



City of Cockburn  
Audit & Strategic Finance Committee  
**Agenda Paper**

For Thursday, 19 July 2018

## CITY OF COCKBURN

### SUMMARY OF AGENDA TO BE PRESENTED TO THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING TO BE HELD ON THURSDAY, 19 JULY 2018 AT 6:00 PM

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## **CITY OF COCKBURN**

### **AGENDA TO BE PRESENTED TO THE AUDIT & STRATEGIC FINANCE COMMITTEE TO BE HELD ON THURSDAY, 19 JULY 2018 AT 6:00 PM**

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- 1. DECLARATION OF MEETING**
- 2. APPOINTMENT OF PRESIDING MEMBER (IF REQUIRED)**
- 3. DISCLAIMER (TO BE READ ALOUD BY PRESIDING MEMBER)**

Members of the public, who attend Council Meetings, should not act immediately on anything they hear at the Meetings, without first seeking clarification of Council's position. Persons are advised to wait for written advice from the Council prior to taking action on any matter that they may have before Council.

- 4. ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN  
DECLARATIONS OF FINANCIAL INTERESTS AND CONFLICT  
OF INTEREST (BY PRESIDING MEMBER)**
- 5. APOLOGIES & LEAVE OF ABSENCE**
- 6. PUBLIC QUESTION TIME**

- 7. CONFIRMATION OF MINUTES**

- 7.1 MINUTES OF THE AUDIT & STRATEGIC FINANCE COMMITTEE  
MEETING - 15/3/2018**

**RECOMMENDATION**

That Committee confirms the Minutes of the Audit & Strategic Finance Committee Meeting held on Thursday, 15 March 2018 as a true and accurate record.

**8. DEPUTATIONS**

**9. BUSINESS LEFT OVER FROM PREVIOUS MEETING (IF  
ADJOURNED)**

Nil

**10. DECLARATION BY MEMBERS WHO HAVE NOT GIVEN DUE  
CONSIDERATION TO MATTERS CONTAINED IN THE  
BUSINESS PAPER PRESENTED BEFORE THE MEETING**

## 11. COUNCIL MATTERS

### 11.1 EXTERNAL INDEPENDENT MEMBERSHIP ON AUDIT & STRATEGIC FINANCE COMMITTEE

<b>Author(s)</b>	J Ngoroyemoto
<b>Attachments</b>	<ol style="list-style-type: none"> <li>1. Draft Terms of Reference - Audit &amp; Strategic Finance Committee <a href="#">↓</a></li> <li>2. WA Department of Local Government and Communities' (DLGC) Guideline No 9 – Audit Committees, <a href="#">↓</a></li> </ol>

#### RECOMMENDATION

That Council:

- (1) adopts the updated Audit & Strategic Finance Committee Terms of Reference as per Attachment to the report, and;
- (2) advertise for expressions of interest from suitably qualified external persons to be considered for appointment as a member (one only) of the Audit and Strategic Finance Committee.

#### Background

Section 7.1A of the Local Government Act 1995 states:

- (1) *A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.*
- (2) *The members of the audit committee of a local government are to be appointed by the local government and at least 3 of the members, and the majority of the members, are to be Council members.*

*Absolute majority required.*

The City is required to have an Audit Committee which acts as an advisory committee to Council. The Audit Committee's Terms of Reference sets out the Committee membership. Currently, the Audit Committee has five council members and no Independent Members.

Council is legislatively required to have an Audit Committee consisting of three, or more, elected members. In addition, Council may choose to include external members on the committee.

#### Submission

Nil

## Report

The traditional membership for the City's Audit Committee has been for the appointment of the mayor and all councillors.

A review was undertaken by the Governance and Risk section and included:

- 1) A review of Audit Committee practices and proposed legislation changes within the WA Local Government sector;
- 2) A review of Audit Committee requirements for Local Governments in other States
- 3) A review of Audit Committee requirements at state and federal government levels;
- 4) A review of Audit Guidelines for ASIC listed companies;
- 5) Review of material from Governance and Risk Institute; and
- 6) Review of International best practices relating to Audit Committees.

The following references were reviewed:

- *Global Institute of Internal Auditors' Public Sector Insight Paper on Audit Committees*
- *Tasmania - Local Government Audit Panels A practice guide*
- *Queensland - Audit Committee Guidelines Improving Accountability and Performance*
- *NSW – Internal Audit Guidelines*
- *Western Australia - Local Government Operational Guidelines Number 09 – Audit Committees*
- *Victoria - Audit Committees A Guide to Good Practice for Local Government*
- *South Australia – LGA Financial Sustainability Information Paper 3 - Audit Committees*
- *Northern Territory – Audit Committees – General Instruction No. 3*

- *USA - Association of Local Government Auditors – Audit Committee Guidance*
- *UK – HM Treasury - Audit and risk assurance committee handbook*
- *UK - Financial Reporting Council - Guidance on Audit Committees*
- *Europe – KPMG – Audit Committee Trends*
- *Public Accounts Committee – Improving Local Government Accountability Report*
- *Public Sector Commission – Conduct Guide for Boards and Committees*
- *Governance Institute - Issues to consider when constituting audit and risk committees.*

The following table benchmarks a number of other metropolitan Councils Audit Committees;

<b>Local Government</b>	<b>Total Members</b>	<b>Elected Members</b>	<b>Independent External Members</b>	<b>Remunerating Options</b> 1. Allow for reimbursements only. 2. Allowable reimbursable general expenses. 3. Reimbursed for time put in.
Belmont	5	4	1	Option 1
Vincent	6	4	2	Option 2
Stirling	8	7	1	Option 3
Canning	4	3	1 at present. Planning to increase to 2	Option 1
Joondalup	7	7	In the process of appointing a new external member to fill the position which has remained vacant since January 2013	Option 1
Perth	4	3	1	Option 1



Fremantle	5	4	1	Option 2
Wanneroo	15	15	0 ( report has been presented to a Council Forum to consider a revised TOR to make provision for an external member)	N/A
Bayswater	5	5	0	N/A

There is a wealth of readily available information on the subject of best practice in audit committees and a list of references has been included in this report for further reading. Overall, the requirements and principles of Audit Committees are remarkably consistent across all of the sources reviewed. It was relatively straightforward therefore to distil this information into key themes that were common across all sectors and geographical boundaries.

The membership of an Audit Committee invariably consists of:

- A minimum of 3 members
- Recommended independent / external member/s

- A maximum membership of around 6
- Minimum frequency of 4 meetings per year
- Payment for work undertaken as a member (as a reimbursement of time commitment if appointed as an external member)
- Rotation of membership

Areas suggested for consideration:

- External / Independent Membership
- Reimbursement of expenses (if external member/s appointed)

#### External / Independent Membership

Without exception, every audit committee guide recommends that there be external / independent membership of the audit committee, particularly for reasons of bringing high level, professional finance / governance skills and for providing a specific skill perspective to the organisation. Having independent committee members is “best practice”. However, it could be argued that Council members meet the description of an independent member and therefore there is no need for non-Council members. This argument is perhaps countered by the guidelines for Local Government Audit Committees in all Australian states, which recommend that members who are not Elected Members be appointed, including the WA Department of Local Government and Communities’ (DLGC) Guideline No 9 – Audit Committees, which states: *“If the local government wishes to appoint one or more persons other than elected members to the committee, which is recommended, it should ensure that they have the requisite knowledge and skills to provide benefit to the committee.”* If Council were to opt for a model that involves external membership, the number of external members must also be determined.

The Local Government Act 1995 (“the Act”) requires that the majority of Audit Committee members be Council Members. The Australian Stock Exchange (ASX) recommends a majority of independent members on boards. NSW and Victorian Local Governments must also have a majority of independent members on their Audit Committees, while Queensland recommends a minimum of 2 independent members and Tasmania requires a minimum of 1/3 independent members. All best practice guides reviewed call for a broad and diverse mix of skills on the committee, but specifically demand skills and experience in finance and audit practices. Council itself is comprised of a diverse group of members with a range of skillsets and it is the City’s view that those skillsets would be complemented by a member with strong financial, risk management and auditing experience.

#### Reimbursement of Expenses

The issue of remuneration of Audit Committee members is closely related to external/independent membership issue. Independent Audit Committee members are typically paid for their work on the Audit Committee according to the level of skills and experience they bring to the committee. This is true for local government in all other states. However, the legislation for WA Local Government is clear in that it prevents a meeting fee being paid to an external person for membership on a committee. There are a number of Local Governments in WA that have external membership of their Audit Committee including: Stirling; Belmont; Vincent; Canning; Fremantle; Joondalup; Perth; Wanneroo. Among these local governments there are, broadly, three approaches to “remunerating” their external members:

1. Allow for reimbursements only;
2. Take a broader view of allowable reimbursable expenses, such as attendance at an interstate conference that may be related to the function/s of the committee; or
3. Take an further view of “expenses” whereby members are “reimbursed” for the time they put in.

The City’s view is that approach 3 is inconsistent with a strict interpretation of relevant legislation, in and that a payment is not a reimbursement unless an expense has been incurred. Nevertheless, this approach appears to have been taken by the City of Stirling and is arguably supported by the following taken from DLGC’s Guideline No 9 – Audit Committees: “...it is permissible for a payment to be made as a reimbursement of expenses incurred, commensurate with the expertise and knowledge such people bring to the committee.”

DLGC has previously provided the following response in regards to this matter:

*“It is understood that where reference to expenses commensurate with the “expertise and knowledge” relates to the person’s line of work in that if they are a self-employed professional, their consultancy rate they would normally charge for loss of earnings while they are engaged on committee business (i.e. commensurate with the value of their contribution) would be acceptable.. It is ultimately up to the council to decide if the local government (LG) will reimburse an expense incurred by a person in regard to a matter affecting the LG (refer s5.100 of the Act).”* (The following definition of a “reimbursement” is provided on the website of the Australian Tax Office:

*“A payment is a reimbursement for tax purposes if it is a precise compensation, in part or full, for an expense already incurred, even if the expense has not yet been paid.”*

The City recommends that this be determined at the time an appointment of an external member is to be considered.

### **Strategic Plans/Policy Implications**

#### Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

Ensure sound long term financial management and deliver value for money.

### **Budget/Financial Implications**

The governance budget can accommodate reimbursement of expenses to an independent committee member.

### **Legal Implications**

Section 7.1A of the Local Government Act 1995 states:

(1) A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.

(2) The members of the audit committee of a local government are to be appointed by the local government and at least 3 of the members, and the majority of the members, are to be Council members.

Absolute majority required, at the time of appointment.

### **Community Consultation**

N/A

### **Risk Management Implications**

The recommendation allows for the Audit and Strategic Finance Committee to distinguish its independence. The committee's independence from the day-to-day activities of management helps to ensure that it acts in an objective, impartial manner, free from conflict of interest, inherent bias or undue external influence.

Appointing an external member to the committee is the most visible and practical way to make sure the committee is as independent as possible from the management of the entity.

Failure to adopt the recommendation might potentially lead to reputational/ brand damage, as the City is seen as not being supportive

to good governance best practices that promote transparency in its decision making process.

**Advice to Proponent(s)/Submitters**

N/A

**Implications of Section 3.18(3) *Local Government Act, 1995***

Nil

# AUDIT & STRATEGIC FINANCE COMMITTEE

## TERMS OF REFERENCE

### 1 Background

- 1.1 The Audit and Strategic Finance Committee is a formally appointed Committee of Council and is responsible to that body. The Audit and Strategic Finance Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. The Audit and Strategic Finance Committee does not have any management functions and is therefore independent of management.

### 2. Objectives

- 2.1 As part of Council's governance obligations to its community, Council has constituted an Audit and Strategic Finance Committee to facilitate:
- 2.1.1 the enhancement of the credibility and objectivity of internal and external financial reporting;
  - 2.1.2 effective management of financial and other risks and the protection of Council assets;
  - 2.1.3 compliance with laws and regulations as well as use of best practice guidelines;
  - 2.1.4 the effectiveness of the internal audit function;
  - 2.1.5 the provision of an effective means of communication between the external auditor, internal audit, management and the Council.
- 2.2 The Committee's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its Terms of Reference in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.

### 3. Membership

- 3.1 Members of the Committee are to be appointed in accordance with sections 7.1A of the Local Government Act 1995 The Audit and Strategic Finance Committee will consist of three or more elected members of Council, and one external independent person.

- 3.2 All members will have full voting rights.

- 3.3 The members of the Committee are to elect a presiding member from amongst themselves in accordance with section 5.12 of the Act, with the exception that an external member cannot be the presiding member.
- 3.4 Appointment of external persons shall be for a maximum term of two years endorsed by Council following a public advertisement. Members will be eligible for reappointment. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.
- 3.5 External persons will have senior business or financial management/reporting knowledge, and experience and be conversant with financial, and/or risk management and other reporting requirements. The evaluation and selection of potential members will be reviewed and endorsed by the CEO and the Committee presiding member. This will take into consideration the candidate's work experience and their likely ability to apply appropriate analytical, strategic financial and management skills, and a recommendation for appointment put to Council. The nature of independence with regard to an external independent person is a person with no operating responsibilities with the City. Associations refer to commitment and paid services to the City, directly or indirectly, for example sporting clubs, regional committees and participation on other Council committees. The exclusion does not include ratepayers. The objective of the concept is to have the committee approach its tasks objectively, to maintain its independence and also to be seen to be independent.
- 3.6 The City will reimburse the independent member for expenses which are to be determined by Council. In accordance with 5.11 tenure of membership of the committee continues until: (a) the person no longer holds the office by virtue of which the person became a member, (b) the person resigns from membership of the committee, or (c) the committee is disbanded.
- 3.72 The Chief Executive Officer ~~and internal auditor~~ should attend all meetings, except when the Committee chooses to meet in camera. Other members of Council or Council staff may be invited to attend at the discretion of the Committee to advise and provide information when required.
- 3.38 Representatives of the external auditor should be invited to attend at the discretion of the Committee but **must** attend meetings considering the draft annual financial report and results of the external audit.
- 3.94 Council shall provide secretarial and administrative support to the Committee.

#### 4. Meetings

- 4.1 The Committee shall meet in accordance with the attached 'Audit Committee Calendar', as a minimum.
- 4.2 Additional meetings shall be convened:
  - 4.2.1 at the discretion of the Presiding Member;
  - 4.2.2 in accordance with Council's Standing Orders; or,
  - 4.2.3 at the request of the internal or external auditor.
- 4.3 As a minimum, meetings will be arranged to coincide with the finalisation of the financial statements and the draft annual report to the Minister.

#### 5. Reporting

- 5.1 The Audit and Strategic Finance Committee shall after every meeting forward the Minutes of that meeting to the next practicable ordinary meeting of the Council, including a report explaining any specific recommendations and key outcomes.

