Reports of Committee Attachments
Wednesday, 17 December 2014

REPORT NUMBER	REPORT TITLE AND ATTACHMENT DESCRIPTION	PAGE NUMBER(S)
10.1	**Audit Committee – 10 December 2014** **10.1.1 Risk Management** 1. "Unconfirmed" minutes of the Audit Committee Meeting held on 10 December 2014	

AUDIT COMMITTEE MINUTES

Wednesday, 10 December 2014

Council Chambers
6177 Great Northern Highway
Bindoon

Commencement: 4.30pm
Closure: 4.40pm

These minutes will be confirmed at the next available Audit Committee meeting.

SIGNED BY _____
Person presiding at the meeting at which minutes were confirmed

DATE _____

Disclaimer

The purpose of this Committee meeting is to discuss and, where possible, make resolutions about items appearing on the agenda.

Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a member or officer, or on the content of any discussion occurring, during the course of the meeting.

Persons should be aware that the provisions of the *Local Government Act 1995* (section 5.25 (e)) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person.

The Shire of Chittering expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any resolution of Council, or any advice or information provided by a member or officer, or the content of any discussion occurring, during the course of the Council meeting.

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** denotes separate attachments*

1. DECLARATION OF OPENING OF MEETING / ANNOUNCEMENTS OF VISITORS

The Presiding Member declared the meeting open at 4.34pm

2. RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

2.1 Attendance

The following members were in attendance:

Cr Robert Hawes	President (Presiding Member)
Cr Michelle Rossouw	Deputy
Cr Barni Norton	
Cr Sandra Clarke	
Cr Alex Douglas	
Cr Don Gibson	
Cr Doreen Mackie	

The following staff were in attendance:

Mr Gary Tuffin	Chief Executive Officer
Ms Jean Sutherland	Executive Manager Corporate Services

There were 0 members of the general public in attendance.

2.2 Apologies

2.3 Approved leave of absence

Nil

3. DISCLOSURE OF INTEREST

4. PUBLIC QUESTION TIME

4.1 Public question time

Nil

5. CONFIRMATION OF MINUTES – Wednesday, 5 March 2014

5.1 OFFICER RECOMMENDATION / COUNCIL RESOLUTION 051214
Moved Cr Douglas / Seconded Cr Mackie
That the minutes of the Audit Committee meeting held on Wednesday, 5 March 2014 be confirmed as a true and correct record of proceedings.
THE MOTION WAS PUT AND DECLARED CARRIED 7/0

6. PURPOSE OF MEETING

6.1 Risk Management*

Applicant	Shire of Chittering
File ref	27/01/2
Prepared by	Gary Tuffin, Chief Executive Officer
Supervised by	Gary Tuffin, Chief Executive Officer
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	1. Risk Management Governance Framework 2. Risk Profile Assessment sheets

Background
A new Regulation (number 17) was inserted into the *Local Government (Audit) Regulations 1996* on 8 February 2013, that requires the Chief Executive Officer to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:
(a) risk management; and
(b) internal control; and
(c) legislative compliance.

A review of this kind is now to be undertaken at least once every two years.

Consultation
Two Risk Management workshops were conducted with LGIS Risk Management (Mark Harris) on 30 June 2014 and 2 October 2014 with the Executive Management Team to undertake the assessment process.

In addition to this the Executive Team met on a number of other occasions to further develop the assessments.

Statutory Environment
Regulation 17 of the *Local Government (Audit) Regulations 1996*

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 subregulation (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.

Policy Implications
Shire of Chittering - Risk Management Policy 1.6

Financial Implications
There are no financial implications in considering this item.

Strategic Implications
There are no strategic implications in considering this item.

Site Inspection
Not applicable

Triple Bottom Line Assessment
Economic implications
There are no known significant economic implications associated with this proposal.

Social implications
There are no known significant social implications associated with this proposal.

Environmental implications
There are no known significant environmental implications associated with this proposal.

