password complexity and length which indicates that applying these parameters is sometimes insufficient to provide adequate protection.
  - All the agencies had password complexity requirements however, these were not always enforced. 7,633 (13%) did not comply with agencies' password policies or complexity settings.
  - Agencies' password management and access control policies are not comprehensive, or security requirements are not tailored to different identities for example people, application and services.
  - Most agencies do not have effective security controls in place to manage privileged accounts and access.
- Application Controls Audits
  - All five applications audited had control weaknesses with most related to poor information security and policies and procedures. There were 49 findings across the five applications, with nine rated as significant, 29 moderate and 11 minor. The significant findings related to the focus areas of policies and procedures and security of sensitive information.
- General Computer Controls and Capability Assessments
  - The Auditor General expects agencies to have a capability maturity level rate of Level 3 or better with Level 3 being defined as "processes are documented and communicated. Procedures are standardised, documented and communicated through training. Processes are mandated, however it is unlikely that deviations will be detected. The procedures themselves are not sophisticated but are the formalisation of existing practices". From the 40 agencies 68% met this benchmark.
- The main weaknesses found included the following:
  - Information Security.
  - Business Continuity.
  - Management of IT Risks.
  - IT Operations.
  - Change Control.
  - Physical Security.

## Local Government Procurement

### Background

There are currently 148 local governments in Western Australia employing around 15,000 people. The population and geographical spread of each local government varies significantly, from small regional local governments such as the Shire of Sandstone with a population of around 90, to large metropolitan local governments such as the City of Stirling with a population of around 220,000.

Local governments in Western Australia manage more than \$40 billion in community assets and spend over \$4 billion annually on community infrastructure and services. Procurement activities are primarily governed by the *Local Government (Functions and General) Regulations 1996* (the Regulations). The Regulations require local governments to have policies for purchases that are expected to be less than \$150,000. For purchases over \$150,000 the Regulations set specific requirements for public tender including advertising, acceptance and rejection of tenders, notification of outcomes, and maintaining a tenders' register. The Regulations also specify the exemptions from the public tender process.

Good procurement practices based on the principles of probity, accountability and transparency are essential for managing procurement risks and delivering good outcomes for ratepayers.

The objectives of this audit was to assess the effectiveness of procurement arrangements at eight local government entities of varying sizes in both metropolitan and regional Western Australia.

The Local Government Procurement Report was tabled in Parliament on 11 October 2018.

### Audit Approach

The audit objective was to determine if local governments have effective procurement arrangements in place. The specific lines of inquiry were as follows:

- 1 Have local governments established policies and procedures for procurement of goods and services?
- 2 Is there effective oversight and control of procurement activities?

The audit required visiting and reviewing the following local governments:

- Town of Bassendean.
- Shire of Dalwallinu.
- City of Fremantle.
- City of Greater Geraldton.
- Shire of Harvey.
- City of Kalgoorlie Boulder.
- City of Karratha.
- City of Stirling.

At each local government a sample of 20 transactions with a value under \$150,000 was selected. These were reviewed for recordkeeping of procurement activities, segregation of duties, quote processes, decision and approval delegations, policy and Regulations compliance. A separate sample of five tenders was selected and assessed against the requirements of the Regulations.

### Audit Findings

The Auditor General reported 86 detailed findings across all eight local governments. This included 11 significant findings across five of the local governments, and 41 moderate and 34 minor across all eight local governments.

Summary of the main findings included:

- While all local governments had procurement policies and procedures, they are not always effectively and consistently used:
  - Local governments do not always purchase in line with their own policies.
  - All local governments had procurement policies but there is opportunity to improve.
  - Local governments provided staff with procurement training.
- Local governments need better procurement oversight controls:
  - Controls over raising and approving purchase orders could be improved.
  - Local governments should strengthen processes for checking goods and services when receiving them.
  - Local governments had weaknesses in their segregation of duties.
- Procurement decisions and conflict of interest considerations need to be better documented:
  - Exemptions from seeking quotes are regularly used, but are poorly documented and not always justified.
  - Recording of tender processes and conflict of interests could be improved.

### Recommendations

The Auditor General's Report recommended that:

- all local governments, including those not sampled in this audit, should review their policies, processes and controls against the focus areas as outlined in Appendix 1 of its Report
- each local government audited should provide an action plan to address this recommendation, table it with Council, and make it available on their website, as per the *Local Government Act 1995*.

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

#### **Legislation**

*Auditor General Act 2006.*  
*Local Government Amendment (Auditing) Act 2017.*  
*Local Government Act 1995.*  
*Local Government (Functions and General) Regulations 1996.*

**Strategic Community Plan**

|                             |  |
|-----------------------------|--|
| <b>Key theme</b>            | Governance and Leadership.   |
| <b>Objective</b>            | Corporate capacity.  |
| <b>Strategic initiative</b> | <ul style="list-style-type: none"><li>• Demonstrate accountability through robust reporting that is relevant and easily accessible by the community.</li><li>• Continuously strive to improve performance and service delivery across all corporate functions.</li></ul> |
| <b>Policy</b>               | <i>Purchasing Policy.</i>  |

**Risk management considerations**

Reviewing the Western Australian Auditor General's reports into local government and other public sector entities provides the City an opportunity to review its own systems against the reports' findings to identify risks and implement recommendations as appropriate.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**Timely Payment of Suppliers

The City has Purchasing Protocols and a *Purchasing Policy*, however they do not include the timely payment of invoices.

The City is currently undertaking a review of payments to its suppliers using data analytics software to determine if payments are made on a timely basis. The results of this review will determine if any system improvements are to be implemented, including updating the City's Purchasing Protocols and *Purchasing Policy*.

Information Systems Audit Report

The City engages the services of a specialist external company to perform cyber security testing on the City's network systems every year.

The social engineering testing undertaken in June 2018 included three recommendations and the external penetration testing undertaken in July 2018 included six recommendations. A full report on this testing will be presented separately to the Audit and Risk Committee.

### Local Government Procurement

The City is currently reviewing the findings in the report against its own systems to identify if any weaknesses exist and make improvements where appropriate. The City is also using data analytics to test areas such as potential false or duplicate invoices, changes to supplier bank details, employee to supplier relationships and supplier to supplier relationships.

Deloitte were engaged in November 2018 to undertake the Chief Executive Officer's three yearly review of financial management systems and procedures (as per the *Local Government (Financial Management) Regulations 1996*) and is scheduled to provide its draft report in March 2019. A full report of this review will be presented separately to the Audit and Risk Committee.

### **VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr Jones SECONDED Cr McLean that the Audit and Risk Committee NOTES the details of the reports presented by the Auditor General during 2018 following audits of WA local governments and public sector agencies forming Attachments 1, 2 and 3 to this Report.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

*Appendix 3 refers*

*To access this attachment on electronic document, click here: [Attach3agnAUDIT190305.pdf](#)*

## ITEM 6                    CORRUPTION AND CRIME COMMISSION REPORTS

|                               |  |
|-------------------------------|--|
| <b>WARD</b>                   | All  |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Garry Hunt<br>Office of the CEO   |
| <b>FILE NUMBER</b>            | 25586, 101515  |
| <b>ATTACHMENTS</b>            | Nil  |
| <b>AUTHORITY / DISCRETION</b> | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting'). |

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### PURPOSE

For the Audit and Risk Committee to note the details of reports which the Corruption and Crime Commission have recently tabled in the Western Australian State Parliament that impact on, or provide learnings for, local government in Western Australia.

### EXECUTIVE SUMMARY

During late 2018 the Corruption and Crime Commission (CCC) tabled a number of reports in the Western Australian State Parliament. The reports were tabled following investigations undertaken by the CCC and a series of public and private hearings conducted earlier in the year. Although only one of the reports related directly to local government, they all involved matters relevant to, and provide valuable lessons for, all public sector agencies. This report provides the details of the CCC investigations and its reports relating to the following public sector agencies:

- 1 North Metropolitan Health Services.
- 2 Horizon Power.
- 3 Shire of Halls Creek.
- 4 Public Transport Authority.

*It is therefore recommended that the Audit and Risk Committee NOTES the details provided in this report on the Corruption and Crime Commission's recent investigations and reports into corruption and misconduct within public sector agencies in Western Australia.*

### BACKGROUND

The CCC is a permanent investigative commission established in 2004 to improve the integrity, and reduce the incidence of misconduct, in the Western Australian public sector and to assist the WA Police to combat and reduce the incidence of organised crime. The *Corruption, Crime and Misconduct Act 2003*, effective from 1 July 2015, gives the CCC and the Public Sector Commission responsibility for preventing and dealing with misconduct in the Western Australian public sector.

The CCC has jurisdiction over Western Australian public officers including the Western Australian Police Force, government departments, government instrumentalities, boards, public universities and local governments. The CCC's role is to investigate, establish the facts, express opinions about misconduct and make recommendations for action. The CCC does not determine the guilt or innocence of individuals, which is a matter for the courts or those taking disciplinary action.

During 2018 the CCC carried out a number of investigations into public sector agencies which included public and private hearings. These resulted in reports being tabled during late 2018 at the Western Australian State Parliament by the CCC, which included findings of serious misconduct and corruption.

This report provides details of the CCC investigations which resulted in the following reports being tabled at the Western Australian State Parliament:

- 1 Report into bribery and corruption in maintenance and service contracts within North Metropolitan Health Services (16 August 2018).
- 2 Report on corruption in Information Technology at Horizon Power (20 August 2018).
- 3 Report into how conflicts of interest undermine good governance – A Report on the Chief Executive Officer of the Shire of Halls Creek (30 August 2018).
- 4 Report into unauthorised release of confidential information of the Public Transport Authority (18 October 2018).

## **DETAILS**

### **Report into bribery and corruption in maintenance and service contracts within North Metropolitan Health Services (16 August 2018).**

#### Background

During September 2013 the CCC received an anonymous allegation that the Executive Director of Facilities Management North Metropolitan Health Services (NMHS), Mr Fullerton, favoured certain companies when awarding WA Health project work. The CCC referred the allegations back to WA Health for investigation and report. On 26 April 2015 WA Health provided the CCC with a report which found there were serious issues of concern regarding procurement practices in the NMHS Facilities Management Directorate. The report detailed improvements which could be made in systems and processes around procurement. However, the report failed to address the conduct of any particular public officers involved and WA Health did nothing to deal with the public officers responsible.