#### 6. Duties and Responsibilities

- 6.1 The following are the duties and responsibilities of the Audit Committee:
  - 6.1.1 To review the scope of the internal audit plan and program and the effectiveness of the function. This review should consider whether, over a period of years the internal audit plan systematically addresses:
    - internal controls over significant areas of risk, including non-financial management control systems;
    - internal controls over revenue, expenditure, assets and liability processes;
    - the efficiency, effectiveness and economy of significant Council programs; and
    - compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements. **(Internal Audit)**
  - 6.1.2 Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or Chief Executive Officer **(Internal Audit)**
  - 6.1.3 Review the level of resources allocated to internal audit and the scope of its authority. **(Internal Audit)**



- 6.1.4 Review reports of internal audit and the extent to which Council and management react to matters raised by internal audit, by monitoring the implementation of recommendations made by internal audit. **(Internal Audit)**
- 6.1.5 Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems. **(Internal Audit)**
- 6.1.6 Review tendering arrangements and advise Council. **(Internal Audit)**
- 6.1.7 Review issues relating to national competition policy, financial reporting by Council business units and comparative performance indicators. **(Internal Audit)**
- 6.1.8 Identify, initiate and/or refer, investigations or specific audit projects that are considered necessary, to the Internal Auditor (through the CEO) and/or the Council. Oversee any subsequent investigation, including overseeing the investigation of all suspected cases of fraud within the organisation. **(Internal Audit)**
- 6.1.9 Monitor the progress of any major lawsuits facing the Council. **(Internal Audit)**
- 6.1.10 Review Council's draft annual financial report, focussing on:
- accounting policies and practices;
  - changes to accounting policies and practices;
  - the process used in making significant accounting estimates;
  - significant adjustments to the financial report (if any) arising from the audit process;
  - compliance with accounting standards and other reporting requirements;
  - significant variances from prior years. **(External Audit)**
- 6.1.11 Recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed. **(External Audit)**
- 6.1.12 Discuss with the external auditor the scope of the audit and the planning of the audit. **(External Audit)**
- 6.1.13 Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters. **(External Audit)**

- 6.1.14 Review the annual performance statement and recommend its adoption to Council. **(External Audit)**
  - 6.1.15 Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs. **(Internal/External Audit)**
  - 6.1.16 Critically analyse and follow-up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's Terms of Reference. Review management's response to, and actions taken as a result of the issues raised. **(Internal/External Audit)**
  - 6.1.17 Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's Terms of Reference. **(Internal/External Audit)**
  - 6.1.18 Provide guidance and assistance to Council in the development of a process to be used to select and appoint a person to be an auditor. **(Internal/External Audit)**
  - 6.1.19 Provide recommendations to Council regarding all matters related to the management of Council's cash and real property assets. **(Internal/External Audit)**
- 6.2 The Audit and Strategic Finance Committee, following authorisation from Council and through the Chief Executive Officer, and within the scope of its responsibilities, may seek information or obtain expert advice in relation to matters of concern.

## AUDIT & STRATEGIC FINANCE COMMITTEE CALENDAR

### MARCH

1. To review the scope of the internal audit plan and program and the effectiveness of the function. This review should consider whether, over a period of years the internal audit plan systematically addresses:
  - internal controls over significant areas of risk, including non-financial management control systems;
  - internal controls over revenue, expenditure, assets and liability processes;
  - the efficiency, effectiveness and economy of significant Council programs; and
  - compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements. **(Internal Audit)**
2. Review the level of resources allocated to internal audit and the scope of its authority. **(Internal Audit)**
3. Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs. **(Internal/External Audit)**
4. Critically analyse and follow-up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's Terms of Reference. Review management's response to, and actions taken as a result of the issues raised. **(Internal/External Audit)**
5. Provide guidance and assistance to Council in the development of a process to be used to select and appoint a person to be an auditor. **(Internal/External Audit)**

NOTE: This will be required when tenders for audit services are being prepared.

### JULY

1. Review reports of internal audit and the extent to which Council and management react to matters raised by internal audit, by monitoring the implementation of recommendations made by internal audit. **(Internal Audit)**

### NOVEMBER

1. Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters. **(External Audit)**

NOTE: This is in regard to the external audit.

1. Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems. **(Internal Audit)**
2. Review tendering arrangements and advise Council. **(Internal Audit)**
3. Review issues relating to national competition policy, financial reporting by Council business units and comparative performance indicators. **(Internal Audit)**
4. Identify, initiate and/or refer, investigations or specific audit projects that are considered necessary, to the Internal Auditor (through the CEO) and/or the Council. Oversee any subsequent investigation, including overseeing the investigation of all suspected cases of fraud within the organisation. **(Internal Audit)**
5. Monitor the progress of any major lawsuits facing the Council. **(Internal Audit)**
6. Review Council's draft annual financial report, focussing on:
  - accounting policies and practices;
  - changes to accounting policies and practices;
  - the process used in making significant accounting estimates;
  - significant adjustments to the financial report (if any) arising from the audit process;
  - compliance with accounting standards and other reporting requirements;
  - significant variances from prior years. **(External Audit)**
7. Recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed. **(External Audit)**
8. Discuss with the external auditor the scope of the audit and the planning of the audit. **(External Audit)**
9. Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters. **(External Audit)**
10. Review the annual performance statement and recommend its adoption to Council. **(External Audit)**
12. Consider all matters related to the management of Council's Cash and Real Property Assets. **(Internal/External Audit)**

#### **AT ANY MEETING**

Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's Terms of Reference. **(Internal/External Audit)**

The Audit Committee, following authorisation from Council and through the Chief Executive Officer, and within the scope of its responsibilities, may seek information or obtain expert advice in relation to matters of concern.

Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or Chief Executive Officer. **(Internal Audit)**



Government of **Western Australia**  
Department of **Local Government and Communities**

# Local Government Operational Guidelines

Number 09 – Revised September 2013



## Audit in Local Government

The appointment, function  
and responsibilities of  
Audit Committees

## 1. Introduction

The *Local Government Act 1995* (the Act) requires that all local governments establish an audit committee. An audit committee plays a key role in assisting a local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions.

The purpose of this guideline is to assist local governments to establish and operate an effective audit committee. Clear and comprehensive terms of reference, setting out the committee's roles and responsibilities, are essential and a model terms of reference for an audit committee is provided with this guideline. Matters such as the governing legislation, membership, primary roles and responsibilities of the committee and ancillary functions are also addressed. Guidance is provided to the committee as it approaches its task of appointing an external auditor through provision of a minimum standard audit specification and as it forms an opinion of the local government's internal audit requirements.

## 2. Audit Requirements, Committees and Functions

The relevant parts of the Act and regulations that relate to audit requirements, audit committees and their functions are listed below.

### Financial Management

In relation to financial management under Part 6 of the Act, a local government is to –

- a) prepare and adopt an annual budget in the form and manner prescribed (section 6.2). A copy of the budget is to be sent to the Department within 30 days of adoption.
- b) prepare an annual financial report and such other financial reports as prescribed. The accounts of the local government and annual financial report are to be submitted to the auditor for audit by 30 September (section 6.4).
- c) have a municipal fund and a separate and distinct trust fund (section 6.6).
- d) establish and maintain reserve funds for the holding of monies set aside for future use (section 6.11).

### Audit Requirements for Local Governments

Part 7 of the Act and the *Local Government (Audit) Regulations 1996* (the Regulations) address the situation of audit. In relation to the duties of the local government with respect to audits –

- a) the local government is to do everything in its power to –
  - i. assist the auditor to conduct an audit and carry out his or her other duties under the Act; and

- ii. ensure that audits are conducted successfully and expeditiously;
- b) a local government is to meet with its auditor at least once in every year;
- c) a local government is to examine the report of the auditor and is to –
  - i. determine if any matters raised require action to be taken by the local government; and
  - ii. ensure that appropriate action is taken in respect of those matters;
- d) a local government is to –
  - i. prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and
  - ii. forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.

### **Establishment of the Audit Committee**

The Act and Regulations provide that:

In relation to the establishment of an audit committee –

- a) each local government is to establish an audit committee consisting of three or more persons to exercise the powers and discharge the duties conferred on it;
- b) members of the committee are to be appointed by an absolute majority decision of Council. At least three of the members, and the majority of the members, are to be elected members;
- c) the Chief Executive Officer (CEO) is not to be a member of the committee and may not nominate a person to be a member or have a person to represent him or her as a member of the committee;
- d) an employee is not to be a member of the committee;
- e) the only powers and duties that can be delegated to a committee are any of the powers and duties of the local government under Part 7 of the Act; that is, those relating to audit. The committee cannot on-delegate the powers and duties delegated to it;
- f) an audit committee with a member who is a person that is not an elected member can be delegated powers and duties referred to in (e); and
- g) a decision of the committee is to be made by simple majority.

### **Audit Committee Functions**

The Regulations state that an audit committee –

- (a) is to provide guidance and assistance to the local government –
  - (i) as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act;
  - (ii) as to the development of a process to be used to select and appoint a person to be an auditor;
- (b) may provide guidance and assistance to the local government as to –
  - (i) matters to be audited;
  - (ii) the scope of audits;
  - (iii) its functions under Part 6 of the Act;
  - (iv) the carrying out of its functions relating to other audits and other matters related to financial management;
- (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;
  - (ii) give a copy of the CEO's report to the council;



- (d) review the annual Compliance Audit Return and report to the council the results of that review, and
- (e) consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

### 3. Operation of Audit Committees

#### Role and Responsibilities

The role of the audit committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability.

The audit committee should critically examine the audit and management reports provided by the external auditor. The committee would then determine if matters raised in the reports require action to be taken by the local government and ensure that appropriate action is implemented.

A further role for the audit committee would be to receive and authorise the report relating to the audit prepared by the CEO that is to be sent to the Minister.

This report would outline any actions the local government has taken or intends to take in relation to the matters identified by the auditor.

While a formal internal audit function could be considered to be an operational function and therefore the responsibility of the CEO, it is desirable for an internal auditor to have a direct line of communication to the Audit Committee.

The Audit Committee needs to form an opinion of the local government's internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent. The role of the external auditor in this regard can be established at the time of appointment.

**Please note** that an audit committee (or any other committee) cannot be given a management task where the Act and Regulations make the CEO specifically responsible. Where the local government is assigned the function through the legislation, the audit committee may have a role unless the function has been delegated to the CEO by the Council.

The deliberations and recommendations of the committee must be independent and autonomous. Therefore, the Act prohibits the CEO being a member of the committee. However, it is essential that the CEO be given every opportunity to provide his/her expert advice to the committee as he/she does with full Council and other committees.

A model terms of reference is attached as Appendix 1 to assist local governments to define an appropriate role for its audit committee. When considering the model, local governments need to remember it is a guide and they can delete or modify any matters they believe not applicable.

It is important to note that the legislation gives the audit committee a specific role in appointing the auditor. It is to recommend to the Council who should be appointed as the auditor. Attached as Appendix 2 is a model 'Minimum Standard Audit Specification' that local governments can use when developing a process to be used to select and appoint a person to be the auditor.

Local governments can amend the document to suit their individual requirements. Any scope adopted must meet, as a minimum, the legislative requirements, as outlined in the Act and the Regulations.

The legislation specifies that a local government is required to meet with its auditor at least once in every year. The term "local government" in this context means the Council. If Council so resolved via a formal delegation, a meeting between the audit committee and the auditor would satisfy this requirement.

It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or audit committee should resolve how the meeting with the auditor will be conducted and for the record of the meeting to show that the auditor was involved and the matters discussed. It would be inappropriate for Council representatives to meet with the auditor in their offices unless they were members of the Audit Committee or a significant majority of the members are present.

The committee may need to liaise regularly with the external auditor to discuss the audit plan, results of the audit and implementation of any recommendations for action emerging from the audit. How communication and liaison between auditor and committee is to occur should be addressed in the agreement of appointment.

Advice from the auditor may address issues such as –

- (i) an assessment of accounting procedures;
- (ii) an assessment of internal controls;
- (iii) an assessment of risk;
- (iv) compliance with the Act and associated regulations;
- (v) compliance with Council policies;
- (vi) performance assessments on the efficiency and effectiveness of operations;
- (vii) processes of the internal audit;
- (viii) outcomes of the external audit prior to issue of management and audit reports; and
- (ix) changes to accounting standards and legislation and the impact on the local government.

### **Membership**

The Act requires that an audit committee is to consist of a minimum of 3 members and in that situation all must be council members. Where a committee consists of more than 3 members then a majority of those members must be council members. Local governments may decide to appoint a committee involving only elected members or they may appoint one or more persons who are external to the Council. If a Council considers it appropriate, the whole Council can be appointed to the audit committee.

If the local government wishes to appoint one or more persons other than elected members to the committee, which is recommended, it should ensure that they have the requisite knowledge and skills to provide benefit to the committee.

### **Operation of the Committee**

Irrespective of the membership of the committee, all legislative requirements relating to committee meetings such as advertising meeting dates, notice of meeting and keeping minutes of meetings need to be complied with.

The legislation prevents a meeting fee being paid to an external person but it is permissible for a payment to be made as a reimbursement of expenses, commensurate with the expertise and knowledge such people bring to the committee. The Council will need to determine whether payment will be offered and the level of that reimbursement payment.

Members of the committee should be encouraged to attend appropriate courses to keep them up to date with legislation, accounting and other relevant issues.

### **Other Responsibilities**

Local governments are required by legislation to complete a statutory compliance return (Compliance Audit Return or CAR) annually and have the return adopted by Council. The return is a checklist of a local government's compliance with the requirements of the Act and its Regulations, concentrating on areas of compliance considered "high risk."

The Audit Committee is to review the annual CAR and report to the Council the results of that review, prior to adoption of the return by Council. After adoption, the return is to be signed by the Mayor or President and the CEO prior to it being forwarded to the Department.

The Audit Committee is to consider the CEO's biennial reviews (see Regulation 17.) of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

Attached as Appendix 3 is information to assist in determining what falls within the terms 'risk management,' 'internal control' and 'legislative compliance.'

The audit committee could also consider proposals from the CEO as to whether the compliance audit, and the biennial reviews of risk management, internal control and legislative compliance, are undertaken internally or an external party is contracted to undertake the task. In the case of an external party the audit committee would have responsibility to receive the review report from the CEO and make recommendations on it to full Council.

## 4. The External Audit

### Appointment of the Auditor

The Act and Regulations provide that –

- a) on the recommendation of the audit committee a local government is to from time to time appoint, by absolute majority, a person to be its auditor;
- b) the local government may appoint one or more persons as its auditor;
- c) the local government's auditor is to be a person who is –
  - a. a registered company auditor; or
  - b. an auditor approved by the Minister;
- d) a person may not be appointed as a local government auditor if that person is –
  - a. a councillor or employee of the local government;
  - b. in debt to the local government for more than \$5,000;
  - c. a councillor or employee of a regional local government in which the local government is a participant;
  - d. a member of an incorporated association formed by the local government; or
  - e. a class of persons as prescribed in the Regulations;
- e) an auditor is not to be appointed for more than five years; and
- f) the appointment of a person as an auditor is to be made by agreement in writing and is to include –
  - i. the objectives of the audit;
  - ii. the scope of the audit;
  - iii. a plan for the audit;
  - iv. details of the remuneration and expenses to be paid to the auditor; and
  - v. the method to be used by the local government to communicate with, and supply information to, the auditor.

The committee should undertake a proper selection and appointment process as part of appointing, or reappointing an auditor. If reappointment is being considered, the process should include the review of key issues as in i. to v. above.

It is important to realise that the Act specifies that it is a named person(s) that is appointed as auditor, not the company, or 'the partners' of the company which employs the person. Therefore, when the audit report is received it must be signed by the person(s) appointed as the auditor; it cannot be the generic signature identifying the firm.

