

Audit & Risk Committee Meeting

Minutes for Tuesday 6 August 2019

UNCONFIRMED



**city of
kalamunda**

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1. Official Opening

The Presiding Member opened the meeting at 6:28pm and welcomed Councillors, Staff, a representative from the Office of the Auditor General, staff 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

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

Management Team

Alida Ferriera - Manager Financial Services

Jamie Paterson - Manager Information Technology

Virginia Miltrup - Manager Strategy, People and Performance

Administration Support

Waruni De Silva - Coordinator Financial Services

Darrell Forrest - Governance Advisor

Donna McPherson - Executive Assistant

Guests/Observers

Suraj Karki – Office of the Auditor General

Duy Vo – Crowe Horwath

Nick Goosen - Crowe Horwath

Hayley Finn - Crowe Horwath

Members of the Public 1

Members of the Press Nil.

Apologies

Cr John Giardina - (Mayor)

Cr David Almond

Cr Cameron Blair

Peter Varelis - Director Development Services

Simon Di Rosso - General Counsel & Executive Advisor

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.

3.1. Nil.

4. Petitions/Deputations

4.1. Nil.

5. Confirmation of Minutes from Previous Meeting

5.1 That the Minutes of the Audit & Risk Committee Meeting held on the 19 March 2019, as published and circulated, are confirmed as a true and accurate records of the proceedings.

Moved: **Cr Kathy Ritchie**

Seconded: **Cr Lesley Boyd**

Vote: **CARRIED UNANIMOUSLY (9/0)**

6. Announcements by the Member Presiding Without Discussion

6.1. Nil.

7. Matters for Which the Meeting may be Closed

7.1 Item 9.1.3 Interim Audit Findings for the Year ending 30 June 2019 – Confidential Attachments - 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 9.1.4 Internal Audit Report July 2019 – Confidential Attachments -
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*.)

8.1.1. 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.

8.2.1. Nil.

9. Reports to Council

9.1. Corporate Services Reports

9.1.1. 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 [9.1.1.1 - 1 page] |
| | 2. Strategic Risk Register [9.1.1.2 - 2 pages] |
| | 3. Risk Appetite Statement [9.1.1.3 - 4 pages] |

1. The purpose of this report is to:
 - a) provide Council with an update of the City of Kalamunda's (City) Risk Profile consisting of the top ten reported risks at 30 June 2019 (Attachment 1); and
 - b) seek Council endorsement of the City's Risk Appetite Statement.
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 and Strategic Risk Register is reviewed quarterly and updated by the City's administration and is submitted for Council endorsement at each Audit and Risk Committee Meeting.
4. It is recommended Council:
 - a) endorse the Risk Profile and note the Strategic Risk Register (Attachment 2); and
 - b) endorse the City's Risk Appetite Statement (Attachment 3).

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 31000:2018* 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 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 purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives. The following principles contained within (AS/NZS ISO 31000:2018) provide guidance on the characteristics of effective and efficient risk management and are the foundation for managing risk.
- These principles are:-
- a) Integrated – Risk Management is an integral part of all organisational activities.
 - b) Structured and comprehensive – contributing to consistent and comparable results.

- c) Customised – the Risk Management Framework and process are customised and proportionate to the organisations internal and external context relating to its objectives.
 - d) Inclusive – Appropriate and timely involvement of stakeholders enables their knowledge, views and perceptions to be considered.
 - e) Dynamic – Risks can emerge, change or disappear as an organisations internal and external context changes. Risk Management is responsive to those changes.
 - f) Best available information – inputs to risk management are based on current and historical information as well as on future expectations. Risk Management explicitly takes into account any limitations and uncertainties associated with such information and expectations.
 - g) Human and cultural factors – human behaviour and culture significantly influence all aspects of risk management at each level and stage.
 - h) Continual improvement – risk management is continually improved through learning and experience.
11. At the March 2019 Audit and Risk Committee meeting, Council adopted a revised Integrated Risk Management Plan which contained some modifications to the risk assessment matrix.
12. 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.
13. 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.
14. The City has recently revised its Risk Appetite Statement as part of continuously improving its business practices. The Risk Appetite Statement, outlines the amount of risk that the City is willing to accept in pursuit of its strategic objectives.
15. The City's Risk Appetite is assessed against the main areas of risk consequence expressed with the Risk Management Plan.
16. The City's culture is focused on innovation and continuous improvement with a strong emphasis on enhancing service delivery, which may result in additional exposure to risk.
17. The City's risk appetite is generally higher when it can be demonstrated that the benefits created through innovation out-weigh the associated benefits.
18. Importantly, the additional risk exposure results in the City ensuring that risks are properly identified, evaluated and managed.