The CCC continued engagement with WA Health between April and December 2015. WA Health appointed an external investigator to examine further and in March 2016 preliminary findings caused WA Health to request that the CCC consider an investigation into alleged serious misconduct. The CCC commenced an investigation in April 2016.

#### CCC Investigation

The investigation was lengthy and comprehensive and necessitated the CCC using the full suite of statutory coercive powers including the power to examine witnesses under oath. The powers used by the CCC included the following:

- Issuing over 80 notices to compulsorily obtain documentary evidence, including hard copy or imaged from electronic devices.
- Issuing search warrants at the home of a building contractor and at business premises.
- Placing key persons of interest under surveillance.
- Conducting 21 private examinations between August 2017 and May 2018, which included summonses to attend to give evidence being served on contractors and public officers.

The CCC investigation initially focused on activities surrounding the renovation of Mr Fullerton's private residence during 2015. This led to the procurement practices of NMHS being scrutinised prior to, and after, 2015. This resulted in the CCC investigation uncovering evidence of public officers obtaining corrupt benefits as far back as 2003 and continuing to the present. It uncovered evidence of numerous contractors aiding the corruption by supplying benefits. It became apparent that many of the initial allegations made by the anonymous whistle-blower were proved correct.

The main findings of the CCC investigation were that public officers engaged in corruption and serious misconduct that involved:

- acceptance of tens of thousands of dollars in gifts of interstate and overseas travel and accommodation from contractors in return for awarding them work
- acceptance of tens of thousands of dollars in gifts of expensive restaurant meals, entertainment, alcohol and other gratuities in return for awarding them work
- receipt of thousands of dollars in cash payments from contractors in return for awarding them continued work
- facilitating contractors to fraudulently invoice NMHS to cover the costs of the corrupt benefits of travel, accommodation, meals, entertainment and cash they received
- colluding with particular contractors in 'bid rigging' activities for the purposes of subverting the WA Health and NMHS procurement processes
- a senior public officer using contractors to renovate his private residence at a discount and then facilitating the building contractors to fraudulently invoice NMHS approximately \$170,000 for works carried out on his private residence.

### Conclusion

The CCC is not a prosecuting authority, but it may assemble and furnish evidence which may be admissible in the prosecution of a person for a criminal offence. The CCC formed an opinion that serious misconduct and corruption had occurred and recommended that a relevant authority gives consideration to the prosecution of a number of named public officers and contractors.

The CCC's report has no particular recommendations to make to NMHS or to the public sector generally as "the report speaks for itself".

The report concluded "It will be a matter for every Chief Executive Officer in the public sector to satisfy themselves as to the integrity of their processes in outsourcing maintenance and service provision".

**Report on corruption in Information Technology at Horizon Power (20 August 2018).**Background

Horizon Power is the trading name of the Regional Power Corporation and is led by a Board of Directors. Horizon Power is a State Government owned energy utility that provides power to about 100,000 residents and 10,000 businesses across Western Australia. In the 2016-17 financial year, Horizon Power had \$1.8 billion in assets and revenue of \$493 million.

Mr Paul Thomas commenced as Service Delivery Manager with Horizon Power in March 2010 and after a restructure was appointed to the role of Manager of Technology, commonly referred to as the IT Team. Mr Thomas and Mr Raspa had worked together on and off since 2005 and in July 2013 Mr Raspa was engaged by Mr Thomas to work at Horizon Power as a Contract Consultant. He was engaged through his private business, Raspa Contracting Pty Ltd. An exemption from Horizon Power's procurement processes was approved by Mr Thomas to engage Mr Raspa outside of an open market tender. From December 2013 Mr Raspa occupied an employee role within Horizon Power.

On 23 February 2010, about one week before Mr Thomas commenced work at Horizon Power, Thomaspa Pty Ltd was registered as an Australian Propriety Company. Thomaspa Pty Ltd traded as TSIT and provided managed IT services, IT project services and the recruitment of contract staff. Mr Thomas and Mr Raspa were TSIT's sole directors and shareholders.

In early 2016 the CCC received allegations against Mr Thomas and Mr Raspa and began a wide-ranging investigation into serious misconduct.

CCC Investigation

The CCC utilised many of its powers during the investigation including examining witnesses, execution of search warrants at various addresses and obtaining telephone intercept warrants and documentary materials from many sources. In 2017 the CCC entered into a cooperative investigation with WA Police. Over two weeks in April and May 2018 the investigation culminated in the CCC conducting a number of examinations, both in private and in public.

A summary of the CCC's main findings are as follows:

- Mr Thomas engaged contractors for private purposes without any regard to procurement processes. He corruptly and secretly committed Horizon Power to paying ongoing fees to TSIT, a company which he owned.
- Mr Thomas corruptly caused his wife to be engaged as a contractor to perform a role so that he could pay down credit card debt.
- Mr Thomas used his position to claim falsely that TSIT carried out work for Horizon Power. Mr Thomas never disclosed his ownership of the company.
- Mr Thomas engaged his TSIT business partner, Mr Raspa, to work at Horizon Power. For a number of years, they conspired to purchase or gain control of a business entity that would then obtain work from Horizon Power. TSIT's accountant, Mr Paul Hesford, formed part of the conspiracy by agreeing to be the director and shareholder of that entity to conceal Mr Thomas and Mr Raspa's ownership from Horizon Power.
- Between August 2010 and September 2013 Horizon Power paid TSIT a total of \$206,739. Between July 2013 and June 2014 Horizon Power paid TSIT a total of \$122,787.

### Conclusion

Horizon Power's trust in Mr Thomas to run the Knowledge and Technology Department was abused, through conflicts of interest and using his position at Horizon Power to gain financial benefit for himself and his company. Upon being informed of some of the substance of the CCC's investigation, Horizon Power suspended Mr Thomas and he subsequently resigned. In Mr Thomas' capacity as a public officer, the CCC formed opinions of serious misconduct.

Mr Raspa failed to declare a conflict of interest at Horizon Power in relation to TSIT, and by failing to do so was complicit in the deception. When his behaviour came to light Horizon Power terminated his contract. The CCC did not form an opinion of serious misconduct about Mr Raspa's actions and has no jurisdiction to form an opinion of minor misconduct.

Mr Hesford was not a public officer and therefore the CCC has no jurisdiction to form an opinion in respect of him.

### Recommendations

The Commission recommends that a relevant authority give consideration to the prosecution of Mr Thomas for corruption in a public office contrary to the *Criminal Code* section 83.

The Commission recommends that a relevant authority give consideration to the prosecution of Mr Thomas, Mr Raspa and Mr Hesford for conspiracy to commit the indictable offence of fraud pursuant to the *Criminal Code* section 558, or any other offence that may be disclosed.

A recommendation made by the Commission is not a finding, and is not to be taken as a finding, that a person has committed or is guilty of a criminal offence.

### **Report into how conflicts of interest undermine good governance – A Report on the Chief Executive Officer of the Shire of Halls Creek (30 August 2018).**

#### Background

Mr Rodger Kerr-Newell had been acting as Chief Executive Officer designate of the Shire of Halls Creek (the Shire) since August 2013 and formally commenced as Chief Executive Officer on 17 December 2013. Prior to commencing at the Shire Mr Kerr-Newell lived in New Zealand and served as the Chief Executive Officer for three local government authorities. Ms Bronwyn Little commenced employment with the Shire on 24 February 2014 as Director of Strategic Planning, a position which reported directly to Mr Kerr-Newell. Mr Malcolm Edwards has been the Shire President for over 12 years and is a long-time resident of Halls Creek.

In June 2016 the CCC received an anonymous report alleging that the Shire of Halls Creek Chief Executive Officer, Mr Kerr-Newell, may have engaged in serious misconduct by taking advantage of his position to obtain a benefit for himself and / or other persons.

The CCC endorsed an investigation into Mr Kerr-Newell and other public officers at the Shire who had been his former colleagues and / or friends. Friends and former colleagues of Mr Kerr-Newell remained part of the Shire Executive.

During the investigation, on 29 September 2017, the CCC received another anonymous report alleging that Mr Kerr-Newell and other Shire employees had corruptly subverted the tender process for the procurement of six Shire vehicles to ensure the tender was awarded to a local Halls Creek vehicle dealership. It was further submitted that Mr Kerr-Newell was in a personal relationship with a senior Shire employee for whom he undertook performance reviews and approved salary increases.

### CCC Investigation

Operation Oakley commenced by the CCC to determine whether any public officer employed by or elected to the Shire, may have engaged in serious misconduct. As a result of material gathered during the investigation the scope of the CCC's inquiries was widened to include allegations that Mr Kerr-Newell:

- (a) misused his leave entitlements in order to maintain external business interests in New Zealand
- (b) failed to declare these aforementioned business interests, as required under law.

The actions undertaken by the CCC included the following:

- Executing search warrants on 26 September 2017 at the Shire premises and Mr Kerr-Newell's home.
- Seizure of documents and other items from both premises for examination.
- Conducting a number of private examinations in February and April 2018 before proceeding to public examinations. The CCC determined it was in the public interest, and in particular, the interests of the Halls Creek ratepayers, to hear about the actions of particular Shire employees who were entrusted to act for the benefit of the Shire.

The CCC formed an opinion of serious misconduct in respect of Mr Kerr-Newell but did not uncover any serious misconduct by the Shire President or other Elected Members.

The main findings of the investigation were:

- Mr Kerr-Newell had a long-term intimate relationship with Ms Little and used his position to appoint her to the position of Strategic Planning Manager at the Shire. He corrupted the recruitment process by:
  - failing to accurately disclose the true nature of their relationship or his conflict of interest
  - allowing Ms Little to write the position description for the position she was applying for
  - only interviewing Ms Little for the position, despite 16 applications being received and, some applicants having more relevant experience
  - appointing Ms Little before the application period closed
  - conducting Ms Little's performance reviews. After only six months he awarded her a salary increase of \$5,000 and after another six months an additional increase of \$7,000. Since joining the Shire Ms Little received a total of \$24,000 increase in salary, (as a percentage) the highest of all managers.
- Mr Kerr-Newell's failure to meet his obligations under the *Local Government Act 1995* by not disclosing his financial interests in a number of New Zealand companies.
- Mr Kerr-Newell regularly taking leave, recorded as time-in-lieu to which he was not entitled, and travelling to New Zealand for his other business interests. This equated to 24 days per year or approximately \$78,000 of ratepayers' money.