### Conduct of the Audit

The Act and Regulations provide that –

- a) the auditor is required by 31 December next following the financial year to which the audit relates, to examine the accounts and annual financial report submitted for audit;
- b) the auditor is to form an opinion as to whether –
  - i. the accounts are properly kept; and
  - ii. the annual financial report –
    - is prepared in accordance with the financial records; and
    - represents fairly the results of the operations of the local government and its financial position at 30 June;
- c) the auditor is to prepare a report on the audit and within 30 days of completing the audit forward a copy to –
  - i. the mayor or president;
  - ii. the CEO of the local government; and
  - iii. the Minister;

- d) the report is to give the auditor's opinion on –
- i. the financial position of the local government; and
  - ii. the results of the operation of the local government;
- e) the report is to include –
- i. any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;
  - ii. any matters indicating non-compliance with financial management requirements of the Act, Regulations and any other written law;
  - iii. details of whether information and explanations were obtained;
  - iv. a report on the conduct of the audit; and
  - v. the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions;
- f) where it is considered appropriate to do so the auditor is to prepare a management report to accompany the auditor's report;
- g) where the auditor considers that –
- i. there is any error or deficiency in an account or financial report;
  - ii. any money paid from, or due to the local government has been, or may have been misapplied; or
  - iii. there is a matter arising from the audit that needs to be addressed by the local government; details are to be included in the report to the Minister; and

- h) the auditor has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are in the opinion of the auditor necessary to allow the audit to be conducted.

### Scope of the Audit

The Act and Regulations prescribe the scope of the external audit of the annual financial statements of a local government.

The scope details are going to vary between local governments but as an aid a model minimum standard audit specification is attached as Appendix 2 to this guideline. Individual local governments can amend that document to suit their particular needs.

### Reporting by the Auditor

Regulations require the auditor, where appropriate, to prepare a management report to accompany the auditor's report. Although there is no legislative requirement for the auditor to prepare a management report unless he or she deems it appropriate, local government may wish to require the auditor to prepare a report on all issues identified during the audit.

The auditor, after completing the audit, is to forward a copy of his or her audit and management report to –

- the Mayor or President;
- the CEO of the local government; and
- the Minister via the Department.

It is the CEO's responsibility to ensure that the external audit report is provided to the audit committee. In considering the audit and management reports presented to the audit committee, the CEO should:

- a) examine any critical matters raised in the reports that affect the financial position of the local government; and
- b) provide comment on any critical matters raised and action proposed to be taken to address those matters.

Once Council has addressed matters raised, or accepted the CEO's planned remedial action on matters raised in the audit and management reports, the CEO should provide feedback to the Department on those matters.

## Appendix 1

### Model Terms of Reference – Audit Committees

**Important:** The following Model Terms of Reference contains clauses that may not be applicable to each local government. Local governments will need to consider each clause and only adopt those that are applicable to the roles and responsibilities and delegated powers and functions that will apply to their audit committee.

The clauses that may be considered optional have been asterisked (\*).

#### Objectives of Audit Committees

The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.

The committee is to facilitate –

- the enhancement of the credibility and objectivity of \*internal and external financial reporting;

- \*effective management of financial and other risks and the protection of Council assets;
- compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
- \*the coordination of the internal audit function with the external audit; and
- the provision of an effective means of communication between the external auditor, \*internal auditor, the CEO and the Council.

#### Powers of the Audit Committee

The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.

The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

#### Membership

The committee will consist of \*four members with three elected and \*one external person. All members shall have full voting rights.

\*External persons appointed to the

committee will have business or financial management/reporting knowledge and experience, and be conversant with financial and other reporting requirements.

\*Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.

\*Reimbursement of approved expenses will be paid to each external person who is a member of the committee.

The CEO and employees are not members of the committee.

The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.

The local government shall provide secretarial and administrative support to the committee.

#### Meetings

The committee shall meet at least \*quarterly.

Additional meetings shall be convened at the discretion of the presiding person.

#### Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

\*The committee shall report annually to the Council summarising its activities during the previous financial year.

#### Duties and Responsibilities

The duties and responsibilities of the committee will be –

- a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
- b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;
- c) Develop and recommend to Council –
  - a list of those matters to be audited; and
  - the scope of the audit to be undertaken;
- d) Recommend to Council the person or persons to be appointed as auditor;
- e) Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include –
  - the objectives of the audit;
  - the scope of the audit;
  - a plan of the audit;
  - details of the remuneration and expenses to be paid to the auditor; and
  - the method to be used by the local government to communicate with, and supply information to, the auditor;
- f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
- g) Liaise with the CEO to ensure that the local government does everything in its power to –
  - assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
  - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters to –
  - determine if any matters raised require action to be taken by the local government; and
  - ensure that appropriate action is taken in respect of those matters;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) \*Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO (see reference to internal audit page 14);
- l) \*Review the level of resources allocated to internal audit and the scope of its authority;
- m) \*Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;
- n) \*Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
- o) \*Review the local government's draft annual financial report, focusing on –
  - accounting policies and practices;
  - changes to accounting policies and practices;
  - the process used in making significant accounting estimates;
  - significant adjustments to the financial report (if any) arising from the audit process;



- compliance with accounting standards and other reporting requirements; and
  - significant variances from prior years;
- p) \*Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
- q) \*Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
- r) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council;
- s) Review the annual Compliance Audit Return and report to the council the results of that review, and
- t) Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.

### Internal Audit

Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an

organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.

An internal auditor's activities should typically include the following:

- (a) review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
- (b) a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
- (c) examination of financial and operating information that includes detailed testing of transactions, balances and procedures;

- (d) a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- (e) a review of compliance with management policies and directives and any other internal requirements;
- (f) review of the annual Compliance Audit Return;
- (g) assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance; and
- (h) specific tasks requested by management.

For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.

A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.

While it is recognised that smaller councils may not be able to justify a

full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.

The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.

Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

## Appendix 2

### Model Minimum Standard Audit Specification

**Important:** The following Model Minimum Standard Audit Specification may be used as the basis for the calling of tenders or seeking of quotes for the appointment of an auditor. Local governments need to consider the Model to ensure that only those clauses applicable to its requirements are used. This applies, in particular, to the “Critical matters to be audited”.

#### Introduction

This document is provided for the assistance of auditors who wish to apply for the role of auditor with the City/Town/Shire.

Auditors are required to address all of the matters outlined in the specification.

Auditors who submit an application may be asked to provide further information and/or make a presentation to the audit committee.

#### Objectives of the Audit

To provide an independent audit opinion of the accounts and annual financial reports of the local government for each financial year covered by the term of the audit appointment.

#### Term of Audit Appointment

For the financial years commencing 1 July ..... through to 30 June..... (not more than 5 years)

### Scope of the Audit

The auditor is to –

Carry out such work as is necessary to form an opinion as to whether –

- (a) the accounts are properly kept; and
- (b) the annual financial report –
  - (i) is prepared in accordance with the financial records; and
  - (ii) represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards, the *Local Government Act 1995* (as amended) (the Act), the *Local Government (Financial Management) Regulations 1996* (as amended) and other mandatory professional reporting requirements.

Give an opinion in his or her audit report on –

- (a) the financial position of the local government; and
- (b) the results of the operation of the local government.

Include in his or her audit report –

- (a) any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;
- (b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law;
- (c) details of whether information and explanations were obtained by the auditor;

- (d) a report on the conduct of the audit; and
- (e) the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.

#### Audit Methodology and Approach

Other requirements of the Auditor –

- (a) The auditor is required to comply with the requirements of section 7.9 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*;
- (b) An audit is to be carried out in accordance with accounting standards adopted from time to time by the Australian Government Auditing and Assurance Standards Board (AuASB);
- (c) The auditor is to provide the local government with a general outline of his/her methodology;
- (d) The auditor is to provide the local government with a plan for the audit including –
  - timing of interim audit visits;
  - final audit visit (within 30 days of being advised that the accounts and annual financial report are available for audit);
  - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means;
  - the method to be used to communicate with, and provide advice and information to, the local government; and
- (e) The auditor is required to produce an audit report as required by section 7.9 of the *Local Government Act 1995* and, if considered appropriate by the auditor, a management report.

#### Critical Matters to be Audited

The auditor is to include in his or her application the extent to which the critical matters outlined below will be audited so as to form an opinion on the manner in which they have been maintained.

- (i) Revenue
  - Rates revenue
  - Government grants
  - User pays revenue
  - Profit on sale of non-current assets
  - Other income
- (ii) Expenditure
  - Salary and wage costs
  - Depreciation
  - Materials and contract expenditure
  - Loss on sale of non-current assets
  - Insurances
  - Bad debts
  - Other expenditure
- (iii) Current Assets
  - Bank and short term investments
  - Receivables and prepayments
  - Inventory
- (iv) Non-Current Assets
  - Property, plant, furniture and equipment
  - Infrastructure and depreciation
  - Other receivables
- (v) Liabilities (Current and non-current)
  - Creditors and accruals
  - Loan borrowings including new loans raised
  - Provision for annual and long service leave entitlements
- (vi) Reserve Funds
- (vii) Contingent Liabilities
- (viii) Capital Commitments
- (ix) Accounting Policies and Notes to the Financial Statements
- (x) Cash Flow Statement
- (xi) The financial ratios required by the *Local Government (Financial Management) Regulations 1996*

### Hours, Fees and Expenditure

The auditor is to provide –

- estimate of the time to be spent on the audit;
- fees for completing the audit in accordance with this specification;
- nominated auditor(s) and registered company audit number(s); and
- experience of the nominated auditors in completing local government audits.

The auditor is to provide a fee for any additional audit requested by Council.

### Terms

Conditions to be noted by auditors –

- the auditor shall not sub contract to a third party;
- the auditor shall not, and has no right to, assign the audit contract to third parties;
- the auditor shall not be engaged by the local government to undertake any financial consultancy with the local government that requires the preparation of financial information that will be the subject of the annual audit; and
- the auditor shall confirm that he or she has, and will maintain during the duration of the audit term, professional indemnity insurance covering the legal liability arising out of any neglect, default, error, or omission.

### Termination of Appointment

The appointment as auditor is terminated if –

- (a) the auditor ceases to be a registered company auditor;
- (b) the auditor ceases to be an approved auditor under Section 7.5 of the *Local Government Act 1995*;
- (c) the auditor is a disqualified person under Section 7.4(2) of the *Local Government Act 1995*;
- (d) the auditor resigns by notice in writing to Council; or
- (e) Council serves notice in writing to the auditor terminating the appointment.

## Appendix 3

### Issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance

**Please note:** Section 7 of the Department's Western Australian Local Government Accounting Manual provides a comprehensive internal control framework related to internal control and risk management.

#### Risk Management

Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessing 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:
  - potential non-compliance with legislation, regulations and standards and local government's policies;
  - important accounting judgements or estimates that prove to be wrong;
  - litigation and claims;
  - misconduct, fraud and theft;
  - 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;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;
- Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated,

monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

### Internal Control

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

An effective and transparent internal control environment is built on the following key areas:

- integrity and ethics;
- policies and delegated authority;
- levels of responsibilities and authorities;
- audit practices;
- information system access and security;
- management operating style; and
- human resource management and practices.

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.

Aspects of an effective control framework will include:

- delegation of authority;
- documented policies and procedures;
- trained and qualified employees;
- system controls;
- effective policy and process review;
- regular internal audits;
- documentation of risk identification and assessment; and

- regular liaison with auditor and legal advisors.

The following are examples of controls that are typically reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations; and
- comparison of the result of physical cash and inventory counts with accounting records.

### Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Staying informed about how management is monitoring the

effectiveness of its compliance and making recommendations for change as necessary;

- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review management's plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Reviewing 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;
- Considering the internal auditor's role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements; and
- Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.



These guidelines are also available on the Department's website at [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)



#### About the Guideline series

This document and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Department officer knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation.

All guidelines are subject to review, amendment and re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

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Translating and Interpreting Service (TIS) – Tel: 13 14 50

## 11.2 RISK MANAGEMENT INFORMATION UPDATE

<b>Author(s)</b>	J Ngoroyemoto
<b>Attachments</b>	1. High/Extreme Risks Quartely Update (April-July 2018) <a href="#">↓</a>

### RECOMMENDATION

That Council receive the Risk Management Information update report, as attached to the Agenda.

### Background

The City's Risk Program, is committed to a culture of risk management, to ensuring that sound risk management practices and procedures are fully integrated into its strategic and operational processes and day to day business practices. The City is progressing in implementing the Risk Program, and this report provides an update on the key milestones achieved over the past 4 months since the last information report was submitted to the Audit Committee.

The purpose of this report is to provide an overview of the current and planned risk management activities by the City of Cockburn, incorporating the Status of the City Business Continuity Management Program.

### Submission

N/A

### Report

This Risk Report covers the months of April 2018 to July 2018 and outlines the risk and business continuity management activities undertaken during these months.

### RISK MANAGEMENT PROGRAM

#### Update on High and Extreme Risks

As at 2<sup>nd</sup> of July 2018, 25 Strategic Risks and 252 Operational risks currently sit on the City's Risk Registers.

<u>Risk</u>	<u>No of Risks</u>
Extreme	Nil
High	4
Substantial	17

<u>Risk</u>	<u>No of Risks</u>
Moderate	146
Low	120

These risks are monitored and reviewed in priority of the risk rating level as per the City of Cockburn risk treatment levels. Updates on all of the identified 'High/Extreme' are attached to the report.

#### Operational Risks Update

As at 2<sup>nd</sup> of July 2018, all of the City's 18 Business Units' annual operational risk review assessments have been completed. All risk registers have being updated and uploaded into RMSS.

Two new risks were identified and included in the City's operational risk profile. The risks are listed below:

**1. Risk Name:** Cyber Security

**Risk Owner:** Manager Information Services

**Risk Rating:** Substantial

**Controls Effectiveness:** Inadequate

This risk was identified as part of the review conducted by Veev Group to document and analyse the current state of information security and to provide a roadmap of remediation activities. The review involved a review of existing controls against the ISO standard IEC27001, and provided a level of organisation compliance. Overall the City has a low level of compliance against the ISO/IEC27001 standard and therefore a low level of protection against cyber threats. The review provided roadmap for critical information security initiatives and to ensure the City has a comprehensive approach to Cyber Security. The City will develop and implement Information Security Management System in its efforts to mitigate this risk.

**2. Risk Name:** Waste Trucks Operations Safety and Standards

**Risk Owner:** Manager Waste

**Risk Rating:** Moderate

**Control Effectiveness:** Adequate

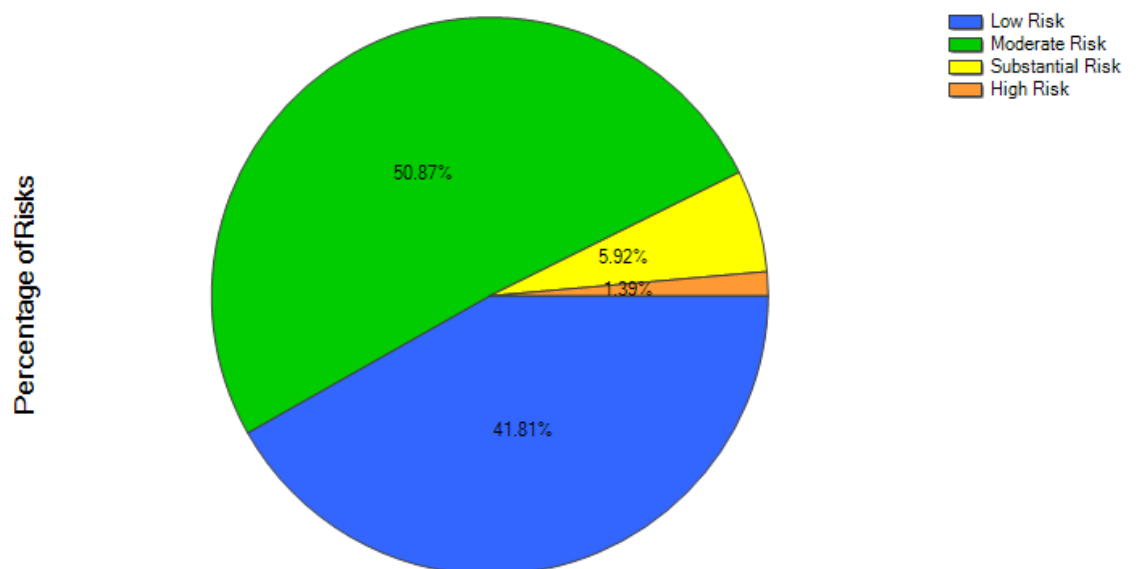
This risk was identified following the Dee Why incident in Sydney, whereby a woman was accidentally killed by a waste truck. In light of this incident the City reviewed its practices and

identified a potential risk in relation to waste trucks providing waste collection services which meet and comply with safety, road & industry standards and legislation. As part of the ongoing efforts to further mitigate this risk, a safety hazard assessment for all waste operations was conducted. All elements of controls identified during the assessment will be incorporated into job safety analysis (JSA) procedures. Two JSA have been created and signed off by staff for waste traffic operations and verge collection operations.

