

# Audit & Risk Committee Meeting

Minutes for Tuesday 19 March 2019

## UNCONFIRMED



**city of  
kalamunda**

## INDEX

|  |           |
|--|-----------|
| <b>1. Official Opening</b> .....   | <b>3</b>  |
| <b>2. Attendance, Apologies and Leave of Absence Previously Approved</b> .....   | <b>3</b>  |
| <b>3. Public Question Time</b> .....   | <b>4</b>  |
| <b>4. Petitions/Deputations</b> .....  | <b>4</b>  |
| <b>5. Confirmation of Minutes from Previous Meeting</b> .....                    | <b>4</b>  |
| <b>6. Announcements by the Member Presiding Without Discussion</b> .....         | <b>4</b>  |
| <b>7. Matters for Which the Meeting may be Closed</b> .....                      | <b>4</b>  |
| <b>8. Disclosure of Interest</b> .....   | <b>5</b>  |
| <b>9. Reports to Council</b> .....   | <b>6</b>  |
| <b>9.1. Corporate Services Reports</b> .....                                     | <b>6</b>  |
| 9.1.1. Internal Audit Report March 2019 .....                                    | 6         |
| 9.1.2. City of Kalamunda Risk Profile.....                                       | 12        |
| 9.1.3. Internal Audit Plan 2018/19 .....   | 18        |
| 9.1.4. Integrated Risk Management Plan - Opportunities for Recalibration .....   | 23        |
| <b>9.2. Office of the CEO Reports</b> .....                                      | <b>28</b> |
| 9.2.1. Compliance Audit Return 2018 .....  | 28        |
| <b>10. Motions of Which Previous Notice has been Given</b> .....                 | <b>31</b> |
| <b>11. Questions by Members Without Notice</b> .....                             | <b>31</b> |
| <b>12. Questions by Members of Which Due Notice has been Given</b> .....         | <b>31</b> |
| <b>13. Urgent Business Approved by the Presiding Member or by Decision</b> ..... | <b>31</b> |
| <b>14. Meeting Closed to the Public</b> .....                                    | <b>31</b> |
| <b>15. Closure</b> .....   | <b>32</b> |

**1. Official Opening**

The Presiding Member opened the meeting at 6.30pm and welcomed Councillors, Staff, a representative from Crowe Horwath and Members of the Public Gallery.

**2. Attendance, Apologies and Leave of Absence Previously Approved**

**Councillors**

**South East Ward**

Michael Fernie  
Geoff Stallard

**South West Ward**

Lesley Boyd  
Allan Morton  
Brooke O'Donnell

**North West Ward**

David Almond  
Sara Lohmeyer  
Dylan O'Connor

**North Ward**

Kathy Ritchie  
Margaret Thomas (Presiding Member)

**Members of Staff**

**Chief Executive Officer**

Rhonda Hardy

**Executive Team**

Gary Ticehurst - Director Corporate Services  
Brett Jackson - Director Asset Services  
Peter Varelis - Director Development Services  
Simon Di Rosso - General Counsel & Executive Advisor

**Management Team**

Alida Ferriera - Manager Financial Services

**Administration Support**

Donna McPherson - Executive Research Officer to Chief Executive Officer

**Members of the Public - 1**

**Members of the Press - Nil.**

**Apologies**

John Giardina - (Mayor)  
Cameron Blair

**Leave of Absence Previously Approved**

Nil.

**3. Public Question Time**

*A period of not less than 15 minutes is provided to allow questions from the gallery on matters relating to the functions of Council. For the purposes of Minuting, these questions and answers will be summarised.*

Nil.

**4. Petitions/Deputations**

Nil.

**5. Confirmation of Minutes from Previous Meeting**

- 5.1 That the Minutes of the Audit & Risk Committee Meeting held on the 30 October 2018, as published and circulated, are confirmed as a true and accurate records of the proceedings.

Moved: **Cr Kathy Ritchie**

Seconded: **Cr Michael Fernie**

Vote: **CARRIED UNANIMOUSLY (10/0)**

**6. Announcements by the Member Presiding Without Discussion**

Nil.

**7. Matters for Which the Meeting may be Closed**

- 7.1 Item 9.1.1 Internal Audit Report March 2019 – Confidential Attachments 1. Development Contribution Plan Internal Audit Report, 2. Management of Grants Internal Audit Report, 3. Management of Waste Internal Audit Report and 4. Management of Licences Internal Audit Report. Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety".*

- 7.2 Item 9.1.3 Internal Audit Plan 2018/19 – Confidential Attachments 1. Internal Audit Recommendations Tracker 2018, 2. Internal Audit Year in Review 2018. Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the*

*security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety".*

**8. Disclosure of Interest**

8.1. Disclosure of Financial and Proximity Interests

- a. Members must disclose the nature of their interest in matter to be discussed at the meeting. (Section 5.56 of the *Local Government Act 1995*.)
- b. Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Section 5.70 of the *Local Government Act 1995*.)

Nil.

8.2. Disclosure of Interest Affecting Impartiality

- a. Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee had given or will give advice.

Nil.