- Mr Kerr-Newell's misuse of other entitlements including those for mobile telephone and fuel. Mr Kerr-Newell was reimbursed for travel expenses while using a Shire vehicle which included fuel. The expense was not personally incurred by Mr Kerr-Newell. Mobile telephone data collected by the CCC established that there was a high frequency of international calls that were predominantly concerned with conducting his New Zealand business interests.
- The contravention by Mr Kerr-Newell and others of probity and accountability standards in a botched tender process for the purchase of six Toyota vehicles from Halls Creek Toyota. Mr Kerr-Newell and the Shire's Director of Infrastructure Assets, Mr Philip Burgess, socialised with the proprietor of Halls Creek Toyota, Ms Baz, outside of work. By consulting with Ms Baz and using information provided by her to inform the tender, Halls Creek Toyota was given an unassailable advantage over other dealers by being the only tenderer in a position to comply with the specified delivery date.

### Conclusion

The CCC formed opinions of serious misconduct in respect of Mr Kerr-Newell but did not uncover any serious misconduct by the Shire President or other Elected Members. The CCC identified a lackadaisical and flawed procurement process for the purchase of Shire vehicles but formed no opinion of serious misconduct.

The investigation underlined the importance of whistle-blowers, anonymous or otherwise, without which the investigation would not have been possible. It became evident that other members of the community may have had information relevant to the CCC's investigation, however they were reluctant to contact the CCC because they had signed non-disclosure agreements.

The *Corruption, Crime and Misconduct Act 2003* protects any person subject to a non-disclosure or confidentiality agreement from any civil or criminal liability incurred as a result of making an allegation or providing that information to the CCC. The CCC encourages all persons with information regarding serious misconduct by a public officer to come forward.

### **Report into unauthorised release of confidential information of the Public Transport Authority (18 October 2018).**

#### Background

Mr Andrew Forrester was employed as a Senior Catenary Maintainer with the Public Transport Authority (PTA) from May 2012. Catenary maintainers, otherwise known as linesmen, are responsible for maintaining the overhead catenary system to ensure operations of electric trains. During 2017 negotiations were taking place between the PTA and the Australian Rail Tram and Bus Industry Union (RTBU) in relation to the industrial agreement that covered the Network and Infrastructure Division, which included catenary maintainers. The negotiations were described as acrimonious.

On the evening of 11 June 2017 a PTA linesman accessed a file containing the personal details of various PTA employees. It was asserted that this was done out of curiosity to see what was going on with the Enterprise Bargaining Agreement. The linesman left his desk unattended with the computer unlocked and for others to access.

During this time access was made to a file and the personal details of 1,750 PTA employees were saved to a USB. The personal details included annual leave details, rates of pay and dates of birth.

The information was subsequently used by the union organiser during negotiations between the RTBU and the PTA.

### CCC Investigation

Evidence from various witnesses, including PTA employees and the union organiser, aligns with the CCC's digital forensic examination of data from the PTA and the RTBU. The CCC's investigation concluded that:

- Mr Forrester accessed the personal details of 1,750 PTA employees on the PTA computer system and saved those details on a USB.
- Between 12 and 22 June 2017, Mr Forrester attended RTBU's office and transferred information from the USB to the union organiser's computer.
- Mr Forrester faced several disciplinary procedures during his time at PTA and was described as being quite "prolific" on the telephone when it came to contacting the RTBU.
- Mr Forrester's explanation that the union organiser already had possession of that information is not credible.
- The CCC formed an opinion of serious misconduct by Mr Forrester.

### Conclusion

The CCC did not form any opinion in relation to the unauthorised access of information as this aspect of the incident was subject to a PTA investigation. The matters in the report are capable of having an impact on other public sector agencies when reviewing their IT security measures concerning confidential information.

The CCC recommended that the PTA:

- tightens access controls over confidential information including individual logins
- reinforces to all staff the seriousness of accessing confidential information.

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

**Legislation** *Corruption, Crime and Misconduct Act 2003.*

#### **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** *Fraud, Corruption and Misconduct Control Policy.*

### **Risk management considerations**

Reviewing the reports of the Corruption and Crime Commission into other local governments and public sector agencies assists the City to monitor and assess areas of risk that present opportunities for serious misconduct and to improve control measures where necessary.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The CCC reports highlight areas where local governments and public sector agencies can be susceptible to fraud, corruption and misconduct should the proper controls not be in place. It is important that the City continue to review such reports and make assessments against its own controls.

Throughout their reports the CCC stress the importance of whistle-blowers, anonymous or otherwise, without which such behaviour may have gone undetected. The CCC encourages all persons with information regarding serious misconduct by a public officer to come forward.

To strengthen the City's integrity and conduct controls a whistleblowing program is being developed which includes the expansion of the public interest disclosure function. This enhanced focus is intended to ensure the City's *Fraud, Corruption and Misconduct Control Policy* and public interest disclosure arrangements are more transparent to assist in the reporting and investigation of serious misconduct, should it occur. A full report on the whistleblowing program will be presented separately to the Audit and Risk Committee.

The City continuously reviews and monitors its purchasing systems and related policies and protocols and updates them whenever necessary. The City is also using data analytics to test areas such as potential false or duplicate invoices, changes to supplier bank details, employee to supplier relationships, supplier to supplier relationships and employee to employee relationships.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr McLean SECONDED Mayor Jacob that the Audit and Risk Committee NOTES the details provided in this report on the Corruption and Crime Commission's recent investigations and reports into corruption and misconduct within public sector agencies in Western Australia.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

**ITEM 7                      SETTING 2019 MEETING DATE – AUDIT AND RISK COMMITTEE**

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|                               |   |
|-------------------------------|---|
| <b>WARD</b>                   | All   |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Jamie Parry<br>Governance and Strategy   |
| <b>FILE NUMBER</b>            | 107022, 02153, 101515   |
| <b>ATTACHMENTS</b>            | Nil   |
| <b>AUTHORITY / DISCRETION</b> | Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets. |

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**PURPOSE**

For the Audit and Risk Committee to consider the proposed scheduled meeting for the committee to be held on Tuesday 6 August 2019.

**EXECUTIVE SUMMARY**

To assist with forward planning for all Elected Members, management and staff, a meeting has been scheduled for the Audit and Risk Committee, ensuring synergy between meeting dates and the flow of information and decision-making.

It is therefore recommended that the Audit and Risk Committee **ADOPTS** the meeting date and time for the Audit and Risk Committee of the City of Joondalup to be held at the Joondalup Civic Centre, Boas Avenue, Joondalup.

**BACKGROUND**

The Audit and Risk Committee was established at the Special Council meeting held on 6 November 2017 (JSC03-11/17 refers).

As a result of amendments to the *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996*, gazetted on 26 June 2018 it became necessary to adopt new Terms of Reference for the Audit and Risk Committee.

Changes to the regulations included 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.

At its meeting held on 21 August 2018 (CJ153-08/18 refers), Council adopted the following revised terms of reference for the Audit and Risk Committee as follows:

*“The role of the Audit and Risk Committee is to:*

- 1 *guide and assist the City in carrying out its functions:*
  - *under Part 6 - Financial Management, of the Local Government Act 1995*
  - *in relation to audits conducted under Part 7 - Audit, of the Local Government Act 1995*
  - *relating to other audits and other matters related to financial management.*
- 2 *Review the CEO's report into the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and legislative compliance, given to it by the CEO under regulation 17 of the Local Government (Audit) Regulations 1996 and:*
  - *report to the Council the results of that review*
  - *give the Council a copy of the CEO's report.*
- 3 *Monitor and advise the CEO when the CEO is carrying out functions in relation to a review:*
  - *under regulation 17(1) of the Local Government (Audit) Regulations 1996*
  - *of the appropriateness and effectiveness of the financial management systems and procedures of the City under regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996.*
- 4 *Support the auditor of the City to conduct an audit and carry out the auditor's other duties under the Local Government Act 1995 in respect of the City and to oversee the implementation of any actions in accordance with regulation 16(f) of the Local Government (Audit) Regulations 1996.*
- 5 *Review and monitor the internal audit program and the scope of internal audits.”*

The proposed 2019 schedule of Council meeting dates is based on the format used in recent years. That is, a monthly meeting format with Strategy Sessions held on the first Tuesday of each month, Briefing Sessions held on the second Tuesday and Council meetings on the third Tuesday.

This enables committee meetings to be scheduled on the Monday, Tuesday or Wednesday of weeks one, two and three to minimise potential conflicts with other Council activities and provide a 'meeting-free' week in the fourth week of each month.

It is preferable to hold committee meetings in the first week of the month, thereby enabling committee recommendations to be listed in the Briefing Session agenda and subsequently the Council meeting agenda, however this may not always be possible due to other scheduled meetings.

## **DETAILS**

The Audit and Risk Committee is a committee required to be established in accordance with the *Local Government Act 1995* and associated regulations. It is responsible for matters associated with all aspects of financial auditing, legislative compliance, risk management and reviewing the efficiency of the City's use of resources.

Meetings of this committee are usually associated with statutory reporting requirements, including endorsement of the Annual Compliance Audit Return, and adoption of the Audited Financial Statements and Annual Report.

The Compliance Audit Return is required to be endorsed by Council and submitted to the Department of Local Government and Communities before 31 March annually. Consideration of the City's audit focus often occurs in August, with the audited financial statements usually finalised by early October, enabling review and adoption by the committee and Council in November.

In this regard, it is necessary for the Audit and Risk Committee to meet in the latter part of 2019 to accept the Annual Financial Report and accept the 2018-19 Annual Report. This will enable sufficient time for statutory advertising of the acceptance of the Annual Report prior to the holding of the Annual General Meeting of Electors to be held in the latter part of 2019.

The proposed meeting day / date / time is as follows:

- Tuesday 6 August 2019, commencing at 5.45pm.

### **Issues and options considered**

The Audit and Risk Committee can either:

- adopt the meeting date as proposed in this report  
or
- amend the meeting date.

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

#### **Legislation**

*Local Government Act 1995.*  
*Local Government (Administration) Regulations 1996.*  
*Local Government (Financial Management) Regulations 1996.*  
*Local Government (Audit) Regulations 1996*  
*City of Joondalup Meeting Procedures Local Law 2013.*

#### **Strategic Community Plan**

|                             |                            |
|-----------------------------|----------------------------|
| <b>Key theme</b>            | Governance and Leadership. |
| <b>Objective</b>            | Corporate capacity.        |
| <b>Strategic initiative</b> | Not applicable.            |
| <b>Policy</b>               | Not applicable.            |

#### **Risk management considerations**

Forward planning of committee meetings mitigates the risk for meetings to be held on an ad-hoc basis; ensuring coordination with other key meetings and corporate planning processes.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

A range of external agencies were contacted to identify 2019 meeting dates to avoid conflicting dates for elected members and staff.