STATUTORY AND LEGAL CONSIDERATIONS

19. *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

20. 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

21. 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.
22. The City's Risk Appetite was updated and reviewed by the Administration.

External Referrals

23. Nil.

FINANCIAL CONSIDERATIONS

24. Nil.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

25. *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

26. Nil.

Economic Implications

27. Nil.

Environmental Implications

28. Nil.

RISK MANAGEMENT CONSIDERATIONS

29.

Risk: 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 *Local Government Act 1995*.

| Likelihood | Consequence | Rating |
|--|-------------|--------|
| Possible | Moderate | Medium |
| Action/Strategy | | |
| Ensure the City has an enterprise risk management system in place that complies with Australian Standards and contains the following elements: <ul style="list-style-type: none"> a) Risk Appetite Statement; b) Risk Assessment based on the Risk Policy, Risk Management Plan, risk registers and established standard; and c) Risk Profile reviewed quarterly by the Administration and Council. | | |

30.

Risk: The City fails to effectively manage risks impacting the delivery of objectives.

| Likelihood | Consequence | Rating |
|---|-------------|--------|
| Possible | Moderate | Medium |
| Action/Strategy | | |
| d) Ensure the City has an enterprise risk management system in place that complies with Australian Standards. | | |
| e) Undertake a review of the City's Risk Profile by the Administration and Council on a quarterly basis. | | |

OFFICER COMMENT

31. 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 31000:2018* and the requirements under the *Local Government (Audit) Regulations 1996*.
32. 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.
33. 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.
34. 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.
35. The Revised Risk Appetite Statement outlines the amount of risk that the City is willing to accept in pursuit of its strategic objectives.

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|---|
| Voting Requirements: Simple Majority |
|---|

COMMITTEE RECOMMENDATION TO COUNCIL

That Council:

1. ENDORSE the Risk Profile (Attachment 1).
2. NOTES the Strategic Risk Register (Attachment 2).
3. ENDORSE the Risk Appetite Statement (Attachment 3).

Moved: **Cr Dylan O'Connor**

Seconded: **Cr Sara Lohmeyer**

Vote: **CARRIED UNANIMOUSLY (9/0)**

9.1.2. Fraud and Corruption Control Plan

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

| | |
|----------------|--------------------|
| Previous Items | OCM 2018/2018 |
| Directorate | Corporate Services |
| Business Unit | Corporate Services |
| File Reference | |
| Applicant | |
| Owner | |

| | |
|-------------|--|
| Attachments | 1. Fraud and Corruption Control Plan [9.1.2.1 - 11 pages] |
| | 2. Fraud and Corruption Control Policy [9.1.2.2 - 6 pages] |

EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the Draft Fraud and Corruption Control Plan (the Plan) and the Fraud and Corruption Control Policy (the Policy).
2. Fraud control is a continuous process demanding awareness and proactive action from management to reduce the possibility and impact of losses through fraud.
3. It is recommended Council:
 - a) adopt the Fraud and Corruption Control Plan (Attachment 1); and
 - b) adopt the Fraud and Corruption Control Policy (Attachment 2).

BACKGROUND

4. In August 2018, Crowe Horwath conducted a review of the City's fraud management practices and procedures in line with the Australian Standard on Fraud and Corruption Control, AS 8001-2008.
5. One of the recommendations arising from the review was that the City develop, approve and implement a comprehensive fraud and corruption control plan.
6. The purpose of the Plan is to outline the City's approach to implementing and monitoring fraud and corruption prevention, detection, response and monitoring initiatives.
7. The purpose of the Policy is to provide the City with a highly visible overarching framework that provides for the ongoing and effective management of fraud and corruption risks.

8. The City has zero tolerance for fraud and corruption and is strongly committed to the prevention and detection of fraudulent and corrupt activities, and will manage suspected fraud and corruption incidents in accordance with City policies, procedures and the *Corruption, Crime and Misconduct Act 2003*.