### Interim Risk Profile

All of the City's risk information is continuously reviewed by the risk owners in Risk Management & Safety System (RMSS). The distribution of risk ratings for both strategic and operational risks throughout the organisation is shown in the following risk matrix and pie chart. The pie chart demonstrates the overall image of the City's risk categorised into Low, Moderate, Substantial, High and Extreme risks. The City is proactively managing its risks with no Extreme risks identified and only 1.39% rated as high. The distribution of the risk ratings is likely to change as the City transitions through the risk maturity levels and continues to review all operational and strategic risks.

**Figure 1:** Distribution of risk ratings as at 2<sup>nd</sup> of July 2018

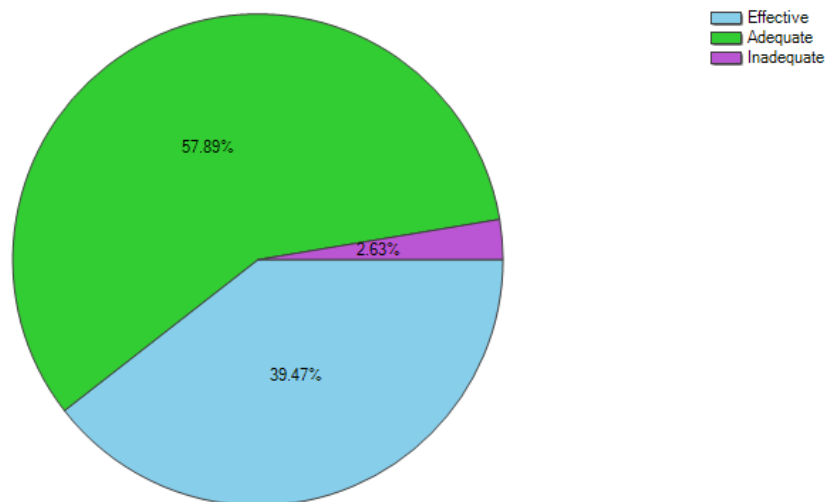


**Figure 2: Risk Matrix** - This matrix maps out the distribution of risks within the City's Risk Matrix.

		Likelihood				
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
Consequence	Insignificant 1 - 1	7 Risk(s)	10 Risk(s)	1 Risk(s)	L	M
	Minor 2 - 2	6 Risk(s)	69 Risk(s)	15 Risk(s)	10 Risk(s)	S
	Major 3 - 3	22 Risk(s)	63 Risk(s)	19 Risk(s)	2 Risk(s)	2 Risk(s)
	Critical 4 - 4	5 Risk(s)	29 Risk(s)	12 Risk(s)	1 Risk(s)	E
	Catastrophic 5 - 5	10 Risk(s)	3 Risk(s)	1 Risk(s)	E	E

E	Extreme	Significant impact making it unlikely for the organisation to achieve its objectives. Capability of the organisation Risk Treatment: Eliminated. Requires treatment to eliminate risk. Formal assessment and action plan prepared.
H	High	Significant impact making it difficult for organisation to achieve objectives. Will diminish capability of organisation. Risk Treatment: mitigate. Risk requires treatment to mitigate impact. Formal assessment and action plan prepared.
S	Substantial	Will Impact on the ability of organisation to achieve objectives or will diminish capability. Risk Treatment: Accepted with detailed review and assessment. Action Plan prepared.
M	Moderate	May Impact on the ability of organisation to achieve objectives or may diminish capability. Risk Treatment: Accepted with review.
L	Low	Little or no impact on the achievement of objectives or capability Risk Treatment: Accepted without detailed review.

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**Figure 3: Controls Effectiveness – Existing controls ratings**

Whereby controls have been rated as inadequate, controls are not operating as intended, and therefore improvement is needed. An action plan has been prepared to introduce new treatment options and to align with relevant and current standards, codes of practice, guidelines and industry benchmarks expected of this organisation.

#### THE CITY'S BUSINESS CONTINUITY MANAGEMENT PROGRAM

Riskwest was engaged by the City of Cockburn to assist in the development and implementation of location-based Business Continuity Plans (BCPs). As the first step of the business continuity planning process, a Business Impact Analysis (BIA) workshop was conducted with key managers on 9<sup>th</sup> May 2018. The objectives of the workshop were to:

- To provide an overview of the Business Continuity Management (BCM) process
- To assess the potential business impacts on City of Cockburn of a disruption to services and to determine the Maximum Tolerable Period of Disruption (MTPD) for each service
- To determine the priorities for recovery of services following a disruption

Findings from the BIA form the basis for the determination of recovery strategies and options in the later phase of the business continuity planning process. Follow-up interviews have subsequently been

conducted with each business unit to identify the critical dependencies, recovery strategies and resource requirements for recovery.

Insights and moving forward:

As the City continues to implement and embed risk management through its Risk Program, it will continue to focus on the following key areas and current initiatives:

I. **Organisational Risk Maturity Assessment** - CEO's biennial review of risk management, internal controls and legislative compliance. As required by Regulation 17 of the Local Government (Audit) Regulations 1996, a review of the appropriateness and effectiveness of systems and procedures in relation to risk management, internal control and legislative compliance is required to be undertaken every three years. The main aim of this process is to benchmark the City against the principles of ISO standard 31:000 and other Western Australia Local Governments. Adopted recommendations from the maturity assessment will be implemented through a roadmap of set milestones over an agreed period of time.

II. **Location Based Business Continuity Plans Project:**

Tranche 1

- Conduct follow-up workshops / interviews with business groups / services units located in the Administration Building and Cockburn ARC to identify recovery strategies and resource requirements for recovery - completed
- Prepare BCP documentation for the Administration Building and Cockburn ARC – currently in progress
- Submit initial draft of the BCPs for review and sign-off – November 2018 Committee Meeting

Tranche 2

- Conduct follow-up workshops / interviews with business groups / services units located in the Operations Centre and Henderson Waste Facility to identify recovery strategies and resource requirements for recovery – January 2019

- Prepare BCP documentation for the Operations Centre and Henderson Waste Facility – March 2019
- Submit initial draft of the BCPs for review and sign-off – March 2019 Committee Meeting

#### Tranche 3

- Conduct training and exercises to validate the completeness and accuracy of the plans – May 2019

III. **Risk Management Integration:** Continue working with all business units to implement robust processes for embedding risk management and provision of risk management training for officers to improve the City's risk culture, commitment and development of a risk management training program.

### **Strategic Plans/Policy Implications**

#### Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes

#### **Budget/Financial Implications**

Organisational Risk Maturity Assessment has been budgeted for in 2018/19 financial year.

#### **Legal Implications**

Regulation 17 of the Local Government (Audit) Regulations 2013 refers.

#### **Community Consultation**

N/A

#### **Risk Management Implications**

Failure to adopt the recommendations will result in the inability to support an integrated and effective approach to risk management and lack of guidance on the arrangements for designing, implementing, monitoring and continually improving risk management process.

#### **Advice to Proponent(s)/Submissioners**

N/A



**Implications of Section 3.18(3) *Local Government Act, 1995***

Nil

## HIGH/EXTREME RISKS QUARTERLY REPORT (APRIL – JULY 2018)

**Risk Owner:** Director Governance and Community Services**Risk Name:** Community Services Major Projects

Risk ID	Risk Description	Causes	Control Effectiveness	Risk Rating
	Failure to coordinate Community Services major projects on behalf of the City of Cockburn	Lack of due diligence Lack of detailed project scope Lack of resourcing Poor contractors performance Variations of expenditure Inaccurate project cost estimate		
			Adequate	High
	<b>Risk Impacts</b>	<b>Existing Controls</b>		
	Delays in projects Financial Loss	Contract independent specialist consultant Project control group & project working group Committees & Council reference group Consulting teams/meetings Financial monitoring, extensive project program, monthly progress reports Risk management Plans.		

**Update:**

The Project Portfolio Management team has now completed 33% of the overall project. It is anticipated that the project will be delivered in line with the original timeframe that is August 2019.

## HIGH/EXTEME RISKS QUARTERLY REPORT (APRIL – JULY 2018)

**Risk Owner:** Director Finance and Corporate**Risk Name:** Records Management

Risk ID	Risk Description	Causes	Control Effectiveness	Risk Rating
	Inconsistently applied record management practices	Lack of due diligence Lack of detailed project scope Lack of resourcing Poor contractors performance Variations of expenditure Inaccurate project cost estimate		
			Adequate	High
	<b>Risk Impacts</b>	<b>Existing Controls</b>		
	Breach of State Records Act Inefficiencies Incomplete records Loss of records	Record management policy and guidelines Training Dedicated resources ECM		

**Update:** An internal audit of the City's records management practices was undertaken by Deloitte in February 2018, the results of the audit report are presented in a separate report. Deloitte recommended that the City continue with its managed transitional approach to improving records management practices and that the Knowledge Management project should continue in order to achieve this. Deloitte also recommended that the risk rating be reduced from High to Significant at most following improvements made over the last 12 to 18 months. The risk has been re-assessed on the Strategic risk register, and will be rated at a Significant level.

HIGH/EXTEME RISKS QUARTERLY REPORT (APRIL – JULY 2018)

**Risk Owner:** Director Finance & Corporate / Executive Manager Strategy & Civic Support

**Risk Name:** Project Management

Risk ID	Risk Description	Causes	Control Effectiveness	Risk Rating
	Fail to consistently apply project management methodology and implementation to City projects	Resistance to cultural change Inconsistent and duplication of processes Lack of skills training Inconsistent project management frameworks Selecting the wrong project management software solution for the City Fundamental lack of governance from an IS perspective	Adequate	High
	<p><b>Risk Impacts</b></p> <p>Capital works carry over Silo approach to projects Budget impacts Parachuted project</p>	<p><b>Existing Controls</b></p> <p>Project management tools Staff training Cross functional meetings Long term financial plan</p>		

**Update:** The Project Portfolio Management team has now completed 33% of the overall project. It is anticipated that the project will be delivered in line with the original timeframe that is August 2019.

## HIGH/EXTREME RISKS QUARTERLY REPORT (APRIL – JULY 2018)

**Risk Owner:** Director Engineering and Works**Risk Name:** Water Availability

Risk ID	Risk Description	Causes	Control Effectiveness	Risk Rating
	Reducing water availability to irrigate City and maintain service delivery and amenity	Drying climate Lower allocation of groundwater, by Department of water		
	<b>Risk Impacts</b>	<b>Existing Controls</b>	Adequate	High
	Poor appearance of street scapes and parks	Water management plan Adapt landscaping plans Water recharge options Community education		

Update: The City's Water Resource Operating Strategy's continues to provide the framework for the management of the groundwater allocated through the 5C licence issued by the Department of Water and Environmental Regulations. Annual groundwater abstraction continues to be below the annual allocation through the implementation of a central control system, renewal of irrigation systems which are designed to meet coefficient distribution measures, hydro zoning, water transference in sub regions and favourable environmental conditions. Landscape plans approved for new subdivisions and internal projects require irrigation designs to meet Water Conservation Plan and irrigation specifications. Ongoing education is through the Water Efficiency Action Plan, environmental education programs and through media channels.

The Department of Water and Environmental Regulations have released the "Cockburn groundwater allocation plan" for public comment, Principle document governing the City's ground water, highlighting our annual allocations will not be impacted in the current environment. Allocations for new developments will be subject to the availability of existing licences or will require water trading with other providers. The plan advocates for the continued improvement in water efficiencies and investigating alternative water sources such as managed aquifer recharge systems.

### 11.3 A GUIDE TO LOCAL GOVERNMENT AUDITING REFORMS

<b>Author(s)</b>	S Downing
<b>Attachments</b>	1. A Guide to Local Government Auditing Reforms - June 2018 <a href="#">↓</a>

#### RECOMMENDATION

That the Committee receive the Report

#### Background

In September 2017, the Department of Local Government, Sport and Cultural Interests proposed changes to the conduct of local government audits and financial management.

#### Submission

N/A

#### Report

Following consultation with local government in line with the State - Local Government Partnership Agreement, the proposed amendments to the Local Government (Financial Management) Regulations 1996 and Local Government (Audit Regulations) 1996 were revised and gazetted on 28 June 2018. A copy of the “A guide to local government auditing reforms – June 2018” is attached.

The Key Changes affecting Local Government are:

1. From 1 July 2018, an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition is under \$5,000. CEO's must take all reasonable steps to prevent the loss of non-consumable portable items valued under \$5,000.

Comment – The City current does this for all plant and equipment but not for infrastructure assets for which this guideline would be applicable. After consulting the Manager, Financial Services, the City believes the impact will be very minimal as the City rarely has a capital spend on an infrastructure asset that is below \$5,000 (if at all).

2. From 27 June 2018, local governments will be required to conduct a review of their audit systems and procedures, and their financial management systems no less than every three years. Previously local governments were required to conduct these reviews no less than every two years and four years respectively.

Comment – The City will comply with this requirement and the first review of Financial Management Systems and Controls will occur in 2018-2019.

3. From 27 June 2018, local governments will be required to revalue an asset whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying value and in any event with a period of at least three year but no more than five years after the day on which the asset was last valued or revalued.

Comment – The City will comply.

4. From 27 June 2018, the role of the Audit Committee has been strengthened to assist the CEO to carry out the review of audit systems. The Audit Committee's responsibilities have also been extended to "monitor and advise" the CEO in reviews conducted into financial management systems and audit systems and procedures. The Audit Committee will also support the auditor as required and have functions to oversee the implementation of audit recommendations made by the auditor, which have been accepted by Council and accepted recommendation's arising from review of local government systems and procedures.

Comment – The City always seeks the advice and views of the Committee in relation to strategic financial matters and audit issues for both external and internal audit matters.

### **Strategic Plans/Policy Implications**

#### Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

Ensure sound long term financial management and deliver value for money.

#### **Budget/Financial Implications**

The funding of this change should be able to be covered within existing budgetary allocations.

#### **Legal Implications**

N/A

#### **Community Consultation**

N/A

**Risk Management Implications**

The City will ensure that it will comply with the new guidelines so as to ensure the financial management and auditing systems and procedures meet the relevant regulatory requirements

**Advice to Proponent(s)/Submitters**

N/A

**Implications of Section 3.18(3) *Local Government Act, 1995***

Nil





Department of  
**Local Government, Sport  
and Cultural Industries**

# **A Guide to Local Government Auditing Reforms - June 2018**

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June 2018

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## A Guide to Local Government Auditing Reforms – June 2018

### Introduction

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that will enable the Auditor General to audit council finances and performance.