**COMMENT**

The proposed date has been structured to enable flow-on reporting within Council's monthly meeting cycle. In addition, the proposed meeting date for the Audit and Risk Committee is cognisant of proposed meeting dates for a variety of other committees.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr Chester SECONDED Cr Jones that the Audit and Risk Committee ADOPTS the following meeting date and time for the Audit and Risk Committee of the City of Joondalup to be held at the Joondalup Civic Centre, Boas Avenue, Joondalup:**

|   |
|---|
| <b>Audit and Risk Committee<br/>To be held in Conference Room 2</b> |
| <b>Tuesday 6 August 2019, commencing at 5.45pm.</b>                 |

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

## **ITEM 8                    HALF YEARLY REPORT – WRITE-OFF MONIES – 1 JULY TO 31 DECEMBER 2018**

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

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### **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 31 December 2018 was \$4,460.96. This amount consisted of 5,687 small amounts of unpaid rates below the \$100 reportable limit totalling \$4,460.96.

*It is therefore recommended that the Audit and Risk Committee RECEIVES the report of amounts written off under delegated authority for the period 1 July to 31 December 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 31 December 2018 a total amount of \$4,460.96 was written-off as unrecoverable. This amount relates to the following:

- 5,687 items of small rates balances that are below the reportable limit, totalling \$4,460.96, 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.

**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**

|                              |                        |
|------------------------------|------------------------|
| <b>Account no.</b>           | 3256                   |
| <b>Budget Item</b>           | Bad Debts written-off. |
| <b>Annual Budget</b>         | \$ 13,500              |
| <b>Year to Date Budget</b>   | \$ 5,530               |
| <b>Year to Date Actual</b>   | \$ 4,461               |
| <b>Year to Date variance</b> | \$ 1,069               |

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

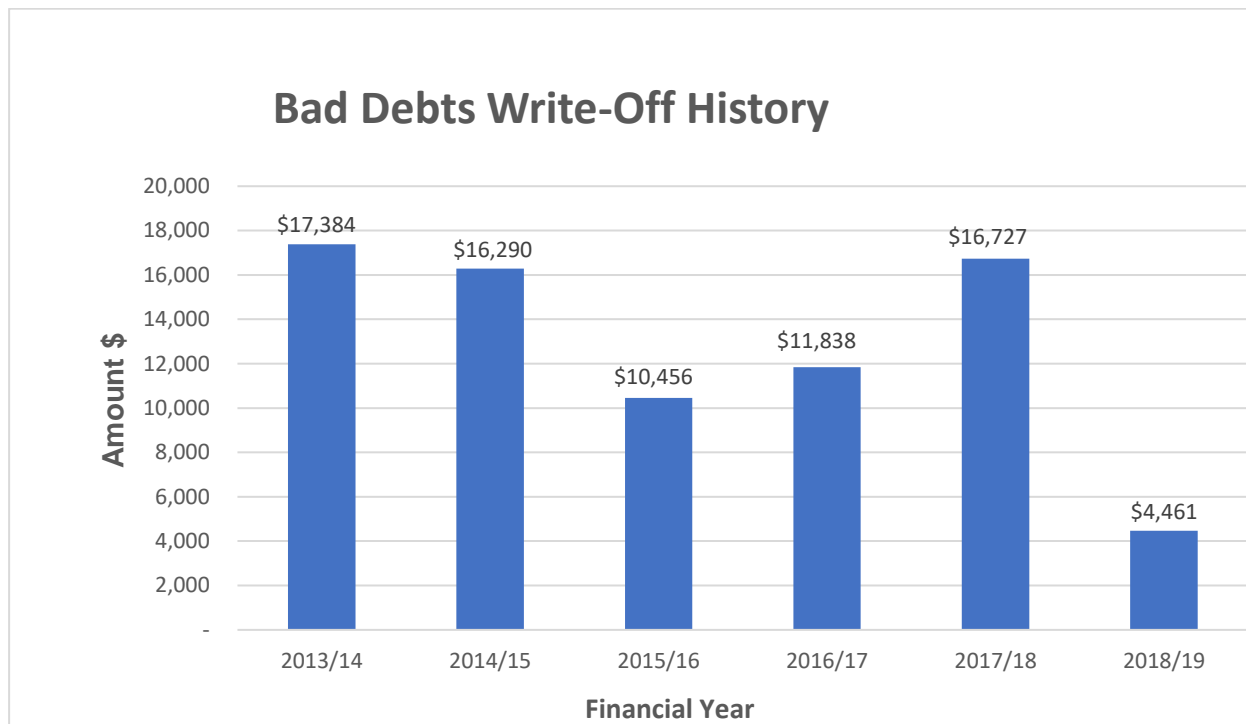
**Consultation**

Not applicable.

**COMMENT**

Monies written-off under delegated authority comprised 5,687 small items of unpaid rates totalling \$4,460.96, all of which were below the \$100 reportable limit.

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



## VOTING REQUIREMENTS

Simple Majority.

**MOVED Cr McLean SECONDED Cr May that the Audit and Risk Committee RECEIVES the report of monies written off under delegated authority for the period 1 July to 31 December 2018.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

## **ITEM 9                    2017-18        ANNUAL        FINANCIAL        AUDIT        - MANAGEMENT LETTERS AND AUDIT CONCLUDING MEMORANDUM**

|                               |   |
|-------------------------------|---|
| <b>WARD</b>                   | All   |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Mike Tidy<br>Corporate Services  |
| <b>FILE NUMBER</b>            | 107214, 101515  |
| <b>ATTACHMENTS</b>            | Attachment 1    OAG Interim Audit Results 2017-18<br>Attachment 2    OAG Final Management Letter 2017-18<br>Attachment 3    Audit Concluding Memorandum 2017-18 |
| <b>AUTHORITY / DISCRETION</b> | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').                |

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### **PURPOSE**

For the Audit and Risk Committee to note the management letters and audit concluding memorandum in respect of the City's annual financial audit for the year ended 30 June 2018.

### **EXECUTIVE SUMMARY**

The Office of the Auditor General of Western Australia (OAG), through its representative Moore Stephens, completed the audit of the City's Annual Financial Statements for the year ended 30 June 2018 in November 2018 and provided an unqualified audit opinion, which formed part of the City's Annual Financial Report for 2017-18 that was considered by the Audit and Risk Committee at its meeting held on 13 November 2018 and adopted by Council at its meeting held on 20 November 2018 (CJ210-11/18 refers).

At the Audit and Risk Committee meeting held on 13 November 2018, the auditors attended and spoke to the audit report, however, the final management letter and audit concluding memorandum were not available for consideration by the Audit and Risk Committee at that meeting and were provided to the City subsequently.

In addition, when the auditors completed the interim audit for 2017-18, an interim management letter was provided to the City, inclusive of management responses provided in respect of the issues raised.

*It is therefore recommended that the Audit and Risk Committee NOTES the Management Letters and the Audit Concluding Memorandum issued by the Office of the Auditor General in respect of the audit of the 2017-18 annual financial statements forming Attachments 2 and 3 to this Report.*

## **BACKGROUND**

The Office of the Auditor General undertook the annual financial audit of the City's Annual Financial Statements for the year ended 30 June 2018, through its representative Moore Stephens in two stages. The interim audit was undertaken during May / June 2018, while the final audit phase commenced in September 2018. After the completion of the interim audit, the OAG issued an interim audit management letter which incorporated responses from management on the items noted.

At the conclusion of the final audit phase, the OAG issued a final management letter supplemented by an Audit Concluding Memorandum prepared by Moore Stephens, under the OAG's aegis. Both these documents were issued subsequent to the Audit and Risk Committee meeting held on 13 November 2018. The City had expected the interim management letter would be incorporated into the final management letter when issued by the OAG, however, the OAG clarified subsequent to issuing the final management letter that this would not be the case.

## **DETAILS**

At its meeting held on 13 November 2018, the Audit and Risk Committee considered the City's draft annual financial statements for the year ending 30 June 2018 and the OAG's draft audit report pertaining to these. At the time, the City had not yet received the auditor's final management letter, which was provided subsequently along with an Audit Concluding Memorandum.

The City has also been apprised by the OAG that the final management letter issued is supplementary to the interim management letter.

### Interim management letter

The OAG completed an interim audit of the City's financial records in May / June 2018 and issued an interim management letter on 8 August 2018 (Attachment 1 refers). The interim management letter draws attention to certain matters identified during the interim audit that the OAG considered appropriate to bring to management's attention. None of the matters identified were considered significant by the OAG and have either been addressed, or are in the process of being addressed, as set out in Attachment 1.

### Final management letter

The OAG completed the final audit of the City's financial records for 2017-18 in November 2018. The final management letter (Attachment 2 refers) raises no issues that the OAG wished to bring to the attention of management and refers to the items noted in the interim management letter issued in August 2018.

### Audit Concluding Memorandum

The Audit Concluding Memorandum (Attachment 3 refers) has been prepared by the OAG, through its representative Moore Stephens, and reviews the key audit risk areas for the City and the overall results of the 2017-18 audit process. The table below outlines the OAG's key observations, as well as commentary on these where applicable.

| Key Audit Risk/Area                                   | Audit Conclusion  | City of Joondalup Comments   |
|---|---|--|
| Property, Plant, Equipment and Infrastructure Assets. | The City's fixed assets, including asset revaluations, are fairly stated and disclosed in the 2017-18 financials.   |  |
| Employee benefit provisions.                          | The City's provision for long- service benefits reflects immaterial variances when discount factors are applied in accordance with AASB 119 Employee Benefits. Provision is fairly presented.   | Long-service leave provision calculations and discount factors currently applied are being reviewed to ensure no differences to AASB 119 Employee Benefits. Noted the audit conclusion that employee provisions were fairly stated in the 2017-18 financials.  |
| Provision for Workers Compensation.                   | Audit notes that the provision reflected is the difference between total exposure to possible workers' compensation claims and amount payable to LGIS. Provision should be calculated based on historical information [of claims made]. | The City raises provision each year to the maximum possible contribution that could be required, which is based on a conservative approach. This has been reviewed and reduced in the current financial year budget, on the basis of claims history and changes made to the premium calculation model. |
| Revenue.  | Revenue is fairly stated and disclosed in the 2017-18 financials.   |  |
| Expenditure.  | Expenditure is fairly stated and disclosed in the 2017-18 financials.   |  |
| Risk of fraud: management override of controls.       | Risk of fraud from override of controls has been reduced to an acceptable level.  |  |
| Related party disclosures.                            | Related party transactions are properly disclosed and at arms' length basis.  |  |
| Significant adverse trends.                           | Significant adverse trend noted in operating surplus and asset sustainability ratios.   | This was also included in the OAG's audit report, and was addressed in the report to the Audit and Risk Committee on the 2017-18 annual financial statements (CJ210-11/18 refers).   |
| Uncorrected audit differences                         | None.   |  |

The auditors noted that testing of internal controls did not reveal any significant deficiencies but recommended that the City ensure all disclosures and disclosure notes were completed in a timely fashion to enable smooth progress of the audit engagement.