## 9. Reports to Council

### 9.1. Corporate Services Reports

#### 9.1.1. Internal Audit Report March 2019

*Declaration of financial / conflict of interests to be recorded prior to dealing with each item.*

|                |                    |
|----------------|--------------------|
| Previous Items |                    |
| Directorate    | Corporate Services |
| Business Unit  | Corporate Services |
| File Reference |                    |
| Applicant      | N/A                |
| Owner          | N/A                |
| Attachments    | Nil                |

|                          |   |
|--------------------------|---|
| Confidential Attachments | <ol style="list-style-type: none"><li>1. Development Contribution Plan Audit Report</li><li>2. Management of Waste Audit Report</li><li>3. Management of Grants Audit Report</li><li>4. Management of Licences Audit Report</li></ol> |
|--------------------------|---|

*Reason for Confidentiality: Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety".*

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to provide Council with the findings and recommendations arising from the recently completed Internal Audit Reviews.
2. The Internal Audit was completed in accordance with the provisions of the *Local Government Act 1995*, associated regulations and *Australian Accounting Standards*. The Internal Audit has identified a number of improvement opportunities which the City of Kalamunda (the City) is committed to implementing.
3. It is recommended that Council receives the Internal Audit Report.

#### **BACKGROUND**

4. The Internal Audit program is delivered in line with the City's three-year Strategic Audit Plan (the Plan) which contains a mix of compliance, financial and performance / operational audits. During the inaugural year of the Plan, a total of nine engagements were completed.

5. The Internal Audit Program is focused on assisting the Audit and Risk Committee, Chief Executive Officer (CEO) and Executive to achieve objectives, improve business performance and manage risk through:
  - a) providing an independent assessment of risks, controls, and processes across the City;
  - b) promoting mechanisms that encourage a culture which is conscious of risk, control, and process; and
  - c) assisting and supporting the City in its drive for process improvement and achievement of its objectives.
6. The completed internal audit reviews did not identify any material control weaknesses.
7. The Internal Audit Reviews undertaken during the past quarter have been focused on:
  - a) Development Contribution Plans;
  - b) Management of Waste;
  - c) Management of Grants;
  - d) Management of Licences.
8. **Development Contribution Plans**

The objective of the Internal Audit was to assess the effectiveness of the processes and controls (governance) within the City to manage DCP's. The scope of the Internal Audit focuses on Forrestfield Industrial Area Stage 1 and includes the following in respect of that project:

  - a) the development of the DCP and Capital Expenditure Plan (CEP) and the process followed in accordance with State Planning Policy 3.6 and the Town Planning Scheme focussing on the governance and administration aspects;
  - b) approval of the DCP;
  - c) calculating contribution payment rates including assumptions;
  - d) the system used for administering/monitoring existing plans and status of the DCP;
  - e) monitoring/administration of payment plans, cost contribution requests, and receipt of funds and securities; and
  - f) ensuring allocation of funds to appropriate areas of spending in line with the CEP and reconciliations of the DCP.
9. **Management of Waste**

The objective of this review was to assess the City's processes and controls in place to manage waste services on garbage, recycling, garden waste, and kerbside collections.
10. The scope of the internal audit included:
  - a) contract management, focusing on reconciliations of:
  - b) charges for waste management with contract; and
  - c) match bins to the rating/GIS system.

- d) Review of the skip bin process controls and reconcile contractor invoices against physical deliveries.
- e) review the collection of waste process, and ascertain:
- f) if the contractor is collecting too often, not enough or not collecting at all;
- g) if the contractor is collecting the correct type of waste;
- h) the number of services billed by the contractor compared with the number of services charged to ratepayers; and
- i) what process the contractor follows in respect of special waste e.g. problem waste, e-waste, asbestos.
- j) transporting of waste, and in specific:
- k) the frequency of waste transport by the contractor; and
- l) does the contractor use an approved vehicle to transport waste?
- m) tipping and processing of waste, and in specific:
- n) the type of waste being dumped;
- o) does the contractor use an approved vehicle to transport waste to the tipping area?
- p) the use of landfill sites;
- q) reviewing the tipping cost;
- r) reviewing the processing of waste, diversion rates, and targets; and
- s) reconcile the amount of waste dumped against the amount invoiced by the contractor to the City.
- t) revenue management and stock handling practices at the Transfer Station over the period 1 January 2018 to 31 August 2018.
- u) review the City's monitoring and reporting process.

11. **Management of Grants**

The objective of this review was to assess the effectiveness of the controls and procedures in place pertaining to the management of grants. The scope of the internal audit included:

- a) policies and procedures pertaining to grants;
- b) application processes pertaining to grants and the management of approved grants;
- c) performance management processes of grants;
- d) financial reporting of grant funds; and
- e) the acquittal of grants.
- f) the scope was limited to a high-level review of the following grants provided to the City:
- g) roads-to-Recovery (R2R);
- h) state Emergency Services (SES); and
- i) bushfire Brigade (BFB).

12. **Management of Licences**

The objective of this review was to assess the effectiveness of the controls over the management of licenses, including obtaining an understanding of the type of licenses held by the City. The scope of the Internal Audit was conducted primarily by applying discussion, observation and review techniques, focussing on:

- a) a list or register of licences held by the City;
- b) system(s) used for the registration and recording of licenses;
- c) registration of licenses;



- d) process for recording and renewal of licenses; and
- e) roles and responsibilities of the City employees involved in the license process including their relevant delegation of authority in respect of licences.
- f) the review was limited to the following categories, and did not include a review of compliance with the conditions specified within the licence:
- g) IT software licences; and
- h) depot (Fuel storage licence, Boreholes (water licences) and Telecommunication Towers).

## **DETAILS**

- 13. The results of the Development Contribution Plan Audit are detailed in Confidential Attachment 1.
- 14. The results of the Management of the Waste Audit are detailed in Confidential Attachment 2.
- 15. The results of the Management of Grants Audit are detailed in Confidential Attachment 3.
- 16. The results of the Management of Licences Audit are detailed in Confidential Attachment 4.

## **STATUTORY AND LEGAL CONSIDERATIONS**

- 17. *Local Government Act 1995*  
*Local Government (Financial Management) Regulations 1996*  
*Local Government (Functions and General) Regulations 1996*

## **POLICY CONSIDERATIONS**

- 18. Nil.