The changes to the Act have been supported by amendments to the *Local Government (Financial Management) Regulations 1996* and *Local Government (Audit Regulations)* gazetted on Tuesday, 26 June 2018,

Unless otherwise specified, the changes to the regulations commence on 27 June 2018. Regulations 13 and 14 of the *Local Government (Financial Management) Regulations 1996* commence on 1 July 2018.

This guide has been prepared by the Department of Local Government, Sport and Cultural Industries (the Department) to inform local governments and auditors about the changes and replaces the guide published in September 2017.

### Changes to the *Local Government Act 1995* made in 2017

#### **Auditor General will be responsible for financial and supplementary audits**

The reforms made in 2017 have expanded the Auditor General's scope of powers to undertake and report on local government financial audits and provide for the independent oversight of the local government sector.

The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire. From 2020-21, all local governments will be audited by the Auditor General, regardless of whether their auditing contracts have expired.

The Department has received advice that this termination requirement will not expose the State, the Director General, or local governments to any liability if audit contracts are cancelled as a result of the changes.

A local government may not appoint a person to be its auditor.

The Auditor General will be able to contract out some or all of the financial audits but all audits will be done under the supervision of the Auditor General.

As is currently the case, local governments will be responsible for meeting the costs of financial audits. The Auditor General will determine the fees for a financial audit.

The Department has published the status of each local government's audit arrangements. This will provide transparency so that members of the community are aware of whether or not the Auditor General has responsibility for a local government audit.

Amendments mean that regional subsidiaries and regional councils will be audited by the Auditor General in the same way as local governments. The Auditor General will have the power to dispense with a financial audit of a local government or regional subsidiary where the Auditor General believes this is appropriate.

The Auditor General must consult with the Minister for Local Government before exercising this power. This could be used, for example, if a regional council has ceased to operate but has not yet been wound up. If this power is exercised, the Auditor General must notify the Public Accounts Committee and the Estimates and Financial Operations Committee of Parliament.

The Auditor General must give the report on the financial audit to the Mayor / President of the local government, the CEO of the local government, and the Minister for Local Government.

### **New category of audits: performance audits**

The 2017 reforms introduced a new category of audits: performance audits. These audits examine the economy, efficiency, and effectiveness of programs and organisations, including compliance with legislative provisions and internal policies.

The new legislation gives the Auditor General the power to conduct such audits, which may focus on a particular issue or theme, such as procurement practices, and may include individual or multiple local governments and related bodies. This is in line with the approach adopted in other jurisdictions and with what applies to State Government agencies. Performance audits will be paid for by the State Government.

The Auditor General publishes its audit program on the Auditor General's website.

Performance audit reports are submitted to both Houses of Parliament for the Public Accounts Committee and the Estimates and Financial Operations Committee. The report is also provided to the relevant local governments.

### **Publication of financial reports**

Commencing with their 2017-18 annual report, local governments will be required to publish the annual report, including audit reports on the local government's official website within 14 days after the report has been accepted by the local government.

Local governments will be required to publish their annual report online regardless of who undertakes the audit.

### **Local government duties with respect to audits**

Legislation now requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

Local governments must prepare a report addressing the significant matters identified in the report and state what action the local government has taken or intends to take. This report must be provided to the Minister within three months of receiving the audit report. Within 14 days after the local government gives the report to the Minister, the CEO must publish a copy of the report on its official website.

### **Amendments to the Local Government (Financial Management) Regulations 1996**

The following amendments to the *Local Government (Financial Management) Regulations 1996* have been made.

#### **Timeframe for review of financial management systems**

Regulation 5 regarding the CEO's duties as to financial management has been amended to require the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures from no less than once in very four financial years to no less than three financial years. This change in combination with amendments to the provisions in the Audit Regulations related to reviewing auditing systems, will achieve greater consistency.

#### **Timeframe for local governments to revalue assets**

Regulation 17A(4) has been amended to require a local government to revalue an asset:

- whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and
- in any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued.

These changes have been introduced to achieve greater consistency with the Australian Accounting Standards.

#### **Assets values under \$5,000**

Amendments to Regulation 17A excludes assets valued under \$5,000. This regulation commences on 1 July 2018.

Regulation 17B requires the CEO to take steps to protect excluded portable and attractive assets. This regulation requires a CEO to take all reasonable steps to prevent the theft or loss of non-consumable assets that are susceptible to theft or loss due to their portable nature and attractiveness for personal use or resale.

The language of this requirement is consistent with State Government requirements contained in Treasurer's Instruction 410 Record of Assets and has been revised following consultation with the local government sector.

A property register for portable and attractive items may be an appropriate means to properly record portable and attractive assets. The steps necessary to protect portable and attractive assets are a decision for each local government CEO.

### **Terminology**

Amendments to the terminology used in the *Local Government (Financial Management) Regulation 1996* have been made to achieve consistency with the Australian Accounting Standards:

1. the statement from the CEO specified in Schedule 2 Form 1 has been modified replacing the part that states that annual financial report is in the opinion of the CEO properly drawn, with a statement that the annual financial report is 'based on proper accounts and records.'
2. clarification that the annual financial report complies with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

## Amendments to the Local Government (Audit) Regulations 1996

### **Role of the Audit Committee**

With the transfer of auditing to the Auditor General, local government Audit Committees will have a new and important role.

The role of the Audit Committee has been amended so that the Audit Committee has greater involvement in assisting the CEO to carry out the review under Regulation 17 of the Audit Regulations of systems and procedures concerning risk management, internal control, and legislative compliance. The Audit Committee is empowered to 'monitor and advise' the CEO in reviews of certain systems prescribed by the audit and financial management regulations. The terms 'monitor and advise' have been selected following consultation with the sector.

The reforms are intended to help CEOs formulate recommendations to council to address issues identified in the reviews.

The Audit Committee will also support the auditor as required and have functions to oversee:

- the implementation of audit recommendations made by the auditor, which have been accepted by council; and
- accepted recommendations arising from reviews of local government systems and procedures.

These roles reflect the importance of the Audit Committee as a section of council charged with specific responsibilities to scrutinise performance and financial management. The regulations continue to allow for external membership of Audit Committees. Councils are encouraged to consider inviting appropriate people with expertise in financial management and audit to be members of their Audit Committee.

#### **Role of the council assisting the auditor**

Local governments are required to provide the auditor with a copy of their Strategic Community Plan, Corporate Business Plan or another plan or informing strategy. The powers to request documentation are consistent with the Auditor General's powers to request information of State Government agencies when conducting audits.

#### **Timeframe for reviewing audit systems and procedures**

An amendment to Regulation 17(2) requires the CEO to undertake a review of audit systems and procedures no less than once in every three financial years. This change will introduce consistency in CEO responsibilities to review financial management and audit systems and procedures in a timely manner.

#### **Compliance Audit Return**

Questions regarding the adoption of Integrated Planning and Reporting documents have been included as fields in the Compliance Audit Return.

#### **Terminology**

The following amendments for the terminology used in the Audit Regulations have been made:

- references to Executive Director have been replaced by Departmental CEO to reflect Machinery of Government changes; and
- references to the conduct of audits in regulation 9 have been updated to reflect language used in the Australian Accounting Standards.



For more information, please contact:

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## **12. PLANNING & DEVELOPMENT DIVISION ISSUES**

Nil

## 13. FINANCE & CORPORATE SERVICES DIVISION ISSUES

### 13.1 ANNUAL DEBTS WRITE-OFF

<b>Author(s)</b>	N Mauricio
<b>Attachments</b>	1. Council - Sundry Debtor Write offs Schedule June 2018 <a href="#">↓</a> 2. Council - Infringement Write-Offs April 2018 <a href="#">↓</a>

#### **RECOMMENDATION**

That Council write off the bad debts for sundry debts and infringements totalling \$23,564.11 (inc. GST), as shown in the attachment to the Agenda.

**TO BE CARRIED BY AN ABSOLUTE MAJORITY OF COUNCIL**

#### **Background**

Section 6.12 (1)(c) of the Local Government Act allows local governments to write off any amount of money owing to it (other than rates and service charges). This action is necessary where delinquent debts become uncollectible.

Council first adopted the Debtors Management Policy AFCS9 at its meeting in August 2012. This states that bad debt write offs should only occur where all avenues for recovery have been exhausted or it is unviable to keep pursuing the debt.

The policy provides for unrecoverable debts (other than rates and service charges) up to the individual value of \$300 to be written off under the associated Council delegation. However, those over \$300 are to be brought to Council for write off on an annual basis.

#### **Submission**

N/A

#### **Report**

Whilst the City has a good track record in managing and collecting its outstanding debts, it is unavoidable for some to become uncollectible for a variety of reasons.

The City's debtors mix comprises commercial debtors (mainly landfill trade debtors) and community based debtors (hall and reserve hire and provision of community related services). Bad debts are usually attributable to failed businesses or untraceable companies and individuals. Some debts are also not worth pursuing due to the cost of formal debt recovery processes.

The revenue team have exhausted all administrative endeavours to recover these debts recommended for write-off and considers any further recovery attempts would prove futile and cost ineffective.

Attached to the Agenda are detailed listings of the uncollectible debts recommended for write off by Council this year. These have been categorised by their debt type and include relevant commentary on their status and the recovery efforts made where applicable. A consolidated summary of the write offs requested is provided below:

<b>Debt category</b>	<b>No. of debts</b>	<b>Amount to be written-of \$ (ex gst)</b>	<b>Amount to be written-off \$ (inc gst)</b>
Community (hall/reserve hire, services)	2	779.92	857.91
Regulatory related (licences, Health Act)	1	598.18	658.00
<b>Sundry Debts Sub-Total</b>	<b>3</b>	<b>1,378.10</b>	<b>1,515.91</b>
Infringements - FER recommended	5	21,548.20	21,548.20
Infringements – interstate plates	1	500.00	500.00
<b>Infringements Sub-Total</b>	<b>6</b>	<b>22,048.20</b>	<b>22,048.20</b>
<b>Total Debt write off Total</b>	<b>9</b>	<b>23,426.30</b>	<b>23,564.11</b>

It should be noted that the impact on Council's financial position will be \$23,426.30, being the GST exclusive value of the debts to be written off.

There are two small facility hire debts and an outstanding flower seller's licence fee recommended for write off, as these are not cost effective to continue pursuing following many failed attempts.

It is worth noting that there are no debts recommended for write-off from the City's commercial revenue streams, including the Henderson Waste Recovery Park. This serves to highlight current collection methods and processes are operating effectively in this area.

Infringements to be written off include a \$19,590 Food Act prosecution fine from 2012, relating to a company which is no longer registered and there is no other legal avenue available for the City to pursue.

The City is guided by the write-off recommendations it receives from the Fines Enforcement Registry (FER), where these are recommended for

a number of reasons, including interstate plates, deceased offenders, unregistered companies and past statute of limitations (no further legal option to pursue).

#### Debt write-offs under delegation

The delegation under the City's Debt Management Policy AFCS9 allows for small debts owing to the City to be written off up to a maximum value of \$300 (other than for rates levied or prescribed service charges). The following table summarises the debts written off under delegation for 2017-18:

Debt category	No. of debts	Amount to be written-off	Amount to be written-off
		\$ (ex gst)	\$ (inc gst)
HWRP Tipping fees	1	50.00	55.00
Community (hall/reserve hire, services)	8	821.26	903.39
Regulatory related (licences, Health Act)	2	184.09	202.50
<b>Sundry Debts Sub-Total</b>	<b>11</b>	<b>1,055.35</b>	<b>1,160.89</b>
Infringements - FER recommended	14	2,927.80	2,927.80
Infringements – interstate plates	3	300.00	300.00
Infringements – unable to proceed (past statute of limitations)	12	1,229.20	1,229.20
<b>Infringements Sub-Total</b>	<b>29</b>	<b>4,457.00</b>	<b>4,457.00</b>
<b>Total Debt write off Total</b>	<b>40</b>	<b>5,512.35</b>	<b>5,617.89</b>

### **Strategic Plans/Policy Implications**

#### Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

**Budget/Financial Implications**

Bad debts written off totalling \$23,426.30 (ex GST) will marginally reduce the operating revenue reported for the 2017-18 financial year as the City does not maintain a provision for doubtful debts.

**Legal Implications**

Uncollectable sundry debts require Council authorisation in order to be written off under the provisions of the Local Government Act Section 6.12 (1)(c).

**Community Consultation**

N/A

**Risk Management Implications**

It is considered good risk and financial management to annually assess overdue debts and determine their collectability. Those that are uncollectible should be written off to increase the accuracy of the debtors value reported in the balance sheet and is an expectation of audit. Further, this ensures debt collection efforts and resources are focused on collectible debts.

**Advice to Proponent(s)/Submitters**

N/A

**Implications of Section 3.18(3) *Local Government Act, 1995***

Nil

<u>Debtor Name</u>	<u>Debtor Number</u>	<u>Debt Category</u>	<u>Date of Debt</u>	<u>Amount Excl GST</u>	<u>Amount Inc GST</u>	<u>Details of Debt</u>	<u>Write Off Reason</u>
Rowel De Paz	415951	Hall Hire	22/06/2016	\$ 315.82	\$ 347.40	Casual Youth Centre Hire	Debt collection process followed with several statements sent. Debtors whereabouts unknown. The debt is regarded as not cost effective to pursue and is recommended for write off.
Positive Parenting	415692	Hall Hire	7/07/2015	\$ 464.10	\$ 510.51	Hire of Aubin Grove Facility	Debt collection process followed with several statements sent. Debt also referred to CS Legal for collection. Debtor has disputed charges and Bookings Team unable to prove debt. The debt is regarded as not cost effective to pursue and is recommended for write off.
Nhung Linton	415250	Licence Fee	13/06/2016	\$ 598.18	\$ 658.00	Flower sellers licence fee	Debt collection process followed with several statements sent. The debtor was also pursued via email by the City's Revenue and Rangers Team's without success. Whereabouts of the debtor unknown. The debt is regarded as not cost effective to pursue and is recommended for write off.
			<b>TOTAL</b>	<b>\$ 1,378.10</b>	<b>\$ 1,515.91</b>		



### Infringement Write-offs

July 2017 - April 2018

FER Recommended:							
Infringement Number	Date of Issue	Offender Name	FER Case Number	Initial Fine Amount	Fees to be Written Off	Total Write-Off Amount	Write-Off Reason
2610011419	9/04/2013	AGULHON, Sebastien	13/2378411	\$80.00	\$230.50	\$310.50	Case Registered over 4 years ago
2610011187	6/05/2013	AGULHON, Sebastien	13/2625570	\$80.00	\$230.50	\$310.50	Case Registered over 4 years ago
2610012789	5/05/2013	AGULHON, Sebastien	13/2625651	\$80.00	\$230.50	\$310.50	Case Registered over 4 years ago
Various		COLLARD-UGLE, Clarrie	17/507565	\$500.00	\$526.00	\$1,026.00	Offender deceased
FR 9599/2012		ASTERLEIGH PTY LTD	13/2296802	\$19,400.00	\$190.70	\$19,590.70	Company no longer registered

Sub-Totals	
Total #	5
Total \$	\$21,548.20

Interstate Plates:							
Infringement Number	Date of Issue	Offender Name	FER Case Number	Initial Fine Amount	Fees to be Written Off	Total Write-Off Amount	Write-Off Reason
30202802	28/07/2015	Unknown	NA	\$500.00	\$0.00	\$500.00	Over 24 months old - Past Statute of Limitations

Sub-Totals	
Total #	1
Total \$	\$500.00

Total	
Total #	6
Total \$	\$22,048.20

## 13.2 INTERNAL AUDIT REPORT - RECORDS MANAGEMENT

**Author(s)** N Mauricio

**Attachments** 1. Records Management Internal Audit Report [↓](#)

### RECOMMENDATION

That Council receive the Internal Audit Report on Records Management

### Background

At its July 2016 meeting, the Audit and Strategic Finance Committee adopted a three year Strategic Internal Audit Plan. The Internal Audit Plan was developed through the City's Risk Review Group (comprising cross functional Managers), with input from the internal auditor. The audit planning was informed by the City's Operational and Strategic Risk Registers, where assessed risk levels influenced audit priorities.