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

#### **Legislation**

Section 7.9(1) of the *Local Government Act 1995* states:

*“An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon...”*

#### **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**

Not applicable.

### **COMMENT**

The audit conclusions underpin and reflect the audit opinion expressed by the OAG on the City's annual financial statements for 2017-18. There are no significant matters that the OAG wishes to highlight for redress by the City.

## **VOTING REQUIREMENTS**

Simple Majority.

**MOVED** Cr Jones **SECONDED** Mayor Jacob that the Audit and Risk Committee **NOTES** the Management Letters and the Audit Concluding Memorandum issued by the Office of the Auditor General in respect of the audit of the 2017-18 annual financial statements forming Attachments 2 and 3 to this Report.

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

*Appendix 4 refers*

To access this attachment on electronic document, click here: [Attach4agnAUDIT190305.pdf](#)

## **ITEM 10                    REVIEW OF ASSET DEPRECIATION IN THE CITY'S FINANCIAL RECORDS**

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|                               |  |
|-------------------------------|--|
| <b>WARD</b>                   | All  |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Mike Tidy<br>Corporate Services   |
| <b>FILE NUMBER</b>            | 107405, 101515   |
| <b>ATTACHMENTS</b>            | Attachment 1    KPMG Report on Asset Depreciation  |
| <b>AUTHORITY / DISCRETION</b> | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting'). |

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### **PURPOSE**

For the Audit and Risk Committee to note the results of an external review of asset depreciation at the City.

### **EXECUTIVE SUMMARY**

Following the introduction of mandatory fair value accounting for assets in the *Local Government (Financial Management) Regulations 1996* the City has experienced significant increases in the carrying value of assets held by the City. There has also during this time been a significant increase in asset depreciation, particularly of infrastructure assets. Essentially, infrastructure asset depreciation doubled from 2010-11 to 2017-18.

Although the City has received no adverse opinions of its asset accounting from external auditors during this time, it was considered appropriate that an independent party review the City's accounting methodology for asset depreciation to identify any issues that required addressing.

Through a request for quotation process undertaken via the WA State Government Common Use Arrangement, KPMG was selected to perform a review of asset depreciation and accounting and provide the City with a report (Attachment 1 refers), with recommendations for any improvements identified.

*It is therefore recommended that the Audit and Risk Committee NOTES the:*

- 1        KPMG Depreciation Review report for the City of Joondalup forming Attachment 1 to this Report;*
- 2        headline finding that the City's accounting methodologies for depreciation comply with accounting standards and other applicable accounting requirements.*

## BACKGROUND

At 30 June 2018 the City had approximately \$1.5 billion in assets, of which fixed assets made up 92%. Depreciation on assets is the third largest operating cost that the City incurs, comprising approximately 20% of total operating expenditure (not including impairment / write-off costs). While not a cash cost, depreciation reflects the progressive use of the City's assets over their useful lives, being an apportionment of the cash outlay incurred to acquire or construct them at the outset.

In terms of the valuation of assets, the Australian Accounting Standards do not stipulate whether an organisation should use cost basis or fair value accounting, leaving it up to the organisation to determine what is most reflective of its underlying financial position. In 2012, however, the *Local Government (Financial Management) Regulations 1996* (FMR) were amended to mandate that all local governments in Western Australia are to account for fixed assets at fair value. As the FMR supersedes the Accounting Standards, the City is required to disclose and report fixed assets at fair value. As a result of revaluations required to report at fair value, fixed assets have risen considerably. Property, plant and equipment has increased by 43% over the 10 year period between 2008-09 and 2017-18, while infrastructure assets carrying values have nearly doubled in the same time.

As depreciation is primarily a function of asset carrying values, it is thus not surprising that annual asset depreciation has also gone up 66% over the same 10 year period. Although correlation does not necessarily imply causation, the inference in this case is difficult to avoid.

The City has reported operating deficits over the past number of years. Although, the City has consistently generated cash operating surpluses (excluding non-cash items such as depreciation) during the same time, depreciation is a legitimate cost of the City's operations that has to be taken into account when analysing the City's underlying financial position.

External auditors have expressed unqualified opinions on the City's annual financial statements throughout, which can be understood to include opinions of the City's accounting for assets, including asset depreciation since a material misstatement in this area would necessarily affect the fair presentation of the City's annual financial statements.

Notwithstanding this, it is important that the City is managing asset depreciation to best advantage. This assumes more significance in the context of the City's *Strategic Financial Plan* objective to achieve an operating surplus in the medium term. It is thus essential to have reasonable assurance that the City's asset depreciation accounting and methodologies are in line with accounting standards and other requirements, and also to seek advice on ways to further improve asset accounting.

## DETAILS

Following an evaluation process, KPMG was duly engaged to undertake a review of asset depreciation and related accounting practices and methodologies at the City for compliance with accounting standards and best practice, as well as reviewing asset accounting processes and providing recommendations for improvement.

Scope of review project

- Review covered three asset classes, namely Buildings, Drainage and Transport.
- Data referenced for the review was asset values at 30 June 2017, derived from the most recent audited financial statements available (2017-18 audited information was not available at the time).
- Whether depreciation accounting methodology at the City was in compliance with accounting standards and any other applicable requirements, including legislation.
- Whether asset revaluations were completed in accordance with legislation and accounting standards, and impact on 2016-17 depreciation if this was not the case.
- Review of asset accounting processes at the City, for the purposes of accurate estimate of depreciation and asset write-downs in annual budgets and recommendations to address gaps identified.
- Review the City's methodology of estimating asset useful lives, whether these are based on data and recommendations for improvement, including consideration of peer reviews of useful life estimates.

Depreciation Review results

KPMG has now completed its review and supplied the City with a report (Attachment 1 refers). The headline finding is that the City's methodologies and practices for the calculation of depreciation, including useful life estimates and residual values, are compliant with accounting standards and other applicable accounting requirements.

Within this overall finding, there are a number of other findings and recommendations that KPMG has made, with the key ones outlined below.

| <b>Review Area</b>  | <b>Finding</b>   | <b>Recommendation</b>   | <b>City of Joondalup Comment</b>   |
|---------------------|--|---|--|
| Asset revaluations. | Overall revaluation methodology applied is in compliance with accounting standards and FMR, subject to findings below. AASB116 requires that revaluation increments and decrements on assets be offset within an asset class and the net increment/decrement be recognised in the Statement of Comprehensive Income in either Profit & Loss or Other Comprehensive Income. | CoJ assess significance and undertake further analysis if required. | The net impact of not offsetting increments and decrements within an asset class is not material and does not misstate the overall impact reflected in the Statement of Comprehensive Income or the Revaluation Surplus Reserve; however, the City will ensure that this is complied with for future revaluations. |

| Review Area                          | Finding  | Recommendation  | City of Joondalup Comment   |
|--------------------------------------|--|---|---|
|                                      | <p>The City currently discloses and reports increments and decrements on an individual asset basis.</p>  |   |   |
|                                      | <p>Revaluations undertaken did not reflect adjustments to existing accumulated depreciation as required in AASB 116 (based on sample tested).</p>              | <p>CoJ analyse to consider impact on depreciation in future years, and whether written down values require adjustment.</p>  | <p>Processes are being reviewed to prevent recurrence of the same. No impact on 2016-17 depreciation due to revaluations at year end. Notes that no material misstatement identified by auditors.</p> |
| Depreciation                         | <p>Depreciation methodology and useful life estimations are in compliance with accounting standards.</p>   |   |   |
|                                      | <p>Sample testing of depreciation calculations identified some differences arising from commissioning date differences due to componentisation in 2015-16.</p> | <p>Review processes to ensure depreciation calculations variances are identified prior to depreciation being processed.</p> | <p>Processes being updated to accommodate review of depreciation calculations generated by the financial system.</p>  |
| Componentisation and residual values | <p>City's general approach of nil residual values is in line with accounting standards' requirements.</p>  |   |   |
|                                      | <p>Current componentisation structure is considered appropriate.</p>   |   |   |

### Benchmarking

KPMG also performed a benchmarking analysis, comparing the City to a number of other local governments in Western Australia and other states, using 2016-17 audited financial statements. Some of the other local governments included the Cities of Stirling, Wanneroo, Perth, Sydney and Melbourne. The two measures compared were:

- depreciation to Fixed Assets Ratio, or rate of depreciation (total depreciation expense for the year as a percentage of total value of fixed assets)
- implied Useful Lives (the opposite of the above measure).

Both average and median values were determined for the above and the City's measures compared to the others.

The analysis was further broken down to apply this measure at an asset class level, for the following asset classes:

The results may be summarised as follows:

| Asset Class             | Average Depreciation % | Median Depreciation % | City of Joondalup Depreciation % |
|-------------------------|------------------------|-----------------------|----------------------------------|
| All Assets              | 2%                     | ~1.8%                 | <1.8%                            |
| Buildings               | ~2.4%                  | ~2.1%                 | ~1.2%                            |
| Roads                   | ~1.7%                  | ~1.6%                 | ~1.65%                           |
| Footpaths               | ~2.2%                  | ~1.9%                 | ~1.25%                           |
| Bridges and Underpasses | ~1.4%                  | ~1.5%                 | ~0.8%                            |
| Drainage                | ~1.2%                  | ~1.1%                 | ~1.05%                           |

This appears to indicate that the City's rate of depreciation is below both the average and median ratios and ranked among the lowest in the population considered. Fundamentally, it implies that generally the City's depreciation levels are lower than most compared with the value of assets held. This suggests, subject to further investigation, that the City's annual depreciation is not excessive relative to the value of assets.