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

### **Internal Referrals**

- 19. Internal Audit findings were discussed with relevant business unit managers and have been reviewed by the City's Executive Management Team.

### **External Referrals**

- 20. Nil.

## **FINANCIAL CONSIDERATIONS**

- 21. The monitoring and review of internal controls within the Internal Audit program will reduce the risk and likely exposure of potential loss to the City.

## STRATEGIC COMMUNITY PLAN

### Strategic Planning Alignment

22. *Kalamunda Advancing Strategic Community Plan to 2027*

#### Priority 4: Kalamunda Leads

**Objective 4.1** – To provide leadership through transparent governance.

**Strategy 4.1.1** – Provide good governance.

## SUSTAINABILITY

### Social Implications

23. Nil.

### Economic Implications

24. Nil.

### Environmental Implications

25. Nil.

## RISK MANAGEMENT CONSIDERATIONS

| 26.        | <p><b>Risk:</b> Internal Auditing fails to identify material non-compliance or control deficiencies.</p> <table border="1"> <thead> <tr> <th>Likelihood</th> <th>Consequence</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Unlikely</td> <td>Moderate</td> <td>Low</td> </tr> </tbody> </table> <p><b>Action/Strategy</b></p> <p>Internal Audit Plan developed and reviewed annually.<br/>Internal Audit working papers reviewed by External Auditors.<br/>Key controls are evaluated for the identified processes.</p> | Likelihood | Consequence | Rating | Unlikely | Moderate | Low |
|------------|--|------------|-------------|--------|----------|----------|-----|
| Likelihood | Consequence  | Rating     |             |        |          |          |     |
| Unlikely   | Moderate   | Low        |             |        |          |          |     |
| 27.        | <p><b>Risk:</b> Audit recommendations are not implemented in a timely fashion.</p> <table border="1"> <thead> <tr> <th>Likelihood</th> <th>Consequence</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Unlikely</td> <td>Moderate</td> <td>Low</td> </tr> </tbody> </table> <p><b>Action/Strategy</b></p> <p>Internal Audit Plan developed and reviewed annually.<br/>Monitoring and review of the implementation of audit recommendations.</p>   | Likelihood | Consequence | Rating | Unlikely | Moderate | Low |
| Likelihood | Consequence  | Rating     |             |        |          |          |     |
| Unlikely   | Moderate   | Low        |             |        |          |          |     |

## OFFICER COMMENT

28. The Internal Audit was completed in accordance with the provisions of the *Local Government Act 1995*, associated regulations, and the *Australian Accounting Standards*.

|   |
|---|
| <b>Voting Requirements: Simple Majority</b> |
|---|

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council:

1. RECEIVES the Internal Audit Report.
2. NOTES that internal audit reports identifying recommendations and management responses will be brought back to the Audit & Risk Committee.

Moved: **Cr Dylan O'Connor**

Seconded: **Cr Lesley Boyd**

Vote: **CARRIED UNANIMOUSLY (10/0)**

## 9.1.2. City of Kalamunda Risk Profile

***Declaration of financial / conflict of interests to be recorded prior to dealing with each item.***

|                |   |
|----------------|---|
| Previous Items | OCM 46/2018, OCM 155/2018, OCM 219/2018 |
| Directorate    | Corporate Services                      |
| Business Unit  | Corporate Services                      |
| File Reference | N/A                                     |
| Applicant      | N/A                                     |
| Owner          | N/A                                     |

|             |   |
|-------------|---|
| Attachments | 1. Risk Profile <b>[9.1.2.1]</b>                              |
|             | 2. City of Kalamunda Strategic Risk Register <b>[9.1.2.2]</b> |

1. The purpose of this report is to provide Council with an update of the City of Kalamunda's (City) Risk Profile consisting of the top ten reported risks at 31 January 2019 (Attachment 1).
2. The City's Risk Profile has been prepared in accordance with the adopted Integrated Risk Management Plan (Plan). The Risk Profile outlines the top 10 ranked risks facing the organisation.
3. The Risk Profile was developed following a review of the City's Strategic Risk Register by the Administration and was presented to Council at the February Strategic Retreat on 11 and 12 February 2018 and considered at the March 2018, July 2018 and October 2018 Audit and Risk Committee meetings. The risk rating has been recently reviewed by the Administration.
4. It is recommended Council endorse the Risk Profile and note the Strategic Risk Register (Attachment 2).

### **BACKGROUND**

5. Risk management is a core component of corporate governance and an integral part of contemporary management practices. The Risk Profile has been adopted in accordance with the Integrated Risk Management Plan and is structured around *AS/NZS/ISO 31000:2009* and the requirements under the *Local Government (Audit) Regulations 1996*.
6. The management of risk is focused on:
  - a) maintaining high levels of integrity for services provided by the City;
  - b) protecting the City's physical, and non-physical assets including employees, elected members, financial and property;
  - c) achieving and maintaining legislative and regulatory compliance, including codes of conduct and professional standards;
  - d) creating an environment where all employees assume responsibility for the proactive management of risk; and
  - e) demonstrating transparent and responsible risk management processes aligned to accepted best practice so as to address uncertainty and to deliver continuous improvement.

7. The Risk Profile captures those risks that are likely to:
- a) adversely impact the City's capacity to deliver current and future services;
  - b) have an organisational wide focus or impact;
  - c) have an adverse financial impact; and
  - d) result in significant reputational or political damage.