The internal audit assignments planned for the 2017-18 financial year were as follows:

1. Records Management (completed)
2. Rates Modelling (no longer required)
3. Land Development and Developer Contributions (planning underway)

Records Management was assessed as a high risk area within the City's Strategic Risk Register and defined as "inconsistently applied record management practices". There were questions around the effectiveness of the City's ECM system and an identified lack of awareness, increased officer workloads, non-compliance and no perceived consequences for it. These factors were resulting in a lack of audit trail for documents and sent emails not being captured in ECM (incomplete records, loss of records, State Records Act breaches).

### Submission

N/A

### Report

The City's internal auditor, Deloitte was engaged to undertake the assessment of the City's records management function and the use of its enterprise content management system (ECM). The agreed audit purpose was to consider whether the City's corporate records management processes and controls had been designed, implemented and operating effectively to enable the City to most effectively meet its program and legislative obligations for paper and electronic records.

The audit scope centred on three key areas:

1. The City's records management function meets legislative requirements,
2. Corporate records are appropriately retained, maintained and disposed of in a secure manner,
3. Corporate records are stored in the City's enterprise content management system (ECM), where possible, to minimise resource and storage costs associated with hard copy records and to maximise efficiency of retrieval.

The audit involved planning meetings, examination of policies and procedures and interviews with nominated staff from selected business functions. It assessed the design of internal controls and walked through the process of retaining and retrieving corporate records. A validation meeting was held with key stakeholders following the audit work to discuss results and potential improvements.

A key area of the audit was the review of the City's Knowledge Management Project. This project was focused on a gradual and measured transition to improving record keeping practices and the use of ECM as the single centralised repository for the City's corporate information. The audit acknowledged the Knowledge Management Project had achieved a number of successes in its first 12 months (the Project's initial minimum timeframe) and its Stage 2 was for completion by 30 June 2018.

#### Key Audit Results

Internal audit observed that the City had made considerable progress over the past 12 to 18 months to strengthen its records management capabilities. The City's approach to implementing change in a gradual manner was driving the required behavioural change within most business functions. However, there was still some underlying risk that corporate records were not being effectively managed in business functions not yet subjected to the City's change program.

Overall though, internal audit determined it was evident that over the past 12 to 18 months, the City had recognised, managed and reduced its strategic risk relating to "Inconsistently applied records management practices". While inconsistencies in records management practices remained, it was unlikely that the impact on the City's operations continued to be at a 'High' risk rating and appeared to be "Significant" at most.

With respect to the use of the ECM system as the designated central repository for corporate records, internal audit identified several key attributes for its ongoing success, these being:

- Defined process

- Supportive systems
- Recognised value and imperative for change, and
- Tailored training and structure of ECM

It is important that all these attributes are addressed when implementing the change program across the remaining business functions.

#### Audit Recommendation

The internal audit made the one overarching recommendation:

The City continue to pursue the managed transition of its record keeping and management practices, through a clear project plan, which incorporates the following issues:

1. Clear and measurable objectives and outcomes, including the targeted rate/timing of transition and expected level of compliance (including full transition to ECM) throughout business functions
2. Recognition of opportunities for business units to further design and document operational processes, which incorporate record keeping practices, including recognition of corporate records, timing of when corporate records are required to be captured and ECM naming conventions.
3. Recognition of opportunities and triggers for business functions to introduce or develop supportive information systems, which integrated with, or allow for easy use of ECM
4. Use of change management principles, including a communication plan, particularly to support individual staff in business functions where the relative maturity level is assessed as “Repeatable” and where considerable effort is required to transition from existing platforms and record keeping practices
5. Use of an extended training plan to meet ongoing and tailored training requirements, particularly around management of emails, tailoring naming conventions, working within existing (or enhanced) operational processes.
6. Integration with the City’s leadership development and performance management.

#### Management Comment

Management agrees with the recommendation to pursue the managed transition of its record keeping and management practices, through a clear project plan. In order to achieve this the following actions will be implemented:

1. As the existing Knowledge Management project plan finishes 30 June 2018, a new project plan will be developed to incorporate the recommendations from this audit (estimated completion date 31 July 2018)
2. The new project plan will be renamed Records Management as this better reflects the strategic risk the City is looking to mitigate
3. Incorporate change management principles, including a communication plan in the new Records Management project plan to support individual staff in business functions where considerable effort is required to transition from existing platforms and record keeping practices
4. Identify opportunities that lie with existing or potential TechOne capabilities, including opportunities to further develop ECM in order to link in with City's existing business systems
5. Engage with Records Services when reviewing and mapping existing or developing new processes to ensure records management requirements are incorporated
6. Work with the Learning and Development team to explore tailored records management training opportunities
7. Engage with the Senior Management Team (SMT) to develop methods for greater collaboration between Records Services and business functions to address any specific records management issues within the organisation (i.e. invites to attend team meetings)
8. Develop effective KPI measures to demonstrate the organisation's records management maturity level.

### **Strategic Plans/Policy Implications**

#### Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

**Budget/Financial Implications**

The cost of the internal audit was covered by the City's budget for these services. Hourly fees are set in accordance with the WALGA supply panel contract for audit services.

**Legal Implications**

N/A

**Community Consultation**

N/A

**Risk Management Implications**

The City recognised Records Management as a high risk aspect of its operations (risk COC-STR-19) in its Strategic Risk Register. As a consequence this was prioritised for audit within the City's three year Strategic Internal Audit Plan.

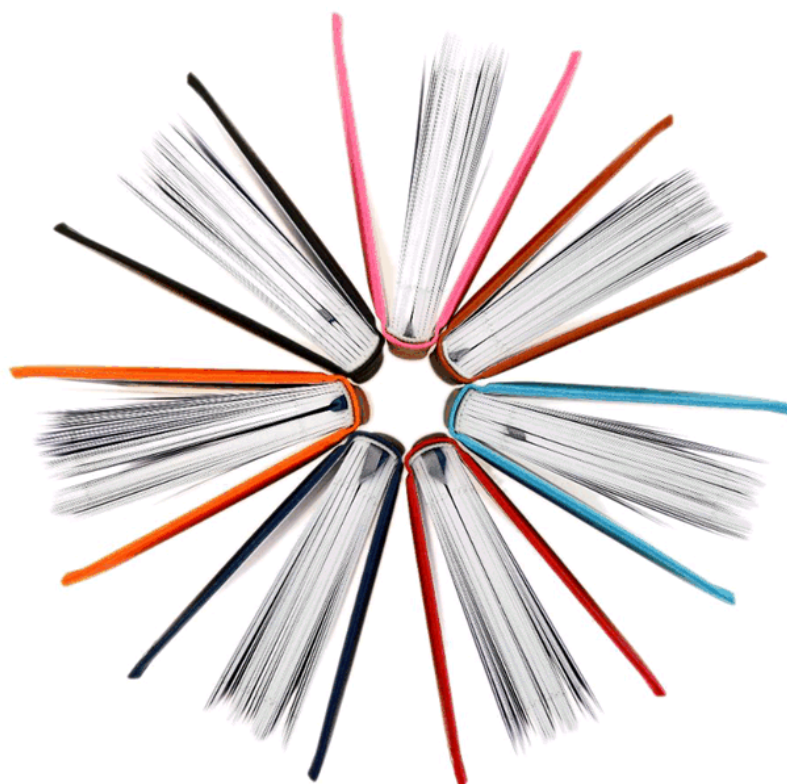
Audit activities are an important mitigation measure in addressing risk. It is important that any audit findings and recommendations from this report are considered and implemented where agreed.

**Advice to Proponent(s)/Submitters**

N/A

**Implications of Section 3.18(3) *Local Government Act, 1995***

Nil



## City of Cockburn

### Records management internal audit

May 2018 report

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Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by City of Cockburn personnel. We have not attempted to verify these sources independently unless otherwise noted within the report.

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## Introduction

As part of the City of Cockburn's (the **City**) 2017/18 Internal Audit activity, Deloitte was assigned to undertake an assessment of the City's records management function.

### Reference to strategic risk

In its 2016 recent strategic risk assessment, the City recognised Records Management as a **high risk**<sup>1</sup> aspect of its functional operations. Risk COC-STR-19 is described as "*Inconsistently applied records management practices*". The causal factors, impacts, current controls and treatment options outlined in the City's strategic risk register (as at April 2016) are:

Causal factors	Impacts *	Current controls	Treatment options
<ul style="list-style-type: none"> <li>Lack of audit trail for documents/external sent emails not saved in ECM</li> <li>Noncompliance with processes and requirements</li> <li>Lack of awareness and training</li> <li>No perceived consequences</li> <li>Increased Officer workloads.</li> </ul>	<ul style="list-style-type: none"> <li>Breach State Records Act</li> <li>Inefficiencies</li> <li>Incomplete records</li> <li>Loss of records.</li> </ul>	<ul style="list-style-type: none"> <li>Record management policy and guidelines</li> <li>Staff training</li> <li>Dedicated resources</li> <li>ECM</li> </ul>	<ul style="list-style-type: none"> <li>Compulsory training (Staff &amp; Elected Members)</li> <li>Assurance activities (Internal Audit - spot review of compliance)</li> <li>Leadership</li> <li>Review technology solutions</li> <li>CoC recently renewed its Recordkeeping Plan to the State Records Commission and currently awaiting their response.</li> <li>The effectiveness of the City's ECM system remains satisfactory, but compliance with requirements to comply remain a priority and will immediately follow the formation of the Knowledge Management Plan document which will act as a guide to which actions to take to achieve the goal of best practices.</li> </ul>

\* Additional potential impacts raised during this internal audit include:

- Reduced service delivery
- Litigation (regarding unauthorised material)
- Loss of corporate knowledge.

### Purpose

The internal audit was initiated to consider whether the City's corporate records management processes and controls have been designed, implemented and are operating effectively to enable the City to most effectively meet (i.e. an appropriate balance has been achieved) its program and legislative obligations for paper and electronic records.

Ultimately, the results of this internal audit are expected to further inform the City on its management of the risk of "*Inconsistently applied records management practices*".

<sup>1</sup> Refer to risk rating/severity matrix at Appendix B

## Scope

The following areas were included in the scope of the internal audit. Our focus was on 'What Must Go Right' within the records management function and we tested controls around the relevant key threats:

What must go right (Critical success factors)	Threats (to achievement of critical success factors)
1. The City's records management function meets legislative requirements	<ul style="list-style-type: none"> <li>The City's records management policies and procedures do not align with key legislative requirements</li> <li>Records management requirements are not effectively communicated or understood across the organisation</li> <li>Records management practices are inconsistent across the organisation, resulting in non-compliance with legislative requirements.</li> </ul>
2. Corporate records are appropriately retained, maintained and disposed of in a secure manner	<ul style="list-style-type: none"> <li>The City's requirements for record retention, maintenance and disposal are not documented and/or understood throughout the organisation</li> <li>Staff do not recognise the relative importance of corporate records and the associate consequence of not adequately retaining and managing those records</li> <li>A method for classifying and referencing the importance of corporate records is not established, clearly understood or used consistently throughout the organisation</li> <li>Staff do not recognise or uphold personal responsibility for complying with the City's expectations for retaining, maintaining or disposing of corporate records in a secure manner</li> <li>Appropriate storage facilities for hard copy and/or electronic records are not available.</li> </ul>
3. Corporate records are stored in the City's enterprise content management system (ECM), where possible, to minimise resource and storage costs associated with hard copy records and to maximise efficiency of retrieval.	<ul style="list-style-type: none"> <li>ECM is not effective in retaining, maintaining and disposing of corporate records in an efficient and secure manner</li> <li>Staff are unable or unwilling to effectively and efficiently use ECM to store and retrieve corporate records</li> <li>An effective strategy for maximising the use and benefit of ECM has been not be defined and implemented.</li> </ul>

## Work performed

We applied the following approach to this assignment:

- Held an initial planning meeting with the Records Manager, Governance & Risk Manager Coordinator and Manager Financial Services
- Developed an understanding of the City's key records management processes through:
  - Discussions with the Records Manager and other key stakeholders
  - Examination of relevant City policies, procedures and guidelines
  - Consideration of the results of the 2017 staff survey on the use of ECM
- Conducted interviews with nominated staff, including from selected business functions with responsibility for maintaining corporate records to understand the application of records management practices across the City, including the use of ECM. We interviewed a total of 12 staff across 10 functions (refer to Appendix B for a list of staff interviewed)
- Identified and assessed the design of internal controls (on a sample basis) in place to achieve the critical success factors within the records management process

- For a sample of instances where a corporate record exists, walked through the process applied to retain and retrieve the corporate record in accordance with the City's requirements
- Identified areas for improvement in the City's records management processes and controls
- Conducted a validation meeting with the Records Manager, Governance & Risk Manager Coordinator and Manager Financial Services following completion of fieldwork to discuss the results of our work and potential improvements.

## Background and context

### Governance requirements

In accordance with the State Records Act 2000 the City has established a recordkeeping plan, which is required to outline the City's responsibility for the creation, control and disposal of records. The City's recordkeeping plan also provides functional guidance and direction on the creation and management of records, with defined roles and responsibilities. This guidance is reflected in the City's Record keeping policy, developed in 2015 which addresses the following record keeping elements:

- Definitions
- Ownership
- Creation of Records
- Capture and Control of Records
- Security and Protection of Records
- Access to Records
- Appraisal, Retention and Disposal of Records
- Roles and Responsibilities
- Statutory Obligations.

### Designated records management platform

The City uses the TechOne ECM as its designated records management system. ECM is designed to be the City's central repository for storing and retrieving corporate records. Since the implementation of ECM in 2013, the City has applied a gradual transition of its records management procedures, ultimately aiming to achieve a full uptake of ECM throughout the City's operations. This transition is not yet complete, with some corporate records still maintained on traditional platforms such as network drives and email folders.

In 2017, the City surveyed staff to gauge their use of ECM and other platforms, and to seek feedback on the effectiveness of ECM.

### Guidance and training

To ensure that City staff are aware of their obligations to maintain corporate records, the City has implemented:

- The following key references:
  - Elected Members Recordkeeping Guidelines
  - Employees Recordkeeping Guidelines
- An organisational wide training program, designed to cater for staff needs, including:
  - Mandatory ECM training for new starters
  - A suite of on-line training for all staff, including in their role as ECM users
  - Additional tailored training upon request.

Overall, feedback on the effectiveness of available guidance and training has been positive, however staff have also expressed an appetite for more tailored training and guidance.

**Transitional plan**

In October 2016, within its Project Brief for the City's *Knowledge Management Project*, the City recognised the importance of a managed transition to improved record keeping practices and the use of ECM as the single centralised repository for the City's corporate information. The City elected to use a gradual and measured approach to implementing change, including the transition to ECM.

The Knowledge Management Project achieved a number of successes in its first 12 months (the Project's initial minimum timeframe) and its Stage 2 is due to be completed by 30 June 2018. The Project's results to date have been tracked and reported to the City's Executive, who continue to support the Project.