DETAILS

9. In its August 2018 audit review, Crowe Horwath observed that although the City has a Code of Conduct defining fraud and corruption, there was a need for the City to develop a comprehensive Fraud and Corruption Control Plan.
10. The City has developed the Plan and Policy around the Australian Standard on Fraud and Corruption Control, AS 8001-2008.
11. The City's Plan should be read in conjunction with the Policy which has been established in accordance with AS 8001-2008.
12. The Fraud and Corruption Standard 8001-2008 defines fraud as:

Dishonest activity causing actual or potential financial loss to any person or entity including theft of monies or other property by employees or persons external to the entity and where deception is used at the time, immediately before, or immediately following the activity. This also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal business process or the improper use of information or position for personal financial benefit.

13. The Fraud and Corruption Standard 8001-2008 defines corruption as:

Dishonest activity in which a director, executive, manager, employee or contractor of an entity acts contrary to the interests of the entity and abuses their position of trust in order to achieve some personal gain or advantage for themselves or for another person or entity. The concept of corruption can also involve corrupt conduct by the entity, in order to achieve some personal gain or advantage for themselves or for another person or entity. The concept of corruption can also involve corrupt conduct by the entity, or a person purporting to act on behalf of or in the interests of the entity, in order to secure some form of improper advantage for the entity either directly or indirectly.

14. The Plan provides guidance and direction to City officers and stakeholders on the processes for:
- a) preventing fraud and corruption;
 - b) detecting fraud and corruption; and
 - c) responding to fraud and corruption
15. The Plan is focused on:
- a) preventing fraud and corruption within and against the City;
 - b) building a culture aimed at preventing fraud and corruption;
 - c) explaining how suspected fraud and corruption is dealt with through risk management practices; and
 - d) providing guidance on how suspected instances of fraud or corruption are dealt with.

16. The Plan is structured around four stages:

- a) planning and resourcing;
- b) prevention;
- c) detection; and
- d) response.

STATUTORY AND LEGAL CONSIDERATIONS

17. *Local Government Act 1995*
Local Government (Financial Management) Regulations 1996

POLICY CONSIDERATIONS

18. Nil.

COMMUNITY ENGAGEMENT REQUIREMENTS

Internal Referrals

19. The Plan and Policy have undergone review by the City's Executive Management Team.

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.

Strategy 4.1.2 - Build an effective and efficient service based organisation

SUSTAINABILITY

Social Implications

23. Nil.

Economic Implications

24. The prevention of fraudulent and corrupt activity, will reduce the City's exposure to financial loss.

Environmental Implications

25. Nil.

RISK MANAGEMENT CONSIDERATIONS

| | | | |
|-----|---|-------------------|---------------|
| 26. | Risk: The City suffers loss as a result of corrupt or fraudulent activity. | | |
| | Consequence | Likelihood | Rating |
| | Moderate | Unlikely | Low |
| | Action/Strategy | | |
| | Plan developed and implemented. Implement fraud and misconduct training. Internal and external audit reviews. Maintaining a culture based on integrity and ethical standards | | |

OFFICER COMMENT

27. The City has a zero tolerance for fraud and corruption, is strongly committed to the prevention and detection of fraudulent and corrupt activities and will manage suspected fraud and corruption incidents in accordance with City policies, procedures and the *Corruption, Crime and Misconduct Act 2003*.
28. The Plan together with the Policy are core elements of good governance and establish an effective structure to address fraud and misconduct risks and to detect and respond to fraud and corruption in accordance with the best practice guidelines as defined in the *Fraud and Corruption Standards (AS8001-2008)*.

| |
|---|
| Voting Requirements: Simple Majority |
|---|

COMMITTEE RECOMMENDATION TO COUNCIL

That Council:

- ADOPT the Draft Fraud and Corruption Control Plan (Attachment 1).
- ADOPT the Draft Fraud and Corruption Control Policy (Attachment 2).

Moved: **Cr Sara Lohmeyer**Seconded: **Cr Michael Fernie**Vote: **CARRIED UNANIMOUSLY (9/0)**

9.1.3. Interim Audit Findings for the year ending 30 June 2019

Mr Suraj Karki, representing the Auditor General, presented the Interim Audit findings report and clarified some of the matters raised in the report.

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

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

| | |
|-------------|-----|
| Attachments | Nil |
|-------------|-----|

| | |
|--------------------------|---|
| Confidential Attachments | 1. Annual Financial Report Audit – Planning Summary 2. Interim Audit Findings 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"

EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the findings of the Interim Audit by the Auditor (Confidential Attachment 2).
2. The Interim Audit for the financial year ending 30 June 2019 was undertaken by the Office of the Auditor General, in accordance with the audit planning document (Confidential Attachment 1).
3. It is recommended that Council accepts the 2018/2019 Interim Audit Report. (Confidential Attachment 2).