## **DETAILS**

8. Risk management refers to the coordination of activities that direct and control the organisation with regard to risk. It is acknowledged that risk management involves both the management of potentially adverse impacts together with the realisation of opportunities. Risk management is a focal element of the City's strategy to promote accountability through good governance and robust business practices, contributing to maintaining a sustainable organisation focused on the effective management of resources and operations.
9. In recognising that risk management is integral to good business practices, Enterprise Risk Management is comprised of the following elements:
- a) the City of Kalamunda's Risk Management Framework;
  - b) Risk Management Policy and Management Procedures;
  - c) Senior Management Team commitment to leading and championing risk management practices and thinking;
  - d) management systems to establish and report on the profile and treatment of risks; and
  - e) broad based training and awareness raising to enhance risk management understanding.
10. The City's Risk Management Framework is based on 11 best practice principles contained in the (AS/NZS ISO 31000:2009). These principles are:
- a) creating and protecting value – contributing to the achievement of the City's objectives and improving performance;
  - b) an integral part of the organisational processes;
  - c) a key element of decision making;
  - d) explicitly addressing uncertainty;
  - e) systemic, structural and timely;
  - f) founded on the best available information;
  - g) tailored with the internal and external operating environments;
  - h) human and cultural factors – recognising that people capabilities and perceptions can aid or hinder the achievement of objectives;
  - i) transparent and inclusive;
  - j) dynamic, interactive and responsive to change; and
  - k) focused on continual improvement.
11. The City's Administration recently undertook a workshop to review and update the Strategic Risk Register. From the workshop the Risk Profile was reviewed based on the top ten strategic risks likely to impact the City's ability to achieve its strategic objectives. Following endorsement by Council, the Administration will adopt the revised risk ratings in the ongoing assessment and reporting of risks.

12. The City's Strategic Risk Register has been developed so as to:
- a) identify any new risk events;
  - b) highlight risk trends between the current and previous years; and
  - c) identify priority treatment actions planned for the next 12 months.
13. It is to be noted that a separate report is to be considered regarding a proposed recalibration of the Risk Management Framework, Risk Matrix and Strategic Risk Register. If this separate report's recommendations are adopted, this will result in slight changes to the risk descriptions within the Strategic Risk Register and adjustment to risk weightings.

## **STATUTORY AND LEGAL CONSIDERATIONS**

14. *Local Government (Audit) Regulations 1996 (WA) Amendment.*

Amendments to the *Local Government (Audit) Regulations 1996* came into effect on 8 February 2013. Specifically, Regulation 17 which states:

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

*(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –*

- (a) risk management; and*
- (b) internal control; and*
- (c) legislative compliance*

*(2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*

*(3) The CEO is to report to the audit committee the results of that review."*

In addition to the requirement for the CEO to prepare a report as outlined in Regulation 17, the Regulations also stipulate an additional responsibility for the Audit Committee as detailed in Regulation 16(c) which states the Audit Committee:

*"(c) is to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to –*

- (i) report to the council the results of that review; and*
- (ii) give a copy of the CEO's report to the council."*

## **POLICY CONSIDERATIONS**

15. The City's Risk Profile has been developed in accordance with the Integrated Risk Management Plan and the City's Risk Management Policy (C-HR06).

## COMMUNITY ENGAGEMENT REQUIREMENTS

### Internal Referrals

16. The Risk Profile was developed following an assessment and review of the City's strategic risks. The Risk Profile was subsequently reviewed by the City's Administration.

### External Referrals

17. Nil.

## FINANCIAL CONSIDERATIONS

18. Nil.

## STRATEGIC COMMUNITY PLAN

### Strategic Planning Alignment

19. *Kalamunda Advancing Strategic Community Plan to 2027*

#### **Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

## SUSTAINABILITY

### Social Implications

20. Nil.

### Economic Implications

21. Nil.

### Environmental Implications

22. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

| 23.        | <p><b>Risk:</b> Without an effective enterprise risk management system the City would not be fulfilling its obligations of duty of care and due diligence as prescribed by the <i>Local Government Act 1995</i>.</p>  |            |             |        |          |          |        |
|------------|---|------------|-------------|--------|----------|----------|--------|
|            | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Likelihood</th> <th style="width: 33%;">Consequence</th> <th style="width: 33%;">Rating</th> </tr> </thead> <tbody> <tr> <td>Possible</td> <td>Moderate</td> <td>Medium</td> </tr> </tbody> </table>  | Likelihood | Consequence | Rating | Possible | Moderate | Medium |
| Likelihood | Consequence   | Rating     |             |        |          |          |        |
| Possible   | Moderate  | Medium     |             |        |          |          |        |
|            | <p><b>Action/Strategy</b></p> <p>Ensure the City has an enterprise risk management system in place that complies with Australian standards and contains the following elements:</p> <ul style="list-style-type: none"> <li>a) Risk Appetite Statement;</li> <li>b) Risk Assessment based on the Risk Policy, Risk Management Plan, risk registers and established standard;</li> <li>c) Risk Profile reviewed quarterly by the Administration and Council.</li> </ul> |            |             |        |          |          |        |

| 24.        | <p><b>Risk:</b> The City fails to effectively manage risks impacting the delivery of objectives.</p>  |            |             |        |          |          |        |
|------------|---|------------|-------------|--------|----------|----------|--------|
|            | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Likelihood</th> <th style="width: 33%;">Consequence</th> <th style="width: 33%;">Rating</th> </tr> </thead> <tbody> <tr> <td>Possible</td> <td>Moderate</td> <td>Medium</td> </tr> </tbody> </table>    | Likelihood | Consequence | Rating | Possible | Moderate | Medium |
| Likelihood | Consequence   | Rating     |             |        |          |          |        |
| Possible   | Moderate  | Medium     |             |        |          |          |        |
|            | <p><b>Action/Strategy</b></p> <ul style="list-style-type: none"> <li>a) Ensure the City has an enterprise risk management system in place that complies with Australian standards.</li> <li>b) Undertake a review of the City’s Risk Profile by the Administration and Council on a quarterly basis.</li> </ul> |            |             |        |          |          |        |