### Current State Analysis

KPMG held a full day workshop with key staff in Asset Management and Finance to review existing processes for various aspects of asset management and accounting, to identify gaps and consider opportunities for improvement.

Key improvement recommendations include the following:

- Redesign the end to end asset acquire-to-retire process to better support business and finance needs.
- Develop and implement various exception reports to help identify errors or inaccurate data (for example assets whose value has increased / decreased by more than x%).
- Develop clear guidance and training to ensure accountabilities and requirements are understood, and if necessary, establish KPIs to reinforce accountabilities.

Actions arising:

- Review KPMG process improvement recommendations and set a timeline for implementation. Process improvements, wherever possible, to be in place for 2018-19 end of financial year.
- Review asset revaluation process to improve:
  - data collection and analysis procedures
  - use of historical data for useful life estimates
  - review of revaluation calculations to ensure compliance with AASB 116
  - robust review and sign-off process to confirm compliance.

As these relate to the revaluation process some aspects have already commenced implementation, but it is expected that all improvements will be in place by January 2020 for the next revaluation anticipated in 2019-20.

### **Legislation / Strategic Community Plan / Policy implications**

**Legislation** Regulation 17(2) of the *Local Government (Financial Management Regulations) 1996*.

### **Strategic Community Plan**

**Key theme** Financial Sustainability.

**Objective** Effective management.

**Strategic initiative** Manage liabilities and assets through a planned, long-term approach.

**Policy** Not applicable.

### **Risk management considerations**

Not applicable.

### **Financial / budget implications**

The City incurred a cost of \$45,400 (excluding GST) for the review.

All amounts quoted in this report are exclusive of GST.

### **Regional significance**

Not applicable.

### **Sustainability implications**

Not applicable.

### **Consultation**

The City engaged KPMG to conduct this review. KPMG collected data from other local governments that was already available in the public domain, in performing the benchmarking analysis part of the review exercise.

**COMMENT**

The report has highlighted some gaps in the City's processes that require closing, and improvements in processes that will enhance asset accounting and budgeting for depreciation. Nonetheless, the overall finding that the City is compliant in its depreciation methodologies, including useful life estimates, with accounting standards and legislative requirements supplements annual financial audits that have not highlighted any material issues in the City's accounting and reporting practices.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr McLean SECONDED Cr May that the Audit and Risk Committee NOTES the:**

- 1 KPMG Depreciation Review report for the City of Joondalup forming Attachment 1 to this Report;**
- 2 headline finding that the City's accounting methodologies for depreciation comply with accounting standards and other applicable accounting requirements.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

*Appendix 5 refers*

*To access this attachment on electronic document, click here: [Attach5agnAUDIT190305.pdf](#)*

## **ITEM 11                    SIGNIFICANT        CHANGES        TO        ACCOUNTING STANDARDS AFFECTING THE CITY**

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|                                 |  |
|---------------------------------|--|
| <b>WARD</b>                     | All  |
| <b>RESPONSIBLE<br/>DIRECTOR</b> | Mr Mike Tidy<br>Corporate Services   |
| <b>FILE NUMBER</b>              | 55055, 101515  |
| <b>ATTACHMENTS</b>              | Nil  |
| <b>AUTHORITY / DISCRETION</b>   | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting'). |

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### **PURPOSE**

For the Audit and Risk Committee to note the changes to the Australian Accounting Standards (AAS) that impact on the City's financial reporting for the year ending 30 June 2020.

### **EXECUTIVE SUMMARY**

As a reporting entity, the City is required to prepare its Annual Financial Report according to the requirements of AAS and relevant interpretations issued by the Australian Accounting Standards Board (AASB). New standards are introduced and / or existing standards amended periodically to address technical or other reporting developments. Significant changes to accounting standards that will take effect in the 2019-20 financial year are presented here for the Committee's information.

*It is therefore recommended that the Audit and Risk Committee NOTES the changes to the Australian Accounting Standards that are applicable to the City of Joondalup in the year ended 30 June 2020.*

### **BACKGROUND**

A local government is a "reporting entity" as defined in paragraph Aus7.2 of AASB 101 *Presentation of Financial Statements* and is required to prepare general purpose financial reports in accordance with AAS as well as the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996* (FMR). Regulation 5A of the FMR prescribes that a local government shall comply with the AAS.

### **DETAILS**

The main accounting standards changes applicable to the City's Financial Report for the year ending 30 June 2020 are as follows:

#### **1        AASB 16 – Leases**

A new AASB 16 – Leases accounting standard (Attachment 1 refers) has been introduced requiring a change to the way the City accounts for leases.

AASB 16 supersedes the existing AASB 117 – Leases standard for all accounting periods beginning on or after 1 January 2019. As the City's accounting period commences on 1 July, this will be effective for the City for the 2019-20 financial year and beyond.

#### Existing accounting standard

Under the current AASB 117 standard, leases are classified into two types - finance leases and operating leases. A finance lease is one which transfers substantially all the risks and rewards incidental to ownership, whether or not title to the asset is eventually transferred. AASB 117 prescribes a number of criteria that must be fulfilled for a finance lease to be recognised. All leases other than finance leases are operating leases.

As a lessee, operating leases are much less onerous to account for than finance leases. Lease payments under an operating lease must be recognised in the income statement as an operating expense.

The City is a lessee in a number of operating leases, the more significant of which include the following:

- Land leased from the Water Corporation on which the Works Operations Centre (WOC) has been erected.
- The premises in which the Blender Art Gallery is situated.
- Storage unit leased for use for various City events, including the Joondalup Festival.
- Gym and other equipment leases, including printers / copiers.

Under the existing AASB 117, the City recognises these as operating leases and reflects the cost of lease payments as an operating expense in the income statement. The largest operating lease cost the City presently incurs is the Water Corporation land for the WOC, approximately \$467,000 in the 2018-19 Budget.

None of the leases the City has entered into qualify as finance leases.

#### New accounting standard

The most significant change in the new standard is the removal of the distinction between finance and operating leases for lessee accounting (a lessor will continue to classify leases as finance and operating, similar to the old standard).

Essentially, all leases in a lessee's books will now be considered in the same way as finance leases under the old standard, subject to some restrictions. Leases in a lessee's books will now require the recognition of a lease asset (a Right-Of-Use asset) and lease liability (both asset and liability recognised in the Balance Sheet) and recognition of right-of-use asset depreciation expense and lease liability interest expense in the entity's income statement. The only leases that will not have to be treated in this way are (although an entity can still choose to do so):

- Leases that are for a term of 12 months or less on commencement, except those that contain an option to purchase.
- Leases for which the underlying asset is of low value. Low value is not considered on the basis of materiality to the lessee, but on an absolute basis.

This will have a significant impact on the City's accounting treatment of operating leases. At present, lease payments are recognised as operating expenses and no right-of-use asset or lease liability is required to be recognised in the balance sheet. As this accounting treatment is effective for the City on 1 July 2019, it will need to be reflected in the 2019-20 Annual Budget.

For new leases, the application of this standard will be straight forward. The standard recognises that this process is more difficult for current and ongoing operating leases, and therefore provides for a number of transitional options from which an entity may choose at 1 July 2019, namely:

- (a) apply the standard as though it had always applied and restate the comparative (previous financial) year
  - (b) measure the lease liability at the present value of remaining lease payments and the right-of-use asset as if the standard always applied, and do not restate the comparative (previous financial) year
- or
- (c) measure the lease liability at the present value of remaining lease payments and the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease which are recognised in the balance sheet immediately before the transition date. The comparative (previous financial) year is not restated.

The third option reduces comparability but also minimises the cost and effort required for implementation.

The standard permits subsequent measurement of right-use assets and lease liabilities may be on a cost basis, unless the entity chooses to apply a revaluation model. There is no particular benefit in using a revaluation model, and the City will not elect to do this unless required by legislation or another accounting standard.

As part of the 2019-20 budget process, analysis will be presented through the budget workshop process on the impact of the required changes in operating expenses and the preferable transitional option for the City.

### Impacts

Operating expenses previously reflected as lease payments due under a lease will now be re-presented as depreciation on a right-of-use asset and interest on a lease liability. Depending on the transitional option chosen by the City, the change in total operating expenses is not likely to be material, but percentage variance may be significant depending on the remaining term of each lease.

This can be illustrated using the following leases as examples, assuming that the City chooses to use transitional option (c) described above. If estimated lease payments for 2019-20 are used for comparative purposes:

| Description of Lease | Current Standard – Operating Lease payments (estimated 19-20) | New Standard – Right of Use Asset Depreciation & Lease Interest (estimated 19-20) | Variance        |
|----------------------|---|---|-----------------|
| WOC land             | \$ 466,896  | \$ 556,116  | \$ 89,220 (19%) |
| Blender Gallery      | \$ 78,000   | \$ 79,658   | \$ 1,658 (2%)   |

The creation of a right-of-use asset and a corresponding lease liability may also affect some of the key financial ratios, including debt service cover ratio and the current ratio. The extent of this has not yet been determined.

AASB 116 permits entities to continue to measure the right-of-use asset and lease liability using a cost model, without having to adjust for fair value on an ongoing basis. The *Local Government (Financial Management) Regulations 1996* in Regulation 17A(2) states as follows:

*“Subject to subregulation (3), the value of an asset shown in the local government’s financial reports must be the fair value of the asset.”*

According to Regulation 4(1) of the *Local Government (Financial Management) Regulations 1996* where there is an inconsistency between the Regulations and the AAS, the Regulations will prevail. It is not entirely clear at this time, whether this can be interpreted to mean that Regulation 17A(2) requires local governments to carry right-of-use assets at fair value, as is the case with fixed assets. Advice is being sought on this aspect, including from the Office of the Auditor General.

## **2 AASB 1058 – Income of Not-For-Profit Entities (as amended by AASB 2018-8 Amendments to Australian Accounting Standards – Right-Of-Use Assets of Not-For-Profit Entities).**

There are a number of significant changes that have been introduced by AASB 1058 *Income of Not-for-Profit Entities* (Attachment 2 refers) which are effective for the City from 1 July 2019. Where application is modified by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-Of-Use Assets of Not-for-Profit Entities* (Attachment 3 refers), this has been noted.