BACKGROUND

4. On 28 October 2017, the Local Government Amendment (Auditing) Act 2017 was proclaimed, giving the Auditor General the mandate to audit Western Australia's 139 local governments and 9 regional councils.

The Act allowed the Auditor General to conduct performance audits of local government entities from 28 October 2017. From the 2018/2019 financial year the City's audit will be performed by the Officer of the Auditor General (OAG).

DETAILS

5. The OAG prepared an audit plan (Confidential Attachment 1) for their approach to the audit of the annual financial report for the year ending 30 June 2019, and in summary included the following:
 - (a) Introduction
 - (b) Our Audit Approach
 - (c) Significant Risks and Other Audit Issues
 - (d) Audit Emphasis and Significant Account Balances
 - (e) Internal Audit
 - (f) Management Representation Letter
 - (g) Related Entities
 - (h) Reporting Protocols
 - (i) Proposed Audit Schedule
 - (j) Specific Audit Requirements
 - (k) Your Audit Team
 - (l) Other Audit Activities
6. In May 2019, City staff and the Chair of the Audit and Risk Committee met with relevant officers from the OAG, to discuss the audit plan. The interim audit field work was carried out from 27 May 2019 to 14 June 2019, with Confidential Attachment 2 being the outcome of the interim audit.
7. The OAG identified eleven findings as part of the interim audit field work, as detailed in confidential Attachment 2. The City aims to implement all recommendations from the OAG by the end of October 2019.
8. The final component of the fieldwork for the 2018/2019 financial year's audit of the annual financial report will be conducted during October 2019, with the final results brought to an Audit and Risk Committee Meeting once available.

STATUTORY AND LEGAL CONSIDERATIONS

9. Sections 6.4, 7.9, 7.12A of the *Local Government Act 1995* and *Local Government Amendment (Auditing) Act 2017*.
10. Regulation 51 of the *Local Government (Financial Management) Regulations 1996*.

POLICY CONSIDERATIONS

11. There are no policy implications.

COMMUNITY ENGAGEMENT REQUIREMENTS

Internal Referrals

12. The Administration worked closely with the Auditors.

External Referrals

13. Although no community engagement consultation is required in the preparation of the Annual Financial Report, Section 5.55 of the Act requires that the Chief Executive Officer give local public notice of the availability of the Annual Report as soon as practicable following acceptance of the Annual Report by the local government. The Annual Financial Report forms one component of the Annual Report.

FINANCIAL CONSIDERATIONS

14. The Budget includes provision for the cost of having the accounts and the Annual Financial Report audited by an externally appointed registered auditor.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

15. *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

16. Nil.

Economic Implications

17. Nil.

Environmental Implications

18. Nil.

RISK MANAGEMENT CONSIDERATIONS

| | | | |
|-----|--|--------------------|---------------|
| 19. | Risk: Audit Certificate is qualified by the external auditor. (Meaning that the Auditors have identified issues.) | | |
| | Likelihood | Consequence | Rating |
| | Unlikely | Moderate | Low |
| | Action/Strategy | | |
| | Employ qualified suitably skilled staff. Maintain controls and compliance with policy. Ensure an effective internal audit program. | | |

20.

| | | |
|---|--------------------|---------------|
| Risk: Failure to lodge the Annual Financial Report with the Local Government Department within the required timeframe. | | |
| Likelihood | Consequence | Rating |
| Rare | Moderate | Low |
| Action/Strategy | | |
| Lodge the report with the Department of Local Government within 30 days of the signing of the auditor's report. | | |

OFFICER COMMENT

21. The interim audit field work was carried out in accordance with the planning summary (Confidential Attachment 1) from 27 May 2019 to 14 June 2019, with Attachment 2 being the outcome of the interim audit.

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| Voting Requirements: Simple Majority |
|---|

COMMITTEE RECOMMENDATION TO COUNCIL

That Council ACCEPTS the Interim Audit findings for the Annual Financial Report audit for the financial year ending 30 June 2019 (Confidential Attachment 2).

Moved: **Cr Geoff Stallard**

Seconded: **Cr Lesley Boyd**

Vote: **CARRIED UNANIMOUSLY (9/0)**

9.1.4. Internal Audit Report July 2019

Mr Duy Vo, representing the Crowe Horwath , presented the Internal Audit findings report and clarified matters raised in the report.