**OFFICER COMMENT**

- 25. Risk management is a core element of corporate governance and an integral component of contemporary management practices. The Risk Management Plan is structured around *AS/NZS/ISO 31000:2009* and the requirements under the *Local Government (Audit) Regulations 1996*.
- 26. The effective management of risk enables the City to promote accountability through good governance and robust business practices, contributing to maintaining a suitable organisation focused on the effective management of resources and operations.
- 27. The Risk Profile was reviewed by the Administration before being presented to Council at the 2018 Strategic Retreat. The Risk Profile has been through additional reviews by the City’s Administration.



28. The Risk rating matrix has been revised to enable the City to manage risk at the most appropriate levels within the organisation. Essentially, the revised matrix assigns responsibility for the management of extreme risks to the CEO and Executive Management Team, with Council responsible for oversight review of extreme risks.

|   |
|---|
| <b>Voting Requirements: Simple Majority</b> |
|---|

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council:

1. ENDORSE the Risk Profile (Attachment 1).
2. NOTES the Strategic Risk Register (Attachment 2).
3. NOTES that the Risk Profile will be brought to subsequent Audit & Risk Committee Meetings.

Moved: **Cr Geoff Stallard**

Seconded: **Cr Sara Lohmeyer**

Vote: **CARRIED UNANIMOUSLY (10/0)**

### 9.1.3. Internal Audit Plan 2018/19

***Declaration of financial / conflict of interests to be recorded prior to dealing with each item.***

Previous Items  
Directorate Corporate Services  
Business Unit Corporate Services  
File Reference  
Applicant  
Owner

Attachments 1. Internal Audit Plan 2019 **[9.1.3.1]**

Confidential Attachments 1. Internal Audit Recommendation Tracker 2018  
2. Internal Audit Year in Review 2018

*Reason for Confidentiality: Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety".*

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to provide Council with details of the Internal Audit Reviews undertaken during the 2018 calendar year and to outline the Internal Audit Plan for the year ended 31 December 2019.
2. To ensure high levels of transparency and accountability, details regarding the current status of Internal Audit Recommendations for 2018 (together with a high level summary of the internal audit program themes for the 2018 calendar year) are provided for consideration by Council.
3. It is recommended that Council:
  - a) RECEIVE the annual review for Internal Audit Reports completed during 2018 calendar year.
  - b) NOTES the status of the Internal Audit Recommendation Tracker for 2018.
  - c) NOTES that an annual review will be conducted of the Strategic Internal Audit Plan 2017-2020 and changes brought to the Audit and Risk Committee for endorsement.

#### **BACKGROUND**

4. The Strategic Internal Audit Plan 2017-2020 (SIAP) sets out the scope of the planned work to be undertaken by the Internal Auditor for the City for 2017-18 through to 2019-20 financial years. The SIAP was developed based on consideration of the following:

- a) a review of the City’s current Risk Register;
- b) consultation with the CEO, Executive team, senior Managers and the Chair of the Audit & Risk Committee;
- c) other local governments’ Internal Audit programmes;
- d) topical audit areas of focus in the market; and
- e) validation of the audit plan through conversations with City’s Executive team.

5. Internal Audit is a core element of the City’s risk management and governance framework. The relationship between Internal Audit and the City can be summarised using the “Three Lines of Defence” model illustrated below.



Three Lines of Defence Model

6. Broadly, Internal Audit reviews are focused on:

- a) **Compliance Audits:** which concentrate primarily on the entity’s (or their suppliers’) compliance with legislation, regulations, directions, policies, plans and procedures.
- b) **Financial Audits:** which are concerned with practices and activities relating to the accounting and reporting of financial transactions including budget commitments, approvals and the receipt and disbursement of funds, as well as the reliability and integrity of financial information and the safeguarding of the assets.
- c) **Performance (Operational) Audits:** which is an audit of all or a part of an entity’s activities to assess economy, efficiency and effectiveness and focuses on:
  - i. the adequacy of an internal control structure or specific internal controls to ensure due regard for economy and effectiveness;
  - ii. the extent to which resources have been managed economically and efficiently; and
  - iii. the extent to which activities have been effective in achieving organisational objectives.

7. The SIAP was endorsed at the Ordinary Council Meeting on 27 March 2018 providing a road map for the City’s Internal Audit program.

## **DETAILS**

8. The purpose of the Internal Audit Year in Review for 2018 (Confidential Attachment 2) report is to provide a high-level summary of the key themes that emerged from the first year of the SIAP. In the inaugural year, nine engagements from the internal audit plan was completed. Other work undertaken by Crowe Horwath Pty Ltd included:
  - a) setting of the strategic internal audit plan;
  - b) attendance and presentation of internal audit reports to the Audit & Risk Committee; and
  - c) client liaison and engagement.
9. The City monitors the status of audit recommendations arising from each Internal Audit Review (Confidential Attachment 1). Recommendations are monitored to ensure that they are managed and implemented in a timely fashion. The majority of recommendations are either complete or in progress.
10. The second year of the SIAP was the starting base for consideration for the Internal Audit Plan for the calendar year to 31 December 2019. The Executive team reviewed the proposed Internal Audits for 2019 and considered the following:
  - a) the total of 975 hours contracted to Crowe Horwath Pty Ltd for the year;
  - b) the operational requirements to support the 975 hours;
  - c) the current requirements for compliance, financial and operational audits that would focus on those risks and activities where the most value can be derived for the City;
  - d) the Office of the Auditor General has commenced the planning and scoping for the audit of the annual financial report for the year ending 30 June 2019;
  - e) Prioritisation of Internal Audits for 2019 and 2020 as per the Strategic Internal Audit Plan 2017-20;
11. The City's review of the SIAP has predominantly revised the order of some of the audits bringing forward some areas and deferring others until 2020. The Audit Plan for 2019 is provided to the Audit and Risk Committee for endorsement as per attachment 1.