Comment
To assist with this process LGIS Risk Management were engaged to develop a "Risk Management Governance Framework", which consists of the Risk Management Policy and Risk Management Producers.

In this assessment process the Chief Executive Officer has also used the independent Financial Management Review that was conducted by UHY Haines Norton in March 2013, which was presented to Council for endorsement 15 May 2013.

Appendix 3 of *Operational Guideline Number 09 – Audit in Local Government* (issued by the Department of Local Government and Communities) lists issues that should be considered for inclusion in the Chief Executive Officer's Review of Risk Management, Internal Control and Legislative Compliance, as follows:

a) Risk Management

Number	Details	Comment
1	***Does the local government have an effective risk management system?***	At its Ordinary meeting on 25 June 2014, Council adopted "*Policy 1.16 – Risk Management*", which has been further supported by Risk Management Procedures. As mentioned above, a series of Risk Profiles have been assessed (refer to Attachment 2). A suitable risk management framework has been used to undertake this assessment which aims to balance a documented, structured and systematic process with the current size and complexity of the Shire along with existing time, resource and workload pressures.
2	***Are material operating risks to the local government being appropriately considered?***	The Shire has adopted a "Three Lines of Defence" model for the management of risk. This model ensures roles, responsibilities and accountabilities for decision making are structured to demonstrate effective governance and assurance. By operating within the approved risk appetite and framework, the Council, Management and Community will have assurance that risks are managed effectively to support the delivery of the Strategic, Corporate and Operational Plans. There were 16 major risk themes identified for assessment, being: (1) Misconduct (2) External theft and fraud (inc. Cyber Crime) (3) Business & community disruption (4) Errors, omissions, delays (5) Failure of IT &/or Communications Systems and Infrastructure (6) Failure to fulfil statutory, regulatory or compliance requirements (7) Providing inaccurate advice / information (8) Inadequate project / change Management (9) Inadequate Document Management Processes (10) Inadequate safety and security practices (11) Inadequate engagement practices (12) Inadequate asset sustainability practices (13) Inadequate Supplier / Contract Management (14) Ineffective employment practices (15) Ineffective management of facilities / venues / events (16) Inadequate environmental management. The findings of this assessment can be found in attachment 2 - Risk Profile Assessment Sheets.
3	***Does the local government have a current and effective business continuity plan (including disaster recovery) which is tested from time to time?***	The Shire's first Business Continuity Plan was completed in August 2012 in conjunction with LGIS Risk Management. The plan has not yet been tested, however, a test is planned for 2015.

Number	Details	Comment
4	***How effective are the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:*** ***a. Potential non-compliance with legislation, regulations and standards and the local government's policies;*** ***b. Important accounting judgements or estimates that prove to be wrong;*** ***c. Litigation and claims;*** ***d. Misconduct, fraud and theft; and*** ***e. Significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety and how they are managed by the local government.***	Refer to Attachment 2.
5	***Are regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, provided to ensure that identified risks are monitored and new risks are identified, mitigated and reported.***	Risk Assessment reports are produced for every major project or public event (i.e. Targa West Rally). All new works sites are risk assessed (Take 5 and /or Job Safety Analysis) and documented by staff and contractors.
6	***Are the local government's processes to manage insurable risks adequate? How adequate is insurance cover, and if applicable, the level of self-insurance?***	Council's insurance cover and policy coverage is reviewed annually with Council's Insurance Broker (LGIS) to ensure appropriate insurances and cover amounts are in place. It is proposed that in line with the new requirement under the *Local Government (Financial Management) Regulations 1996,* Regulation 17A which requires the revaluation of all assets every three years, an insurance revaluation would be undertaken at the same time to ensure the insurance values remain appropriate. Property insurance values were last assessed by Griffin Valuers (licensed valuers) in 2013 and the insurance values register was amended accordingly. During non-revaluation years generally the insurance values are adjusted in accordance with CPI movements. *Auditor's comments for the Financial Management Review (FMR)* *"Discussions with staff and review of policy documents revealed policies are current and the coverage is currently adequate. Evidence also exists to suggest an annual review of insurance risks occurs".*