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

1. CEO Credit Card Review Report
2. Risk Management Review Report
3. Cyber Security Report
4. General Financial Controls 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"*

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:
- c) CEO Credit Card Review;
 - d) Risk Management;
 - e) Cyber Security;
 - f) General Financial Controls.

8. **CEO Credit Card Review**

The objective of the audit was to review all credit card transactions for the period 1 February 2018 to 28 February 2019 and determine if the transactions complied with the City's Corporate Credit Card Policy SMFIN01.

9. **Risk Management Review**

The objective of this internal audit was to review the policies, procedures and practices implemented regarding risk management, including:

- a) how the City progresses with the actions it identified;
- b) The process of identifying new risks and the frequency of management monitoring; and
- c) The maturity of the risk register and framework.

The scope of the internal audit included:

- f) Compliance with governance processes;
- g) Consistency of application of risk management policy and procedures and comparison to best practice;
- h) Processes in place for identifying, prioritising and managing risks to acceptable levels; and
- i) Risk communication, awareness and reporting.

10. **Cyber security**

The objective of the Internal Audit was to assess the adequacy of existing practices in place to mitigate against cyber security risks. The following areas were selected for review:

- a) Governance and Risk Management;
- b) Human Resources Management;
- c) Identity and Access Management;
- d) Infrastructure and Virtualisation Security;

- e) Mobile Security;
- f) Security Incident Management;
- g) Threat and Vulnerability Management;
- h) Vendor Management;
- i) Physical Security; and
- j) Business Continuity and Disaster Recovery.

11. **General Financial Controls**

The objective of the review of General Financial Controls was to assess the effectiveness of the process level controls within the following financial functions:

- a) Bank Reconciliations;
- b) Fees and Charges; and
- c) Fixed Assets.

The scope of the Internal Audit included the following:

- 1. The adequacy of the design and implementation of financial controls;
- 2. The operating effectiveness of existing financial controls.

DETAILS

- 12. The results of the CEO Credit Card Review Audit are detailed in Confidential Attachment 1.
- 13. The results of the Risk Management Review Audit are detailed in Confidential Attachment 2.
- 14. The results of the Cyber Security Audit are detailed in Confidential Attachment 3.
- 15. The results of the General Financial Controls Audit are detailed in Confidential Attachment 4.

STATUTORY AND LEGAL CONSIDERATIONS

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

POLICY CONSIDERATIONS

- 17. Nil.

COMMUNITY ENGAGEMENT REQUIREMENTS

Internal Referrals

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

External Referrals

19. Nil.

FINANCIAL CONSIDERATIONS

20. 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

21. *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

22. Nil.

Economic Implications

23. Nil.

Environmental Implications

24. Nil.

RISK MANAGEMENT CONSIDERATIONS

- 25.
- | | | |
|--|--------------------|---------------|
| Risk: Internal Auditing fails to identify material non-compliance or control deficiencies. | | |
| Likelihood | Consequence | Rating |
| Unlikely | Moderate | Low |
| Action/Strategy | | |
| Internal Audit Plan developed and reviewed annually. Internal Audit working papers reviewed by External Auditors. Key controls are evaluated for the identified processes. | | |

26.

Risk: Audit recommendations are not implemented in a timely fashion.

| Likelihood | Consequence | Rating |
|---|--------------------|---------------|
| Unlikely | Moderate | Low |
| Action/Strategy | | |
| Internal Audit Plan developed and reviewed annually. Monitoring and review of the implementation of audit recommendations. | | |

OFFICER COMMENT

27.

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

| |
|---|
| Voting Requirements: Simple Majority |
|---|

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 Sara Lohmeyer**

Vote: **CARRIED UNANIMOUSLY (9/0)**

9.2. Office of the CEO Reports

9.2.1. City of Kalamunda Council Policy Review 2019

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

Previous Items

Directorate Office of the CEO

Business Unit People Services

File Reference

Applicant Not Applicable

Owner Not Applicable

- Attachments
1. City of Kalamunda Policies to be Withdrawn - August 2019 [**9.2.1.1** - 10 pages]
 2. City of Kalamunda Policy Manual 2019 [**9.2.1.2** - 87 pages]

EXECUTIVE SUMMARY

1. To seek Council endorsement of the City of Kalamunda Combined Council Policies 2019.
2. The City has undertaken a complete review and modernisation of all its policies over the past 12 months in line with the Governance and Policy Framework adopted by Council in 2017.
3. This report recommends Council to withdraw a number of outdated legacy policies as identified in Attachment 1 and to endorse the reviewed Policy Manual as outlined in Attachment 2.