## **STATUTORY AND LEGAL CONSIDERATIONS**

12. Local Government Act 1995.  
Local Government (Financial Management) Regulations 1996.  
Local Government (Audit) Regulations 1996.

## **POLICY CONSIDERATIONS**

13. Nil.

## COMMUNITY ENGAGEMENT REQUIREMENTS

### Internal Referrals

14. The Executive Management Team.

### External Referrals

15. Crowe Horwath Pty Ltd.

## FINANCIAL CONSIDERATIONS

16. A total of 975 audit hours at a cost of \$117,000 is included within the 2018/19 Budget as per the agreement with Crowe Horwath Pty Ltd.

## STRATEGIC COMMUNITY PLAN

### Strategic Planning Alignment

17. *Kalamunda Advancing Strategic Community Plan to 2027*

#### Priority 4: Kalamunda Leads

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

## SUSTAINABILITY

### Social Implications

18. Nil.

### Economic Implications

19. Nil.

### Environmental Implications

20. Nil.

## RISK MANAGEMENT CONSIDERATIONS

- 21.
- |  |                    |               |
|--|--------------------|---------------|
| <b>Risk:</b> The City's internal auditing process does not comply with Regulation 5(2)(c) of the <i>Local Government (Financial management) Regulations 1996</i> . |                    |               |
| <b>Likelihood</b>  | <b>Consequence</b> | <b>Rating</b> |
| Unlikely   | Moderate           | Low           |
| <b>Action/Strategy</b>   |                    |               |
| Implementation of the three-year Strategic Internal Audit Plan 2017-20 meets the requirements to comply with the regulation.                                       |                    |               |

|     |  |                    |               |
|-----|--|--------------------|---------------|
| 22. | <b>Risk:</b> The audit fails to identify material deficiencies in processes and systems  |                    |               |
|     | <b>Likelihood</b>  | <b>Consequence</b> | <b>Rating</b> |
|     | Unlikely   | Moderate           | Low           |
|     | <b>Action/Strategy</b>   |                    |               |
|     | Ensure audit planning is informed in consultation with key stakeholders.<br>Ensure audit planning is informed by the City's Strategic Risk Profile |                    |               |

**OFFICER COMMENT**

- 23. The SIAP includes a review of risk management, internal control and legislative compliance. It will meet the four-year review requirement under regulation 5(2)(c) of the *Local Government (Financial Management) Regulation 1996* and the two-year review under Regulation 17 of the *Local Government (Audit) Regulations 1996*.
- 24. The City monitors the status of Internal Audit recommendations arising from each Internal Audit Review (Confidential Attachment 1). Recommendations are monitored and the majority of recommendations are either complete or in progress.

**Voting Requirements: Simple Majority**

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council:

- 1. RECEIVE the annual review for Internal Audit Reports completed during 2018 calendar year.
- 2. NOTES the status of the Internal Audit Recommendation Tracker for 2018.
- 3. NOTES that an annual review will be conducted of the Strategic Internal Audit Plan 2017-2020 and changes brought to the Audit and Risk Committee for endorsement.

Moved: **Cr Dylan O'Connor**

Seconded: **Cr Sara Lohmeyer**

Vote: **CARRIED UNANIMOUSLY (10/0)**

### **9.1.4. Integrated Risk Management Plan - Opportunities for Recalibration**

*Declaration of financial / conflict of interests to be recorded prior to dealing with each item.*

Previous Items

Directorate Corporate Services

Business Unit Corporate Services

File Reference

Applicant

Owner

- Attachments
1. Integrated Risk Management Plan November 2016 **[9.1.4.1]**
  2. Risk Matrix November 2016 **[9.1.4.2]**
  3. Proposed Risk Matrix March 2019 **[9.1.4.3]**
  4. Strategic Risk Register March 2019 **[9.1.4.4]**
  5. Integrated Risk Management Plan March 2019 **[9.1.4.5]**

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to seek Council approval to endorse a revised Integrated Risk Management Plan (Plan).
2. The Administration has undertaken a review of the risk matrix contained in the Plan as well as further work in the areas of risk definition and risk management and considers that an opportunity exists to recalibrate the Plan.
3. It is recommended that Council adopts a revised Integrated Risk Management Plan.

#### **BACKGROUND**

4. At the Ordinary Council Meeting of 28 November 2016, Council noted the preparation of an Integrated Risk Management Plan including a Risk Matrix. This plan has since guided the City in the undertaking of risk management. This current Plan is shown as Attachment 1.
5. As part of continuous improvement processes, the City has reviewed the Plan and its underpinning elements and has proposed that subtle recalibration of some elements is appropriate.

#### **DETAILS**

6. The 2016 Risk Matrix (Matrix) within the Plan is shown as Attachment 2. The Matrix assigns a risk rating (Low, Medium, High or Extreme) to the various combinations of Consequence (Insignificant, Moderate, Significant, Major or Critical) and Likelihood (Rare, Unlikely, Possible, Likely, Almost Certain). As such 25 possible combinations of Consequence and Likelihood exist each with a risk rating.