Number	Details	Comment
7	***Has the effectiveness of the local government's internal control system been reviewed with management and the internal and external auditors?***	Yes, in accordance with the *Local Government (Financial Management) Regulations 1996* the last internal financial management review was conducted by UHY Haines Norton in March 2013, which was presented to Council for endorsement 15 May 2013, no major issues were raised. The examination covered the period 1 July 2012 to 28 February 2013. The following financial systems and procedures of Council were examined by Council's Auditors: • Bank Reconciliations and Petty Cash • Costs Allocations • Trust Fund • Administration Allocations • Receipts and Receivables • Minutes and Meetings • Rates • Financial Reports • Fees and Charges • Budget • Purchases, Payments and Payables (Including Purchase Orders) • Plan for the Future • Registers (Including Annual & Primary Return) • Wages and Salaries • Delegations • Fixed Assets (Including acquisition and disposal of property) • Insurance • Audit Committee • Credit Card Procedures • General Compliance issues • Storage of Documents/Record Keeping <u>*Auditor's comments*</u> *"Based on our work described in this report, nothing has come to our attention to indicate the Shire of Chittering has not established and maintained appropriate and effective financial management systems and procedures during the period 1 July 2012 to 28 February 2013."* Note: The Chief Executive Officer is required to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews. The next review is due February 2017.

Number	Details	Comment
8	***Does management have controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk?***	**….unusual types of transaction….** In relation to unusual transactions that are once off, credit cards are used. Each staff member allocated a credit has an assigned credit limit. <u>*Auditor's comments for the Financial Management Review (FMR) in relation to credit card transactions*</u> *"A review of Council's credit card procedures was performed to determine if adequate controls were in place. Six credit cards are currently in use. We judgmentally selected fifteen credit card transactions across all six cards to determine whether they are legitimate and usual in the context of the Shire's operations. This included:* • *sighting tax invoices;* • *ascertaining whether the transaction was for bona fide Shire business; and* • *whether transactions were in line with the Shire's policy.* *Overall testing was completed satisfactorily. Controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations".* **…more than an acceptable degree of risk….** Council has an "*Investment of Funds*" Policy 2.2 which details the types of allowable investments: ***Approved Investments*** *Investments may only be made with authorised institutions.* *Definition of an "authorised institution" is as follows:* *An authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or* *The Western Australian Treasury Corporation established by the* ***Western Australian Treasury Corporation Act 1986****.* ***Prohibited Investments*** *Investments which are not allowed are as follows:* • *Deposits with an institution except an authorised institution;* • *Deposits for a fixed term of more than 12 months;* • *Bonds that are not guaranteed by the Commonwealth Government, or a State or Territory Government;* • *Bonds with a term to maturity of more than 3 years;* • *Foreign currency.* Additionally no transfer of funds can be transacted without the Chief Executive Officer co-signing the transfer request.

Number	Details	Comment
9	***How effective and robust is the local government's procurement framework, with a focus on the probity and transparency of policies and procedures/processes? Are these procedure/processes being applied?***	All of Council's purchasing is undertaken in accordance with its adopted Purchasing Policy 2.12 in accordance with the *Local Government (Functions and General) Regulations 1996*. A review of the policy is undertaken yearly to ensure its relevance. The broad objectives of Council's probity process is to: • ensure conformity to processes that are designed to achieve best value for money; • improve accountability; • encourage commercial competition on the basis that all tenders will be assessed against the same criteria; • preserve public and tenderer confidence in local government processes; and • improve defensibility of decisions to potential administrative and legal challenge. These objectives are underpinned by five essential principles as follows: • open competitive process, • transparency of process, • identification and resolution of conflicts of interest, • accountability, and • monitoring and evaluating performance.
10	***Should the need arise, does the Audit Committee meet periodically with key management, internal and external auditors and compliance staff to understand and discuss any changes in the local government's control environment?***	Each member of Council is a member of the Audit committee. The Council meets with its Auditor every year to discuss the results of the annual audit and meets as required.
11	***Have fraud and misconduct risks been identified, analysed and evaluated? Has an appropriate treatment plan been implemented, communicated and monitored? Is there regular reporting and ongoing management of fraud and misconduct risks?***	Yes, refer to the Shire of Chittering risk theme "External Theft and Fraud" in Attachment 2. To date there have not been any reported cases of fraud since the Chief Executive Officer's appointment on 31 October 2011.