### Volunteer Services

Local governments are required to recognise the value of volunteer services received if two conditions are met, namely:

- (a) that the fair value of those services can be reliably measured
- (b) that the services would have been purchased if they had not been donated to the local government.

The value of such volunteer services received, if recognised, must be disclosed as revenue and expense in the financial statements.

The extent to which volunteer services received by the City meet both these criteria will be assessed in the course of 2019-20 in time for end of year reporting. Even where volunteer services are not recognised in the financial statements, the City will be required to disclose additional information in the financial statements about reliance on such services.

### Assets Received Below Fair Value (including peppercorn leases)

AASB 1058 requires entities to measure assets, including right-of-use assets as a lessee, that are acquired at values significantly below that asset’s fair value to be initially measured at fair value. The entity is required to recognise the difference between the fair value and the actual transaction price as income, a contribution by owners or as a liability, subject to the specific provisions in the Standard.

This part of the standard changes the application of AASB 16 *Leases* for non-profit entities, by requiring that right-of-use lease assets in such situations be measured initially at fair value, rather than measuring the asset at the present value of remaining lease payments. However, the application of this standard has been modified by the AASB through the issuing of AASB 2018-8 in December 2018, which provides that not-for-profit entities, such as the City, “may elect” to measure such right-of-use assets (under peppercorn leases) initially at fair value, thus removing the mandatory fair value requirement in this regard.

In effect, AASB 2018-8 allows the City to measure nominal or zero value (“peppercorn”) leases, where it is the lessee, using a cost model instead of fair value, subject to disclosure of additional information in the financial statements.

For instance, where a local government enters into a lease where an asset, such as land is leased to the local government on a peppercorn basis, AASB 1058 requires that such leased assets must initially be recognised in the local government’s records at fair value, with the excess of the fair value over the nominal value of the peppercorn lease to be recognised as revenue (subject to the specific provisions of the standard). With the application of AASB 2018-8, the City can measure these right-of-use assets using the cost model, but will be required to provide disclosures in the financial statements about the nature and terms of such leases and the extent to which the City depends on such leases to achieve its objectives.

It may be noted that the AASB describes AASB 2018-8 as a temporary option for not-for-profit entities, pending the development of further guidance for measurement of right-of-use assets at fair value. It is not clear when such guidance will be issued and what impact this might have on the operation of AASB 1058 in the long-term.

#### Grants or Contributions Received to Construct or Acquire Assets

Where the City receives a government grant or other contribution in order to acquire or construct an asset, such as building or road, where the unspent portion of the grant is required to be refunded, the grant must be recognised as a liability until actually expended.

For example, the City receives grants for various infrastructure construction projects. A project may be scheduled to commence in Year 2 with a grant funding two-thirds of the construction cost. If the City receives the grant early, in Year 1, before any construction has commenced, the current accounting treatment is to recognise the grant as revenue in the year of receipt and hold it in a reserve to be drawn down and expended in Year 2, according to the project schedule.

Under the provisions of AASB 1058, where unspent grants are required to be repatriated by the City, the early receipt of this grant cannot be recognised as income in the year of receipt, as no expenditure has taken place. The City must now record the early receipt of the grant as a liability and recognise revenue only as funds are expended. If the grant is fully expended in construction during Year 2, then it may be recognised fully as revenue in Year 2.

The requirement to recognise early receipt of grants for assets as a liability may impact the City’s current ratio, as grants received in advance in this manner would be considered current liabilities.

### Grants or Contributions Received other than for Assets

The City receives a number of operating grants for various purposes during the year. Where a grant has specific and enforceable obligations attached, such as a requirement to repay the funds if a particular service or activity is not undertaken, AASB 1058 requires that such grants be accounted for in accordance with AASB 15 *Revenue*. The latter standard considers such arrangements to be contracts with grantors and requires that the grant must be recognised as revenue only when the specific obligations have been met.

For example, if the City receives grant funding for Book Week, with specific obligations regarding the activities that must be undertaken by the City with that grant, it can only be recognised as revenue once those obligations have been fulfilled. Until then the funds received must be treated as a liability in the City's books.

Where operating grants received by the City during 2019-20 have specific and enforceable obligations that have not been discharged by 30 June 2020, the grants must be recorded as liabilities in the City's financial statements for 2019-20. This may have an impact on the City's current ratio, as these will most likely be reported as current liabilities.

### Rates Received in Advance

AASB 1058 requires that rates received in advance of the specific rating year not be accounted for as revenue on receipt, but be recorded as a liability and recognised as revenue only in the relevant rating year.

Ratepayers often set up perpetual direct debits by which the City receives payments towards rates on a regular basis. In some cases, the payments may result in the ratepayer's account going into credit by the end of a financial year. The credit balance must be treated as a liability, and not recognised as revenue in the year of receipt.

The City already accounts for prepaid rates as a liability, so no impact is expected in the financial statements.

## **Legislation / Strategic Community Plan / Policy implications**

**Legislation**                      *Local Government Act 1995, Local Government (Financial Management) Regulations 1996, Australian Accounting Standards.*

### **Strategic Community Plan**

**Key theme**                        Financial Sustainability.

**Objective**                        Effective management.

**Strategic initiative**          Not applicable.

**Policy**                              Not applicable.

### **Risk management considerations**

Non-compliance with the requirements of AAS will breach the statutory obligation prescribed by the provisions of the *Local Government (Financial Management) Regulations 1996* and may lead to audit qualification.

**Financial / budget implications**

At present, total impact of changes arising from AASB 16 in 2019-20 have not been fully quantified but are not expected to be material (see Page 69 of this agenda). These are expected to be reflected in the 2019-20 budget.

No impact is expected in the 2019-20 annual budget in respect of the other changes noted. Impacts on actual revenue recognised in 2019-20 and current liabilities at the end of 2019-20 will only be evident next financial year, as the City's budget is prepared now on the basis that revenue recognised in the budget year will be earned in accordance with the accounting standards.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Specific consultation has not been undertaken in regard to these proposed changes other than the advice being sought from the Office of the Auditor General in respect to whether Regulation 17A(2) requires local governments to carry right-of-use assets at fair value, as is the case with fixed assets. Guidance has been issued by various parties, including accounting firms and government bodies, and was referred to in analysing these changes.

**COMMENT**

The changes highlighted represent a change in the way the City has accounted for various transactions, such as operating leases. The necessary amendments to accounting, budgeting and reporting processes and systems are being put in place to ensure compliance with effect from 1 July 2019.

Full details of the new standards have been uploaded to the Elected Member's Portal.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr McLean SECONDED Cr Chester that the Audit and Risk Committee NOTES the changes to the Australian Accounting Standards that are applicable to the City of Joondalup in the year ended 30 June 2020.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

## ITEM 12 CYBER-SECURITY TESTING

|                               |   |
|-------------------------------|---|
| <b>WARD</b>                   | All   |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Mike Tidy<br>Corporate Services  |
| <b>FILE NUMBER</b>            | 70538, 101515   |
| <b>ATTACHMENTS</b>            | Attachment 1 City of Joondalup Social Engineering – Phishing<br>Attachment 2 City of Joondalup External Penetration Testing<br><br><i>(Please Note: The Attachments are confidential and will appear in the official Minute Book only).</i> |
| <b>AUTHORITY / DISCRETION</b> | Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').  |

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### PURPOSE

For the Audit and Risk Committee to note the details of the most recent cyber-security testing performed on the City's network systems.

### EXECUTIVE SUMMARY

The City engages the services of a specialist external company to perform cyber security testing on the City's network systems every year.

This report provides the Audit and Risk Committee with details of the most recent tests performed by qualified consultants ES2. The results of the testing were detailed in the following reports provided to the City:

- 1 City of Joondalup Social Engineering – Phishing (18 June 2018).
- 2 City of Joondalup External Penetration Testing (19 July 2018).

*It is therefore recommended that the Audit and Risk Committee NOTES the results of the testing performed on the City's network systems as detailed in the reports City of Joondalup Social Engineering – Phishing and City of Joondalup External Penetration Testing forming Attachments 1 and 2 to this Report.*

### BACKGROUND

The City undertakes formal cyber-security testing at least twice a year by a qualified external consultant. The most recent testing was undertaken by ES2, a local company specialising in network and internet security testing. The testing was structured in two parts as follows:

1 Social engineering testing, or “phishing”.

This is the use of deception, in an attempt to manipulate individuals into divulging sensitive or personal information that may be used for fraudulent purposes. This involved an email based phishing test aimed at acquiring user authentication credentials, such as username and password, from City employees.

2 Penetration testing.

Internet penetration testing aimed at finding weaknesses and potential vulnerabilities in the City’s network configuration and the software residing on the network including servers, email gateways, webmail, remote access facilities, VPN and the like.

ES2 provided the City with the results of the testing in two separate reports - *City of Joondalup Social Engineering – Phishing* and *City of Joondalup External Penetration Testing* on 18 June 2018 and 19 July 2018 respectively.

## DETAILS

The City’s Information Technology (IT) staff provided no information to the testing team. The attack strategy was developed around a “black box” approach using only publicly available information and details about City of Joondalup user accounts sourced from various open source hacking lists and the like. IT staff were provided a list of potential targets for the phishing test to review and given the opportunity to exclude potentially sensitive accounts.

At all stages during the testing, Network Services staff were kept informed of the progress of testing activity. This provided the opportunity to monitor for any potential impacts and monitor the results in real time.

1 City of Joondalup Social Engineering – Phishing.

### Testing Approach

From a list of 100 potential employee email addresses, 98 emails were sent in total. User accounts were sourced from various internet sources. Some of these details may well have been gained from previous phishing attacks as well as hacks on major internet services, blogging, social networking and cloud services.

The phishing attack was essentially a moderately well engineered email, similar to that used in previous testing. In terms of sophistication, the design and content of the phishing email and website emulated the City’s branding standards to some degree in terms of logo placement, colour, font and the like. Most of these details are easily available from the City’s website.

From an IT perspective the phishing email was relatively unsophisticated. The structure, content and branding did not have the attention to detail of phishing tests previously undertaken.

It should be noted that at no stage did the City’s IT staff provide any employee user details to the ES2 testing team.