7. The Matrix at present has assigned these 25 combinations as follows:

|         |   |
|---------|---|
| Extreme | 8 |
| High    | 8 |
| Medium  | 4 |
| Low     | 5 |

In summary 16 of the potential 25 risk combinations are assessed as high or extreme.

8. As it stands, many risk combinations sit within an Extreme classification. It is a subjective, but valid view, that perhaps Extreme risks should be assigned to those matters which have the greatest impact upon the City as an entity (rather than a large set of 'bad things happening") with a gradual and relatively measured continuum between the Low to Extreme risks, allowing Council greater focus on the fewer number of extreme issues. For example, a Lost Time Injury (consequence) that is Almost Certain (Likelihood) is an Extreme risk.

9. With the City's manual labour workforce, this Extreme risk is manifest on a daily basis and is managed within our operational procedures. In this case a Lost Time Injury risk is considered an identical Extreme risk to a Fatality that may occur once in 10 years or once in 3 years or once a year. It could be argued that emphasis should be placed on the more likely fatality risks than a Lost Time Injury.

10. It is thus proposed that the Matrix is recalibrated along the lines of:

|         |   |
|---------|---|
| Extreme | 4 |
| High    | 7 |
| Medium  | 6 |
| Low     | 8 |

In this option, 11 of the 25 risk combinations are assessed as high or extreme.

11. The proposed 2019 Risk Matrix to be included in the revised Plan is shown as attachment 3.

12. The Plan could also be improved in the Risk Accountability and Responsibilities area by setting in place a process that risks (according to their risk rating) are assigned to certain levels within the City and that oversight of these risks and risk mitigation sits at the next higher level in the City. The proposed system would be:

| <b>Risk Rating</b> | <b>Level responsible for mitigating the risk</b> | <b>Level accountable for oversight and review</b> |
|--------------------|--|---|
| Extreme            | Executive Management Team                        | Council   |
| High               | Directors / CEO                                  | Executive Management Team                         |
| Medium             | Manager  | Director  |
| Low                | Coordinator / Supervisors                        | Manager   |



13. It is proposed however that Council **also** continues to receive regular reporting (via the Audit & Risk Committee) of all Strategic risks and their mitigation that have been deemed as the Top 10 strategic risks to the City (which may include Extreme or High risks).
14. It is also proposed that improvements be made as to how risks are defined by the City. Contemporary risk management systems adopt a standard of defining risks as 'what could happen how'. As it stands, many risks are less structured and simply state a situation. An example could be "WAPC do not approve the Amendment" which could be better defined as "The WAPC fail to approve the Amendment leading to inability to achieve the desired housing outcomes". Using this process leads then to more effective risk mitigation work.
15. Using the techniques and recalibrations described above, the City has been able to revise the Strategic Risk Register. The revised Strategic Risk Register (Attachment 4) illustrates the changes between the existing and proposed systems for information of Council.
16. The Revised Integrated Risk Management Plan, consistent with these proposals, is shown as Attachment 5.

## **STATUTORY AND LEGAL CONSIDERATIONS**

17. This report deals with Statutory requirements within the *Local Government (Audit) Regulations 1996*, specifically Regulation 17:

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

(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —

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

(2) The review may relate to any or all of the matters referred to in sub-regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

(3) The CEO is to report to the audit committee the results of that Review

The Plan was last considered by Council in November 2016 and as such, this review falls within the three year review requirement.

## **POLICY CONSIDERATIONS**

18. The City's Integrated Risk Management Plan has been developed in accordance with the City's Risk Management Policy (C-HR06)

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

### **Internal Referrals**

19. The Executive Management Team have reviewed this report

**External Referrals**

20. Nil.

**FINANCIAL CONSIDERATIONS**

21. Nil.

**STRATEGIC COMMUNITY PLAN**

**Strategic Planning Alignment**

22. *Kalamunda Advancing Strategic Community Plan to 2027*

**Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

**SUSTAINABILITY**

**Social Implications**

23. Nil.

**Economic Implications**

24. Nil.

**Environmental Implications**

25. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

|     |   |                    |               |
|-----|---|--------------------|---------------|
| 26. | <b>Risk:</b> The City fails to have an effective Integrated Risk Management Plan to identify and manage risks impacting the delivery of objectives. |                    |               |
|     | <b>Likelihood</b>   | <b>Consequence</b> | <b>Rating</b> |
|     | Likely  | Significant        | High          |
|     | <b>Action/Strategy</b>  |                    |               |
|     | Ensure the City has a risk management system in place that is developed within Australian standards and is routinely reviewed for appropriateness.  |                    |               |

**OFFICER COMMENT**

27. It is considered that as the City’s maturity in risk management grows, there will be continual review of the Plan to ensure that it is relevant, effective and efficient.

|   |
|---|
| <b>Voting Requirements: Simple Majority</b> |
|---|

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council ADOPTS the revised Integrated Risk Management Plan dated March 2019.