b) ***Internal Control***

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Comment

The following controls have been reviewed:

Number	Control	Comment
1	***Separation of roles and functions processing and authorisation***	All financial roles have appropriate levels of separation, which have been confirmed by Council's Auditors, i.e. Creditors payments cannot be approved by the staff member processing the accounts.
2	***Control of approval of documents, letters and financial records***	Council has a number of internal policies that deal with these issues. Administration policy – *Signing of Correspondence procedure* All correspondence if not signed by the Chief Executive Officer is signed by the respective Executive Manager. Document control pages have been applied to all major internal documents, so that any changes are recorded and tracked appropriately. All transactions and changes to any internal record on Council's software package is traceable, via the internal audit function. All financial records/reconciliations are generally approved by the Executive Manager Corporate Services. Monthly statutory financial reports are provided to Council.

Number	Control	Comment
3	***Limit of direct physical access to assets and records***	All building and vehicle keys are stored in various key cabinets, restricting general access by staff. Fuel is accessed via an electronic key tag and each staff member with access has a personal pin number allocated so that all use can be tracked. Record access is controlled via the operating software that allows restricted access to each staff member subject to their level of clearance. Any changes to any documents or documented record is recorded via the internal audit software (Audit trail function). Most general records are stored in a locked room and can only be accessed when accompanied by the Records Officer. All Council's high priority records (Council minutes, legal agreements etc) are stored in the strongroom, which is also locked. Personnel Records are kept in locked cabinets, and only two officers have keys (Manager Human Resources and Payroll Officer).
4	***Control of computer applications and information system standards***	An external provider is engaged to manage the data files and system. During the review of IT services it was identified that Council does not have a service level agreement in place to manage this arrangement and as such has now been identified as a required improvement/action. Staff receive a daily report from the provider to confirm that all electronic files/data has been backed-up safely and stored. Restrictions have been placed on the level of access each staff member can have, generally only to allow them to perform their specific functions. For example some staff only have the ability to view records only and have no ability to enter any data/information into the system.
5	***Limit access to make changes in data files and systems***	As mentioned above, Council's software allows for certain levels of access to be applied to each staff member.
6	***Regular maintenance and review of financial control accounts and trial balances***	All subsidiary ledgers (Rates, creditor, debtors, payroll, trust a/c) are balanced monthly by the relevant officer and approved by the Executive Manager Corporate Services.
7	***Comparison and analysis of financial results with budgeted amounts***	Each month an assessment of the budget variances is undertaken by the Executive Manager Corporate Services and reported to Council in accordance with Regulation 34 of the *Local Government (Financial Management) Regulations 1996*.