BACKGROUND

4. At the Strategic Retreat in February 2019 Councillors were presented with a combined policy review document along with summary of all policies that are now obsolete. Councillors were requested to review the documents and provide feedback on any policies they had concerns with, to date the City has not had any feedback and is now progressing the Policy review through to adoption.
5. The current Policy Manual exceeds 570 pages and includes 21 Council Policies, 26 Council Procedures, 22 City Policies and 25 City Procedures. All City Policies and Procedures have been removed from the Council Policy manual as they are operationally focused. There has also been a number of Policies that were no longer applicable to the business of the City or Council and are listed in Attachment 1 to be revoked.
6. The review has modernised and condensed the Council policy manual to approximately 90 pages and now includes 14 Governance and 13 Service Delivery Policies.

DETAILS

7. The Council Policy manual now aligns with the approved Governance & Policy Framework.
8. The individual policies will be uploaded to the City's website following adoption.

STATUTORY AND LEGAL CONSIDERATIONS

9. *Local Government Act 1995.*

POLICY CONSIDERATIONS

10. This report provides a review of all Council Policies.

COMMUNITY ENGAGEMENT REQUIREMENTS

Internal Referrals

11. A draft of these policies, along with a summary of key changes, were provided to Councillors at the February 2019 Strategic Retreat with a copy available on the Councillor Portal. The consolidated policy manual has been reviewed by Managers and the Executive.

External Referrals

12. Nil.

FINANCIAL CONSIDERATIONS

13. Nil.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

14. *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

15. Nil.

Economic Implications

16. Nil.

Environmental Implications

17. Nil.

RISK MANAGEMENT CONSIDERATIONS

| | | | |
|-----|--|--------------------|---------------|
| 18. | Risk: Lack of compliance with the Local Government Act that requires Council to have policies updated and reviewed regularly. | | |
| | Likelihood | Consequence | Rating |
| | Possible | Moderate | Medium |
| | Action/Strategy | | |
| | Ensure that Council's Policy Manual is current through regular review process. | | |

| | | | |
|-----|--|--------------------|---------------|
| 19. | Risk: Without policies in place the Council does not have a consistent and transparent approach to decision making. | | |
| | Likelihood | Consequence | Rating |
| | Possible | Moderate | Medium |
| | Action/Strategy | | |
| | Ensure that Council's Policies reflect a consistent application to Councils decisions. | | |

OFFICER COMMENT

20. This policy update modernises the Council's approach to Policy making and provides the City and the community with improved accountability and transparency for implementing Council decisions.

| |
|---|
| Voting Requirements: Simple Majority |
|---|

COMMITTEE RECOMMENDATION TO COUNCIL

That Council:

1. WITHDRAW all policies identified in Attachment 1.
2. ENDORSE all Council Policies as outlined in Attachment 2.

Moved: **Cr Dylan O'Connor**Seconded: **Cr Lesley Boyd**Vote: **CARRIED UNANIMOUSLY (9/0)**

10. Motions of Which Previous Notice has been Given

10.1. Nil.

11. Questions by Members Without Notice

11.1. Nil.

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. Motion

That the meeting closed to the public to allow discussion on Confidential Attachments associated with items 9.1.3 and 9.1.4.

Moved: **Cr Sara Lohmeyer**

Seconded: **Cr Allan Morton**

Vote: **CARRIED UNANIMOUSLY (9/0)**

The meeting closed to the public at 6:47pm. All Councillors, Staff and representatives from the Office of the Auditor General and Crowe Horwath remained in the Council Chambers.

14.1. Motion

That the meeting reopen to the public following discussion on Confidential Attachments associated with items 9.1.3 and 9.1.4.

Moved: **Cr Sara Lohmeyer**

Seconded: **Cr Allan Morton**

Vote: **CARRIED UNANIMOUSLY (9/0)**

The meeting opened to the public at 7:34pm. All Councillors, Staff and representatives from the Office of the Auditor General and Crowe Horwath were present when the meeting reopened. As members of the public did not return to the Council Chambers it was not necessary for the Presiding Member to read the Recommendations aloud.

15. Closure

There being no further business, the Presiding Member declared the Meeting closed at 7:34pm.

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.