Moved: **Cr Geoff Stallard**

Seconded: **Cr Margaret Thomas**

|       |                            |                          |
|-------|----------------------------|--------------------------|
| Vote: | <u>For</u>                 | <u>Against</u>           |
|       | <b>Cr Michael Fernie</b>   | <b>Cr Sara Lohmeyer</b>  |
|       | <b>Cr Geoff Stallard</b>   | <b>Cr Dylan O'Connor</b> |
|       | <b>Cr Lesley Boyd</b>      |                          |
|       | <b>Cr Allan Morton</b>     |                          |
|       | <b>Cr Brooke O'Donnell</b> |                          |
|       | <b>Cr David Almond</b>     |                          |
|       | <b>Cr Kathy Ritchie</b>    |                          |
|       | <b>Cr Margaret Thomas</b>  |                          |

**CARRIED (8/2)**

## 9.2. Office of the CEO Reports

### 9.2.1. Compliance Audit Return 2018

*Declaration of financial / conflict of interests to be recorded prior to dealing with each item.*

|                |                             |
|----------------|-----------------------------|
| Previous Items |                             |
| Directorate    | Office of the CEO           |
| Business Unit  | Governance & Legal Services |
| File Reference |                             |
| Applicant      |                             |
| Owner          |                             |

Attachments 1. 2018 Compliance Audit Return [**9.2.1.1**]

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to request that Council consider and adopt the 2018 Compliance Audit Return (CAR) (Attachment 1).
2. The completion of the CAR in its current format has been an annual requirement for all local governments for more than 10 years. It focuses on areas considered by the Department of Local Government, Sport and Cultural Industries (DLGSC) as key compliance requirements of the *Local Government Act 1995* (the Act).
3. No items of non-compliance were detected with respect to the matters examined in the 2018 CAR.
4. It is recommended that the 2018 CAR be adopted by Council.

#### **BACKGROUND**

5. Every local government in Western Australia is required, under section 7.13 (1) (i) of the Act, to complete a CAR each year.
6. The CAR template is produced by the DLGSC and, once completed and presented to Council for adoption, signed by the Mayor and Chief Executive Officer, must be submitted to the DLGSC by 31 March 2019.
7. The CAR is a mechanism of review for local government, allowing it to identify those areas where legislative requirements have or have not been met.

#### **DETAILS**

8. The Terms of Reference of the Audit and Risk Committee require the Committee to review and make recommendations to Council on the completed CAR.

9. The 2018 CAR covered the nine specific topics and 95 questions which is slightly more questions than in recent years. The Specific topics covered in the 2018 Car are:
- (i) Commercial Enterprises
  - (ii) Delegations
  - (iii) Disclosure of Interest
  - (iv) Disposal of Property
  - (v) Finance
  - (vi) Integrated Planning and Reporting
  - (vii) Local Government Employees
  - (viii) Official Conduct
  - (ix) Tenders
10. No items of non-compliance were detected with respect to the items examined in the 2018 CAR.

### **STATUTORY AND LEGAL CONSIDERATIONS**

11. Regulations 14 and 15 of the *Local Government (Audit) Regulations 1996* provide for the completion, adoption by Council and certification by the Mayor and Chief Executive Officer of the CAR. Additionally, the regulations require the certified return to be submitted to the DLGSC by 31 March 2019.

### **POLICY CONSIDERATIONS**

12. Nil.

### **COMMUNITY ENGAGEMENT REQUIREMENTS**

#### **Internal Referrals**

13. All relevant Business Units have contributed to completing the CAR.

#### **External Referrals**

14. Nil.

### **FINANCIAL CONSIDERATIONS**

15. There are no financial implications arising from the CAR.

### **STRATEGIC COMMUNITY PLAN**

#### **Strategic Planning Alignment**

16. *Kalamunda Advancing Strategic Community Plan to 2027*

#### **Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

**SUSTAINABILITY**

**Social Implications**

17. Nil.

**Economic Implications**

18. Nil.

**Environmental Implications**

19. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

|     |   |                    |               |
|-----|---|--------------------|---------------|
| 20. | <b>Risk:</b> The City fails to submit the annual CAR, duly endorsed by Council, in accordance with the regulations. |                    |               |
|     | <b>Likelihood</b>   | <b>Consequence</b> | <b>Rating</b> |
|     | Unlikely  | Moderate           | Medium        |
|     | <b>Action/Strategy</b>  |                    |               |
|     | Ensure the CAR is completed and lodged by 31 March 2019.  |                    |               |

**OFFICER COMMENT**

21. Whilst the document presented to Council indicates that all responses have been provided by one particular officer, this relates to the online input process for the CAR. Answers to various sections of the CAR have been provided by relevant Business Units.

**Voting Requirements: Simple Majority**

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council:

1. NOTES the outcome of the 2018 Compliance Audit.
2. ADOPTS the Compliance Audit Return for the year ending 31 December 2018 (Attachment 1).

Moved: **Cr Dylan O'Connor**

Seconded: **Cr Sara Lohmeyer**

Vote: **CARRIED UNANIMOUSLY (10/0)**

**10. Motions of Which Previous Notice has been Given**

10.1 Nil.

**11. Questions by Members Without Notice**

11.1 Financial Health Indicator – Cr Thomas

Can the Director Corporate Services provide information on the Financial Health Indicator and how the City is performing?

The Director Corporate Services provided this information to the Committee.

**12. Questions by Members of Which Due Notice has been Given**

12.1 Nil.

**13. Urgent Business Approved by the Presiding Member or by Decision**

13.1 Nil.

**14. Meeting Closed to the Public**

14.1 That the meeting closed to the public to for consideration of Confidential Attachments.

Moved: **Cr Sara Lohmeyer**

Seconded: **Cr Allan Morton**

Vote: **CARRIED UNANIMOUSLY (10/0)**

The Meeting closed to the public at 6.57pm.

14.2 That the Meeting be reopened to the public after consideration of confidential items.

Moved: **Cr Sara Lohmeyer**

Seconded: **Cr Lesley Boyd**

Vote: **CARRIED UNANIMOUSLY (10/0)**

The Meeting reopened to the public at 7.29.

**15. Closure**

There being no further business, the Presiding Member declared the Meeting closed at 7.30pm.

I confirm these minutes to be a true and accurate record of the proceedings of this Council.

Signed: \_\_\_\_\_  
Presiding Member

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2019.