Number	Control	Comment
8	***The arithmetical accuracy and content of records***	All accounts are double checked by an independent person prior to being authorised for payment. *Auditor's comments for the Financial Management Review (FMR)* *"Detailed testing of ten receipts, randomly selected, was performed. This included tracing to individual receipt detail, bank deposits and the general ledger to ensure allocation/posting was correctly performed.* *The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting.* *Overall testing was completed satisfactorily. Controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations…".*
9	***Report, review and approval of financial payments and reconciliations***	When an account is received the creditor number is allocated, purchase order attached, GL Account allocated the goods must be signed off as received by the receiving officer, the computation are checked and signed off by the creditors officer, and lastly the account is checked and authorised by the Executive Manager Corporate Services or other Executive Manager/Chief Executive Officer. A payment reconciliation statement is prepared and checked by a staff member independently from the officer who prepared the payment report. A random selection of payments are checked by another independent staff member to ensure the banking details are correct, and match our hard copy records. The actual payment of the creditor requires one electronic token and two separate passwords (two staff), which is generally undertaken by the Executive Manager Corporate Services and Manager Human Resources. *Auditor's comments for the Financial Management Review (FMR)* *"A sample of forty payment transactions were randomly selected and testing performed to determine whether purchases were authorised/ budgeted and payments were supported, certified, authorised and correctly allocated. Council's purchases, payments and payables system was also examined to determine if adequate controls in place in ensuring liabilities are properly recorded and payments are properly controlled.* *Our testing and observations lead us to conclude the system is operating effectively".*

Number	Control	Comment
10	***Comparison of the result of physical cash and inventory counts with accounting records***	A bank reconciliation is prepared by the relevant officer monthly and checked by the EMCS. Generally, very little stock is kept on-hand, as it is only ordered when required. *Auditor's comments for the Financial Management Review (FMR)* *"An examination of bank reconciliations and procedures noted they are up to date as well as being prepared regularly and promptly for all bank accounts.* *We also examined the petty cash system and procedures and concluded these were being properly controlled and maintained.* *Trust funds held by Council were examined to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements.* *Our observation and testing confirmed that trust funds are adequately controlled and all statutory requirements were satisfactorily met".*

c) Legislative Compliance

Number	Details	Comment
1	***Monitor compliance with legislation and regulations***	This is undertaken each year when the Compliance Audit return is completed. Additionally, Council's operations are subject to an external Audit process each year. Also to assist with this process an internal "Corporate Calendar" has been developed to ensure critical dates are not missed throughout the year, i.e. Annual Returns, review of delegation register…etc
2	***Review the annual Compliance Audit Return and reporting to Council of the results of that review***	Each year when the Compliance Audit Return is completed it is presented to the Audit Committee and Council for their endorsement within the required timeframe.
3	***Review whether the local government has procedures to receive, retain and treat complaints, including confidential and anonymous employee complaints***	Council has adequate policies and procedures that deal with such matters, which are reviewed annually. • Shire of Chittering - Administration Policy, External Complaints Procedures • Shire of Chittering - Administration Policy, Issues and Grievances • Shire of Chittering - Council Policy 1.4, Complaints Handling • *Public Interest Disclosure Act 2003*

Number	Details	Comment
4	***Obtain assurance that adverse trends are identified and review management's plans to deal with these***	Any adverse trends are identified through the use of monthly management financial reports, these reports are tailored specific for each Executive Manager.
5	***Review whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee***	Council has adopted the standard template recommended by the Department of Local Government for setting the audit scope. Council currently only uses external auditors. This is an area that has been identified for improvement in relation to documenting internal audit processes.

The Review has confirmed that the Shire has adequate and effective systems and procedures in place for many areas covered by the Review. The Review also highlighted those areas where improvements to strengthen the Shire's position are required, and will be attended to in due course.

Other areas identified for improvement have been included in the actions sections of the Risk Assessment sheets (refer Attachment 2).

6.1 OFFICER RECOMMENDATION / COUNCIL RESOLUTION 061214
That the Audit Committee recommend to Council:
Moved Cr Douglas / Seconded Cr Rossouw
That:

a) the attached Risk Management Governance Framework and Risk assessment sheets be received and endorsed by Council as detailed in Attachments 1 & 2 to this report.

b) Council receives the Chief Executive Officer's review of the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal controls and legislative compliance as detailed in this report.

THE MOTION WAS PUT AND DECLARED CARRIED 7/0

7. CLOSURE

The Presiding Member declared the meeting closed at 4.40pm.

Shire of Chittering

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