### Test Results

Of the 98 email addresses targeted the following results are noted in the reports:

- 79 user accounts were identified as successfully receiving the email.
- 37 employees (47%) opened the email, thus risking a potential attack on the City's network.
- 17 (21%) clicked on the link contained within the phishing email and accessed the phishing attack website. In these cases no user details were provided, however, if this had been a malicious code attack such as Cryptolocker or Wannacry and the like, these 17 employees could potentially have instigated a malicious attack on the City's networks. In a real world scenario, it only requires one basic interaction to enable a successful attack causing significant disruption.
- 14 employees (18%) responded to the email and provided login credentials to the phishing website. The veracity of the credentials provided was not tested, but commonality with details sourced from hacking sites would suggest that many of the passwords provided were genuine.

IT staff did receive several enquiries regarding the phishing attack and the nature of the content of the phishing email. IT staff were instructed not to issue an alert regarding the email attack and allowed the testing to run its course. During normal business hours IT staff would have taken appropriate measures to combat the attack.

Other points of interest that came from the logging and monitoring undertaken concurrently by the City's Network Services staff:

- The speed at which the attack was successful. Responses where a user had accessed the phishing site, provided login details and completed the security awareness survey had occurred within minutes of the campaign initiation.
- Many users accessed the site multiple times (and continued to attempt access for several days after). Successful hacks will sometimes use an interesting but benign web link to attract interest with malicious code only being added once the attack has gained traction and has more chance of penetration.
- Information provided in the "fake" survey indicated that staff are on average only "moderately concerned" about cyber-security and believe that they have sound security practices.
- The use of common passwords is a significant risk. Details sourced from hacking sites indicate that using the same password for access to City and non-City services is reasonably common, potentially putting the City at risk from successful attacks against other networks.

## 2 City of Joondalup External Penetration Testing.

### Testing Approach

Included in the security review was a series of network penetration tests against external facing systems including network infrastructure, web, email, remote access and virtual desktop services. All gateway testing was undertaken from locations external to the City to accurately simulate an attack from an external "internet based" attacker.

In general, the network penetration testing is aimed at identifying network addresses and service ports associated with the City's internet connections and discovering vulnerabilities in firewall configuration through incorrectly configured or poorly defined rules, unpatched firewall vulnerabilities, incorrect configuration of internet facing network infrastructure and the like.

Initial scanning for addresses and service ports leads on to further testing aiming to identify vulnerabilities in any of the discovered production and test infrastructure. In this scenario the testing regime is aiming to detect unpatched system vulnerabilities, incorrectly configured services and poor operating system (OS) configuration (unsupported OS versions and unpatched OS vulnerabilities).

### Test Results

Overall five high risk vulnerabilities were discovered, three medium risks and seven low risks which are summarised as follows:

#### High Risk

- Several applications found to be missing security-related patches.
- Password identified that would be considered weak to certain attacks.
- Cisco smart install service was detected which allows unauthenticated access.
- Application publishes a Flash cross-domain policy which allows access from any domain.
- Server is running an obsolete version of the secure shell service.

#### Medium Risk

- A system was found to support version 3 of the SSL protocol, which contains known vulnerabilities relating to encryption and padding.
- A hard lockout mechanism was detected that could allow a legitimate user to lock themselves out even if they knew their password.
- It was possible to attempt access to the management interface of a Tomcat application / server.

#### Low Risk

- 'Clickjacking' attack possible where an attacker may craft a malicious website fooling an unsuspecting user into thinking the website was safe to browse.
- A HTTP 1.0 GET request without a host header specified can be used to return the internal IP address of the Outlook web application server.
- It was possible to test the validity of usernames via certain requests to an Outlook web application instance.
- A directory was found to be open to browsing.
- Versions for several jQuery-related JavaScript libraries were identified that contain known vulnerabilities.
- A default information file relating to PHP was identified on the hosts, containing potentially sensitive information.
- The application was not found to return a Strict-Transport-Security header during communications.

### Recommendations

ES2 made the following recommendations in their report:

- 1 Develop / update and carry out a program of security awareness training to communicate with users the up-to-date threats associated with social engineering and phishing attacks. This must include how to identify potentially malicious emails and how users should react if they suspect they have received one. Prescribed reactions should include reporting the email and avoidance of further interaction with the email or sender.
- 2 Enforce the use of strong passwords on impacted accounts. Privileged accounts (such as Administrators) and those with privileged access rights (such as Remote Desktop or remote access) need to be prioritised.

It is highly recommended that a program of security awareness training for staff should include emphasis on the selection of strong passwords. This should include the following:

- references to the risks of password reuse across different services
  - avoidance of common passwords
  - dictionary words and words related to the user or organisation
  - avoidance of repetition.
- 3 Configure email clients to disable the automated loading of third-party images and content. In addition, training should be given to users on the implication or potential security risks of allowing such content.

### Actions

The City accepted these recommendations, with the following actions to be taken to address security issues raised:

- 1 Include a review of current policies and processes around the receipt of various attacks and particularly phishing attacks in the review / rewrite of the IT Security Protocol. (Completed).
- 2 Implement further staff training to raise awareness of the risks to corporate and private information when falling victim to malicious internet attacks. (Training is an ongoing program).
- 3 Enforce the use of stronger password complexity within domain policy and include this in the revised *IT Security Protocol* and *Password Policy* (Completed).
- 4 Enforce a policy whereby email client software is configured to not automatically download content. (Completed).
- 5 A review of non-standard accounts, specifically generic logins with fixed passwords and staff that have been excluded from password policies. (Completed).
- 6 Implementation of two factor authentication procedures for remote access services such as virtual desktop services and VPN. (Technical configuration completed. Implementation of procedures still being progressed).

Some of the recommendations detailed in the full report have implications in terms of ease of use for staff (such as password complexity, two factor authentication and password expiry). A review of the balance between ease of use and security will be undertaken on a regular basis.

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

**Legislation** Not applicable.

#### **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**

Engaging external qualified consultants to test the City's network systems identifies risks and vulnerabilities that allow mitigation processes to be implemented.

### **Financial / budget implications**

Not applicable.

### **Regional significance**

Not applicable.

### **Sustainability implications**

Not applicable.

### **Consultation**

Not applicable.

### **COMMENT**

The penetration testing has found no significant vulnerabilities, but has identified several non-critical areas for improvement and areas where procedures or technical configuration would benefit from being reviewed. This is the security testing organisation doing what is required for the service such as validating that our protective measures are current and effective, and identifying areas for further continuous improvement.

The results of the social engineering tests are of greater concern. In general, the most popular and effective 'attack vector' in cyber-crime is to prey on people's weaknesses, greed, ignorance or curiosity. Breaking through technology-based protection is by comparison difficult. The results of previous testing in 2017 were unacceptably poor. User education in cyber-security clearly needed to be improved. Resulting awareness sessions, presented by ECU SRI, were conducted during June and July 2018. The post-training survey feedback from these sessions indicated that staff attending thought them to be interesting and enlightening. The results from the 2018 round of social engineering testing were significantly improved. The conclusions being that training works, and that more training, including refresher training, be extended to all staff, senior staff and Elected Members.

## **VOTING REQUIREMENTS**

Simple Majority.

**MOVED Cr Jones SECONDED Mayor Jacob that the Audit and Risk Committee NOTES the results of the testing performed on the City's network systems as detailed in the reports City of Joondalup Social Engineering – Phishing and City of Joondalup External Penetration Testing forming Attachments 1 and 2 to this Report.**

**The Motion was Put and**

**CARRIED (7/0)**

**In favour of the Motion:** Cr Hamilton-Prime, Mayor Jacob, Crs Chester, Jones, May, McLean and Mr Thomas.

**Disclosure of interest affecting impartiality**

|                           |   |
|---------------------------|---|
| <b>Name/Position</b>      | <b>Mr Garry Hunt, Chief Executive Officer.</b>  |
| <b>Item No./Subject</b>   | Item 13 - Confidential - Chief Executive Officer's Credit Card Expenditure – July - September 2018. |
| <b>Nature of interest</b> | Interest that may affect impartiality.  |
| <b>Extent of Interest</b> | The Chief Executive Officer is the card holder.   |

## **ITEM 13                    CONFIDENTIAL CHIEF EXECUTIVE OFFICER'S CREDIT CARD EXPENDITURE - JULY – SEPTEMBER 2018**

|                               |  |
|-------------------------------|--|
| <b>WARD</b>                   | All  |
| <b>RESPONSIBLE DIRECTOR</b>   | Mr Mike Tidy<br>Corporate Services   |
| <b>FILE NUMBER</b>            | 09882  |
| <b>ATTACHMENT</b>             | Attachment 1    Chief Executive Officer's Credit Card Expenditure – Quarter Ended 30 September 2018  |
|                               | <i>(Please Note: The Report and Attachment is confidential and will appear in the official Minute Book only).</i>                                |
| <b>AUTHORITY / DISCRETION</b> | 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.

*The Director Corporate Services tabled an updated Attachment 1 to this Report.*

**MOVED Cr McLean SECONDED Cr May 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 September 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 Chester, Jones, May, McLean and Mr Thomas.

**Disclosure of interest affecting impartiality**

|                           |   |
|---------------------------|---|
| <b>Name/Position</b>      | <b>Mr Garry Hunt, Chief Executive Officer.</b>  |
| <b>Item No./Subject</b>   | Item 14 - Confidential - Chief Executive Officer's Credit Card Expenditure - October - December 2018. |
| <b>Nature of interest</b> | Interest that may affect impartiality.  |
| <b>Extent of Interest</b> | The Chief Executive Officer is the card holder.   |

## **ITEM 14                    CONFIDENTIAL CHIEF EXECUTIVE OFFICER'S CREDIT CARD EXPENDITURE - OCTOBER – DECEMBER 2018**

|                             |  |
|-----------------------------|--|
| <b>WARD</b>                 | All  |
| <b>RESPONSIBLE DIRECTOR</b> | Mr Mike Tidy<br>Corporate Services   |
| <b>FILE NUMBER</b>          | 09882  |
| <b>ATTACHMENT</b>           | Attachment 1    Chief Executive Officer's Credit Card Expenditure – Quarter Ended 31 December 2018 |

*(Please Note: The Report and Attachment is confidential and will appear in the official Minute Book only).*

|                               |  |
|-------------------------------|--|
| <b>AUTHORITY / DISCRETION</b> | 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.

*The Director Corporate Services tabled an updated Attachment 1 to this Report.*

**MOVED Cr McLean SECONDED Cr May 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 December 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 Chester, Jones, May, McLean and Mr Thomas.

**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 7.01pm; 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 Chester  
Mr Richard Thomas