Refer to *Recommendation* below for this internal audit's recommendation for the City to make use of this existing project structure to pursue the managed transition of its record keeping and management practices.

## Key Results

### Summary

This internal audit observed that the City has made considerable progress over the past 12 to 18 months to strengthen its records management capabilities and to generally demonstrate that, in line with the critical success factors nominated in the scope of this assignment:

1. Its records management function (including documented policies, procedures, systems and processes) designed to meet legislative requirements
2. Its records management practices continue to improve, to enable corporate records to be appropriately retained, maintained and disposed of in a secure manner. In particular, the City has raised the profile of records management and has aligned its practices with good risk management principles. Our walkthrough testing confirmed that the Records Management function has a good awareness of the level of compliance with the City's records management requirements across different business functions, particularly where improvement is required
3. Even though there has been internal concern, mistrust and criticism by some users that ECM is not user friendly and may even cause inefficiencies in locating and recalling information, ECM has been increasingly used to effectively store corporate records to:
  - Minimise resource and storage costs associated with hard copy and electronic records
  - Maximise efficiency of retrieval.

The City's approach to implementing change in a gradual manner also appears to be driving required behavioural change in a way that most business functions are able to make the most use of available systems and support in order to reap the benefit of efficiencies and stronger records management practices, including the use of ECM.

The strategy to implement gradual change does mean there remains an underlying risk that the City's corporate records are not effectively managed in accordance with its obligations and expectations, particularly within those business functions that have not yet transitioned or where there are further opportunities to improve. *Appendix A: Business function operating practice / maturity levels* highlights those business functions where a higher risk remains.

In general terms, those business functions that have not yet made substantial progress toward effective records management practices and a successful transition to ECM appear to be operating without one or more of the following factors:

- i. Well defined processes in place (e.g. record keeping and the use of ECM is not built into standard business processes). In these cases, business functions are inclined to continue to use methods that have worked for them in the past (e.g. email and shared drive folders)
- ii. Integrated systems, which allow for partial or full automation of the corporate record being captured (from the source process/system) in ECM
- iii. Full buy-in from senior leaders or influencers within the team, which also dilutes the imperative for change
- iv. Tailored training for business functions and individual staff
- v. A genuine imperative for change other than compliance with City policy. For example, where there is little immediate value in changing practices, including use of ECM.

In pressing ahead with its change program, the City needs to continue to be mindful of the following factors:

- Relative risks involved with managing records across the organisation. i.e. the risk is relatively higher in business functions such as Governance / Elected Members; Rates & Revenue and Infrastructure Services, and lower in business functions such as Family and Community Development
- Support required by staff, particularly in those business functions that do not have existing support systems and standard business processes in place.

For further detail, refer to the *Current operating practices* heading below and the information contained at *Appendix A: Business function operating practice / maturity levels*.

## Impact on current risk assessment

It is evident that over the past 12 to 18 months, the City has recognised, managed and reduced its strategic risk relating to *Inconsistently applied records management practices*.

While inconsistencies in records management practices do remain, the likelihood of those inconsistencies having a substantial or high impact on the City's operations is reduced to the point where the appropriate risk rating appears to be "Significant"<sup>2</sup> at most.

The observations and recommendations made by this internal audit will help the City to further reduce its exposure to *"Inconsistently applied records management practices"*.

The City should consider the results and recommendations of this internal audit in its next assessment of the current and target rating for Risk COC-STR-19 *"Inconsistently applied records management practices"*.

## Current operating practices

Through interviews and process walkthroughs, this internal audit considered the relative maturity of records management practices throughout the City's operations. In the absence of a formal, accepted method for assessing records management operating practice/maturity levels, the following definitions were developed as a guide for the purpose of this internal audit:

Records management operating practice/maturity levels
<b>Ad hoc:</b> BU/function has no systematic or formal approaches to recordkeeping. Processes and practices are fragmented or non-existent. Any pockets of maturity that the BU has are based on the experience and initiatives of individuals and don't align to the City's Record Keeping Plan. Use of ECM is ad hoc.
<b>Repeatable:</b> BU/function has limited team-wide recordkeeping processes. Basic management controls and disciplines are in place; however policies and practices are not applied consistently to align with the City's Record Keeping Plan. Some transition to ECM
<b>Defined:</b> BU/function has a significant degree of recordkeeping maturity. BU awareness, policies, procedures, and processes exist and are used consistently across the BU to align with the City's Record Keeping Plan. Transition to ECM mostly effective.
<b>Managed:</b> BU/function manages records and recordkeeping processes consistently and comprehensively across the team, to align with the City's Record Keeping Plan. Processes and practices are routinely measured to ensure delivery of desired results. Effective transition to ECM.
<b>Optimised:</b> BU/function considers records and recordkeeping to be an asset that underpins all business processes. BU's recordkeeping practices are aligned with the City's Record Keeping Plan. Recordkeeping processes and practices are regularly measured and monitored and the results are analysed and used for continuous improvement. ECM is used extensively and proactively.

Appendix A outlines our summary assessment of the key records management attributes in place in each of the business functions considered by this internal audit. Of the 10 business functions considered:

- Five are assessed to be at the "Repeatable" level of maturity
- Three are assessed to be at the "Defined" level of maturity
- Two at the "Managed" level of maturity.

Overall, the combination of business function specific risk (likelihood and consequence) considerations and the relative strength of controls in place reduce the risk associated with each business function to "moderate" in the majority of instances, and "significant" at most.

<sup>2</sup> Refer to risk rating/severity matrix at Appendix B

### Use of ECM as the designated central repository for corporate records

The internal audit observed the following key attributes associated with business functions that most effectively use ECM:

- Defined process: ECM is built into core operating processes, allowing records to be effectively and efficiently managed through ECM with little (if any) additional effort
- Supportive systems: Information systems available to support business unit processes are integrated with or allow for easy use of ECM
- Recognised value and imperative for change: Business unit leaders and influential staff recognise the value of maintaining corporate records within ECM, communicate that understanding and support required changes to improve records management practices. Importantly, there is a genuine benefit and imperative for change (compared to limited instances where there is little or no imperative for change)
- Tailored training and structure of ECM: Business unit staff are confident in their understanding of corporate records (e.g. what, when and how to record documents and files, such as emails and evidence of work-in-progress), their effective and efficient use of ECM and how to most effectively structure ECM (e.g. tailored naming conventions).

Without one or a combination of these attributes, a number of business functions are likely to continue to:

- Not fully comply with the City's policies and procedures, and the State Records Act for maintaining appropriate corporate records
- Be out of step with the City's records management expectations. Note that in cases where there is little genuine imperative for change, it may be more appropriate for the City to revisit its expectations
- Encounter time management and business process inefficiencies
- Encounter unnecessary staff frustrations with ECM functionality and requirements
- Dilute the potential and value of ECM.

## Recommendation and management comment

This internal audit makes a single recommendation that is designed to:

- Recognise and support the City's recent progress in strengthening its records management capabilities, plus its intentions to complete a gradual transition all corporate records onto ECM
- Help the City to further manage its strategic risk relating to *Inconsistently applied records management practices*
- Collectively address the observations made throughout this report.

This recommendation is not designed to address any individual compliance matters specific to business functions.

### Recommendation

**The City continue to pursue the managed transition of its record keeping and management practices, through a clear project plan, which incorporates the following issues:**

- (a) Clear and measurable objectives and outcomes, including the targeted rate/timing of transition and expected level of compliance (including full transition to ECM) throughout business functions. It will be important to establish clear measures of success, particularly to enable the City to assess where the level of improvement has reached the point where the project can either conclude or revert to a maintenance phase.
- (b) Recognition of opportunities for business units to further design and document operational processes, which incorporate record keeping practices, including recognition of corporate records, timing of when corporate records are required to be captured and ECM naming conventions.

The role of Records Services in supporting these tasks should be clearly outlined.

- (c) Recognition of opportunities and triggers for business functions to introduce or develop supportive information systems, which integrated with, or allow for easy use of ECM. i.e. to remove or minimise reliance on individuals and manual processes. Examples of those opportunities include existing or potential TechOne capabilities and the CIAnywhere tool.

The role of Records Services in supporting any such development should be clearly outlined.

- (d) Use of change management principles, including a communication plan, particularly to support individual staff in business functions where the relatively maturity level is assessed as "Repeatable" and where considerable effort is required to transition from existing platforms and record keeping practices (e.g. Infrastructure Services, Governance & Community Services and Family & Community Development).
- (e) Use of an extended training plan to meet ongoing and tailored training requirements, particularly around management of emails, tailoring naming conventions, working within existing (or enhanced) operational processes.
- (f) Integration with the City's leadership development and performance management.

The City should consider using its existing Knowledge Management Project for this purpose. Note that a full project would extend beyond the current timeframe of the Knowledge Management Project, potentially over two/three years.

The Project's achievements should then be formally tracked against project objectives and reported/communicated throughout the organisation.



### Management comment

Management agrees with the recommendation to pursue the managed transition of its record keeping and management practices, through a clear project plan. In order to achieve this the following actions will be implemented:

- As the existing Knowledge Management project plan finishes 30 June 2018, a new project plan will be developed to incorporate the recommendations from this audit (estimated completion date 31 July 2018)
- The new project plan will be renamed Records Management as this better reflects the strategic risk the City is looking to mitigate
- Incorporate change management principles, including a communication plan in the new Records Management project plan to support individual staff in business functions where considerable effort is required to transition from existing platforms and record keeping practices
- Identify opportunities that lie with existing or potential TechOne capabilities, including opportunities to further develop ECM in order to link in with City's existing business systems
- Engage with Records Services when reviewing and mapping existing or developing new processes to ensure records management requirements are incorporated
- Work with the Learning and Development team to explore tailored records management training opportunities
- Engage with the Senior Management Team (SMT) to develop methods for greater collaboration between Records Services and business functions to address any specific records management issues within the organisation (i.e. invites to attend team meetings)
- Develop effective KPI measures to demonstrate the organisation's records management maturity level.

### Appendix A: Business function operating practice / maturity level

Business function	Operating practice / maturity level	Volume of records	Extent of ECM use	Manual/automated RM processes	BU aware of risk & value?	BU rating of current risk	Defined BU record keeping process?	Supportive system?	Reliance on non-ECM platform?	Confident ECM users?	IA risk rating estimate	Link to key themes or improvement opportunities
Governance / Elected Members	Repeatable	High	Ad Hoc	Manual	Yes	Moderate	Partial, minimal process description	No	Yes - Outlook	Key user(s) confident, others limited	Moderate/Significant	<ul style="list-style-type: none"> <li>Process not defined</li> <li>Naming conventions make it difficult to search for items in ECM</li> <li>No supportive system available, meaning heavy reliance on accountable staff and elected members</li> </ul>
Statutory Planning	Managed	High	High	Semi-automated	Yes	Low	Yes	Yes – tailored to BU needs	No	Very Confident	Low	Statutory Planning offers a good case study for building record keeping into BAU operations. Note that the right elements are in play, including the willingness of the team to implement new processes and practices
Environmental Health	Defined	High	Medium	Semi-automated	Yes	Moderate	Partial: Working process in place, but not formally documented	Partial: P&R integrated, remainder under development	No, although supplemented by manual files	Confident	Moderate	<ul style="list-style-type: none"> <li>TechOne Property and Rating system integrates with ECM, however BU draws more value from the detail and structure within its manual records</li> <li>BU has concerns about the capability of the new iPad process to provide the same level of information and value</li> </ul>
Rates and Revenue	Defined	Very high	High	Mostly manual	Yes	Moderate	Yes, plus ongoing monitoring.	Partial, P&R is not fully integrated into ECM	No	Confident	Moderate/Significant	<ul style="list-style-type: none"> <li>TechOne module does not adequately integrate with ECM, meaning all ECM entries are manual, requiring heavy monitoring and training to ensure staff accurately and completely enter key rating information. i.e. it is critical to maintain the existing controls</li> <li>Given the high volume of transactions and the potential severity of the impact if the corporate record is not adequately retained and recoverable, the risk remains relatively high</li> </ul>
Human Resources	Defined	Medium	Medium	Semi-automated	Yes	Moderate	Partial, minimal process description	Partial, HR/Payroll integrated into ECM	Partially – Outlook	Key user(s) confident, others limited	Moderate	<ul style="list-style-type: none"> <li>Requirement to maintain personnel records is a key element of HR policies and procedures</li> <li>There is some inconsistency and lack of rigour with the practice applied to other HR activity</li> </ul>
Recreation and Community Services	Repeatable	Medium	Medium	Manual	Yes	Moderate	No, process not defined	No	Partially – S drive and Outlook	Key user(s) confident, others limited	Moderate	<ul style="list-style-type: none"> <li>Staff rely on admin support officer for maintaining records on ECM and have little capability to use ECM in the absence of the admin support officer</li> <li>No supportive system available, meaning the BU places heavy reliance on accountable staff</li> <li>Current naming conventions are not user friendly</li> </ul>
Rangers and Community Safety	Managed	Medium	Medium	Semi-automated	Yes	Moderate	Partial: Working process in place, but not formally documented	Yes – tailored to BU needs	No	Confident	Moderate	<ul style="list-style-type: none"> <li>BU reinforces the benefit of good record keeping for the unit's services, without needing to reference record keeping policy</li> <li>ECM training provided was good, but deeper training is needed for more experienced staff</li> <li>Want to retain the benefit of TechOne's hierarchy</li> </ul>
Infrastructure Services	Repeatable	Medium	Ad Hoc	Manual	Yes	Moderate	Partial, minimal process description	No	Yes – Outlook and S drive	Limited	Moderate/Significant	<ul style="list-style-type: none"> <li>No supportive system available, meaning heavy reliance on staff for capturing key records throughout the project process (potential for TechOne project management module to be supportive?)</li> <li>BU has not yet proactively sought to make use of ECM or an effective records management approach</li> <li>Effective naming conventions (to suit project process) have not yet been established</li> <li>There is some appetite for tailored staff training</li> </ul>
Family and Community Development	Repeatable	Low	Ad Hoc	Manual	Yes	Moderate	Partial, minimal process description	No	Yes – S drive and Outlook	Limited	Low	<ul style="list-style-type: none"> <li>No supportive system available, meaning heavy reliance on staff for capturing key records</li> <li>Record keeping process has not been defined</li> <li>Effective naming conventions (to suit grant/funding application and management process) have not yet been established</li> <li>There is some appetite for tailored staff training</li> <li>Overall however, the risk of any significant impact of non-compliance/performance (with obligations to maintain records in accordance with the low volume of funding agreements and conditions of grants) appears to be low</li> </ul>
Corporate Communication	Repeatable	Low	Medium	Manual	Yes	Moderate	Yes	Partial – tailored to BU needs	Partially – S drive and Outlook	Key user(s) confident, others limited	Moderate	<ul style="list-style-type: none"> <li>Record keeping processes for key activities (e.g. links to web pages) have been defined, although not for all activities</li> <li>Records Services has assisted to design crib sheets</li> <li>Training available to staff appears to be adequate</li> </ul>

# Appendix B: Maturity level and risk rating tables

## Records management operating practice/maturity levels

<b>Ad hoc:</b> BU/function has no systematic or formal approaches to recordkeeping. Processes and practices are fragmented or non-existent. Any pockets of maturity that the BU has are based on the experience and initiatives of individuals and don't align to the City's Record Keeping Plan. Use of ECM is ad hoc.
<b>Repeatable:</b> BU/function has limited team-wide recordkeeping processes. Basic management controls and disciplines are in place; however policies and practices are not applied consistently to align with the City's Record Keeping Plan. Some transition to ECM
<b>Defined:</b> BU/function has a significant degree of recordkeeping maturity. BU awareness, policies, procedures, and processes exist and are used consistently across the BU to align with the City's Record Keeping Plan. Transition to ECM mostly effective.
<b>Managed:</b> BU/function manages records and recordkeeping processes consistently and comprehensively across the team, to align with the City's Record Keeping Plan. Processes and practices are routinely measured to ensure delivery of desired results. Effective transition to ECM.
<b>Optimised:</b> BU/function considers records and recordkeeping to be an asset that underpins all business processes. BU's recordkeeping practices are aligned with the City's Record Keeping Plan. Recordkeeping processes and practices are regularly measured and monitored and the results are analysed and used for continuous improvement. ECM is used extensively and proactively.

## Risk rating/severity matrix

		Consequence				
		Insignificant	Minor	Major	Critical	Catastrophic
Likelihood	Rare	Low	Low	Low	Low	Moderate
	Unlikely	Low	Low	Moderate	Moderate	Significant
	Possible	Low	Moderate	Moderate	Significant	High
	Likely	Low	Moderate	Significant	High	Extreme
	Almost Certain	Moderate	Significant	High	Extreme	Extreme

Source: City of Cockburn Risk Management Framework – December 2017

## Appendix C: Personnel consulted

The following City staff assisted this internal audit through interviews and process walkthroughs:

<b>Personnel</b>	<b>Position</b>
<u>Process owner</u>	
Emma Machura	Records Manager
<u>Interviews – representatives of selected business units/functions</u>	
Doug Vickery	Manager Infrastructure Services
Andrew Lefort	Manager Statutory Planning
Nick Jones	Manager Environmental Health *
Phill Oorjitham	Coordinator Environmental Health *
Barbara Freeman	Family and Community Development Manager
Michael Emery	Rangers and Community Safety Manager
Chantelle D’Ascenzo	Rates and Revenue Manager
Sam Seymour-Eyles	Manager Corporate Communications
Don Green	Director Governance & Community Services **
Melody Waerea	Personal Assistant to Mayor and Elected Members **
Kathleen Koelen	Administration Support Officer Recreation and Community Services
Tammie Tingley	Learning & Development Coordinator
<u>Additional process walkthrough</u>	
Steve Elliot	Plant Coordinator Facilities and Plant Services
* - combined interview	
** - combined interview	

### 13.3 LOCAL GOVERNMENT FOCUS AUDIT: TIMELY PAYMENT OF SUPPLIERS - OFFICE OF AUDITOR GENERAL

<b>Author(s)</b>	N Mauricio
<b>Attachments</b>	<ol style="list-style-type: none"><li>1. WA Auditor General Report - Timely Payment of Suppliers <a href="#">↓</a></li><li>2. Email to OAG (extract) <a href="#">↓</a></li></ol>

#### RECOMMENDATION

That Council receive the Western Australian Auditor General's Report on the Timely Internal Audit Report from the Office of the Auditor General on the Timely Payment of Suppliers, as attached to the Agenda.

#### Background

The Local Government Amendment (Auditing) Act 2017 made the Auditor General responsible for the financial and performance auditing of local governments.

The City of Cockburn was chosen by the Office of the Auditor General (OAG) to take part in a focus area audit looking at controls over timely payment of suppliers for 10 local governments. A management letter from the OAG was presented to the March Audit and Strategic Finance Committee meeting, which contained only one audit finding related to untimely payment of a few non-trade invoices. This had a minor rating (not of primary concern).

The management letters for all the local governments audited were used to prepare a draft report, which was then circulated to all parties to ensure factual accuracy and contextual appropriateness. The City provided feedback to the OAG on the draft report (see attached email extract), although they were unable to adopt our recommendations for more disclosure of individual findings and ratings.

The final report as attached to the agenda was tabled in Parliament on 13 June 2018 and is brought to this meeting as previously advised.

#### Submission

N/A

#### Report

What did the OAG find?

The report tabled in Parliament had two key findings.

1. Only 3 local governments had policies and procedures that addressed timely payment of suppliers

(City of Cockburn was one of them).

2. For 13% of payments there was no valid reason why payments were later than supplier requirements or management policy/procedures

(The City's audit found 8% of the payments in the sample were outside of policy terms, but all of these did have genuine reasons, as reported to the March ASFC meeting).

### Recommendations

The report made three recommendations, being that Local governments should:

1. Have policies or procedures that clearly require payment of invoices within specified periods after receiving the invoice or after the receipt of goods and services (whichever is later)

(The City was found by the audit to be one of three local governments that already had policies and procedures in place).

2. Ensure they improve administrative processes so that all payments are made in accordance with their policies and procedures

(Since audit, the City has implemented a new procedure to ensure overdue invoices that are ready to be paid, are paid promptly, rather than waiting for the next supplier end of month payment run)

3. Improve recordkeeping to ensure that for all payments there are records of the date that the invoice and goods or services were received. Ideally, this information should be recorded in the financial information management system and used as a key date for determining when payments should be made.

(The City was named in the report as one of only two local governments that were already following this practice).

As a consequence of this audit, The City has taken the opportunity to review its practices to ensure it further improves its performance in making timely payments to its suppliers. However, it was reassuring to

find the City's current performance compares favourably within the local government sector.

### **Strategic Plans/Policy Implications**

#### Economic, Social & Environmental Responsibility

Create opportunities for community, business and industry to establish and thrive.

#### Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

### **Budget/Financial Implications**

There was no cost to the City for the conduct of the focus audit by the OAG.

### **Legal Implications**

N/A

### **Community Consultation**

N/A

### **Risk Management Implications**

Audit activities are an important mitigation measure in addressing risk. It is important that any audit findings and recommendations are considered and addressed. In response to this audit, the City has already established new procedures to further address the risk of making untimely payments to suppliers.

### **Advice to Proponent(s)/Submitters**

N/A

### **Implications of Section 3.18(3) *Local Government Act, 1995***

Nil

# Western Australian Auditor General's Report



## Timely Payment of Suppliers



Report 12: June 2018



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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Timely Payment of Suppliers**

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Report 12  
June 2018



**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

#### **TIMELY PAYMENT OF SUPPLIERS**

This report has been prepared for Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This focus area audit assessed whether 10 local governments were making payments to suppliers on a timely basis in accordance with better practice.

I wish to acknowledge the cooperation of the staff at the local governments included in this audit.

A handwritten signature in black ink, appearing to read "Caroline Spencer".

CAROLINE SPENCER  
AUDITOR GENERAL  
13 June 2018

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## Timely Payment of Suppliers

### Background

Each year local governments spend hundreds of millions of dollars purchasing goods and services. To assist the continued viability of businesses in Western Australia and to help small businesses in particular to manage cash flow and administrative costs, it is important that local governments make timely payments to suppliers. In some instances, slow payments may impact the ability of suppliers to meet subsequent orders.

Due to the variety of factors affecting the circumstances under which local governments and their suppliers operate, we did not expect to find identical payment practices across the local governments included in our audit. Local government regulations do not specify payment timeframes and during this audit we have not regarded a particular payment period as the ideal. Rather, we have had regard mainly to the policies and practices of the sampled local governments and the payment terms of their suppliers. This audit therefore required significant judgement when identifying and investigating the timeliness of payments.

### Conclusion

Most payments were made in a timely manner. However, 7 local governments did not have formal payment policies and practices that addressed the need to pay on time, which led to inconsistency in how quickly payments were made. For the 3 local governments with timely payment policies, 15% of payments were outside the timeframes in the policies without a valid reason.

### What we did

The focus of the audit was to assess whether 10 sampled local governments were making payments to suppliers on a timely basis in accordance with better practice.

We assessed the policies and practices over an 11-month period from 1 January to 30 November 2017, using the following lines of inquiry:

1. Have local governments developed procedures and controls for ensuring that payments are made on a timely basis?
2. Are suppliers being paid on a timely basis?

We audited 600 transactions across 10 local governments with a total value of \$68.9 million. Where payments were not made in accordance with policies and procedures or suppliers' terms, we considered whether there were valid reasons for delays.

We conducted this audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. The approximate cost of undertaking this audit was \$170,000.

### Local governments included in our audit

Focus area audits assess local governments against common business practices to identify good practices and control weaknesses and exposures so that local governments, including those not audited, can evaluate their own performance.

When deciding which local governments to include in this audit we aimed for a mix of different size local governments from diverse locations with varying budgets, resourcing and purchasing requirements. This allowed us to identify potential issues, better practice examples and improvement opportunities that are likely to be applicable across the broader local government sector. We included the following local governments in this audit:

Local government	Number of transactions 1 January – 30 November 2017	Value of transactions 1 January – 30 November 2017
City of Armadale	20,723	\$77,888,825
Shire of Bruce Rock	1,642	\$6,333,914
City of Cockburn	20,981	\$114,500,102
Shire of Cunderdin	2,774	\$6,171,374
Shire of Kellerberrin	1,489	\$7,929,003
Shire of Kojonup	2,977	\$8,596,354
Shire of Merredin	3,976	\$8,075,895
City of Swan	27,650	\$123,501,738
Shire of Tammin	970	\$2,634,177
Shire of York	1,974	\$9,229,998
<b>Total</b>	<b>85,156</b>	<b>\$364,861,380</b>

Table 1: Volume and value of transactions

## What did we find?

### Only 3 local governments had policies and procedures that addressed timely payment of suppliers

Good policies and procedures provide essential guidance for staff to manage payments in accordance with management's expectations and the needs of suppliers. They should specify timelines and where appropriate, circumstances where alternate timelines may be acceptable.

Only 3 metropolitan local governments in our sample had policies or procedures that addressed the timely payment of suppliers. Two of these required payment within 30 days, with the other requiring payment by the end of the month after the invoice is received. For these 3 local governments 15% of payments did not comply with their policies and procedures.

To enable management to monitor any payment delays it is important to record the dates when goods or services and the invoice are received. While 6 of the 10 local governments were recording on the invoices the date that they were received, only the cities of Cockburn and Swan were recording the date that goods and services were received in their financial system to enable effective monitoring.

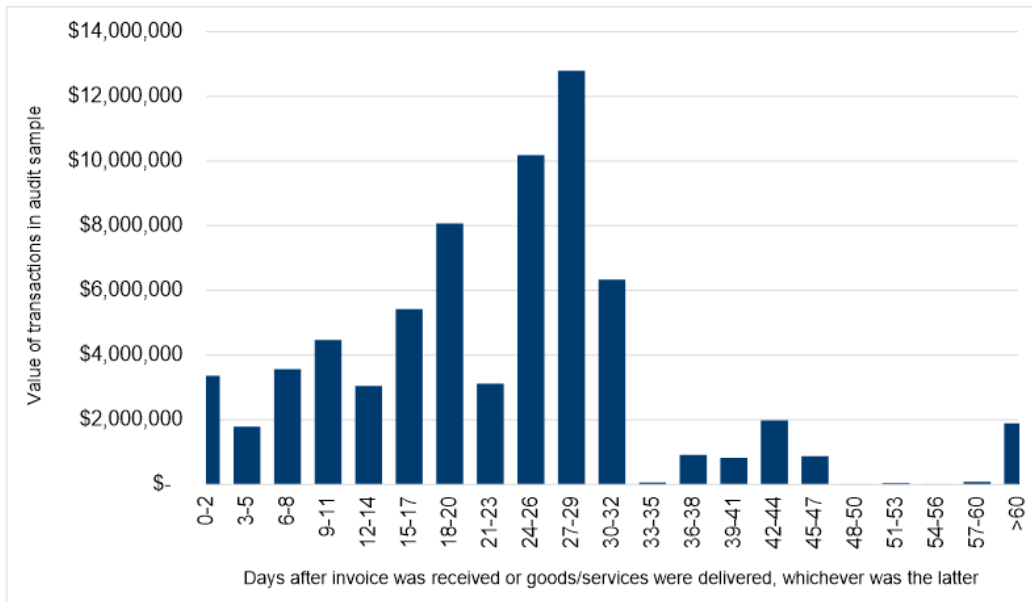
For our audit, where the local government had not recorded the date of receipt, we have assumed that the invoice was received 3 days after the date on the invoice.

At 4 local governments there was no documented evidence that someone had checked that goods and services were received prior to payment. Invoices were approved and it is possible that someone checked whether goods or services were received as part of this approval. Some local governments advised that their 'OK to Pay' stamp implied that goods or services were received, however, we consider that an explicit signoff for receipt is better practice.

### For 13% of payments there was no valid reason why payments were later than supplier requirements or management policy/procedures

Delays in paying invoices adversely affects the cashflow of suppliers. It may also result in late payment fees although we did not find any instances in this audit.

Figure 1 shows the timing of all payments by number of days and by value including those with valid reasons and no reason for delays. This table shows that most payments were made within 32 days.

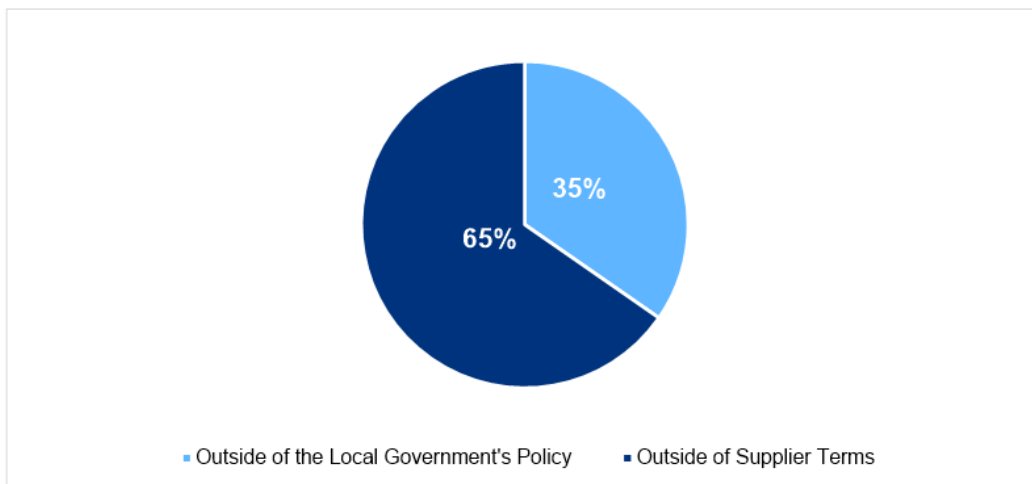


**Figure 1: Timeline of all payments in our sample**

The largest late payment to a state government agency with no valid reason was for \$5.2 million, paid 31 days after receipt of the invoice. This was 1 day later than the local government’s policy. The largest late payment to a private sector supplier was \$1.4 million, paid 29 days later than the local government’s policy.

The longest overdue payment, relating to the purchase of gym equipment, was paid 154 days after the invoice. There was no valid reason for the delay.

We regarded payments that, for no valid reason, did not meet supplier requirements or the local government’s own policies and procedures and were also later than 30 days to be of particular concern. There were 75 payments (13%) which were paid later than 30 days and were either outside of the suppliers’ terms or the local government’s policy, split as shown in Figure 2.



**Figure 2: Analysis of payments later than 30 days without a valid reason**



Figures 3 and 4 provide a breakdown of the main reasons for delays in paying invoices. Valid reasons for delays included:

- goods and services were received after the invoice was received
- dispute with the supplier
- delay in the supplier sending the invoice.

The main reasons for delays that we considered avoidable were:

- some larger local governments experienced internal delays in submitting invoices to the finance area for payment
- delays in processing payments in the finance area
- unable to provide an explanation for the delay
- misplaced or lost invoice.

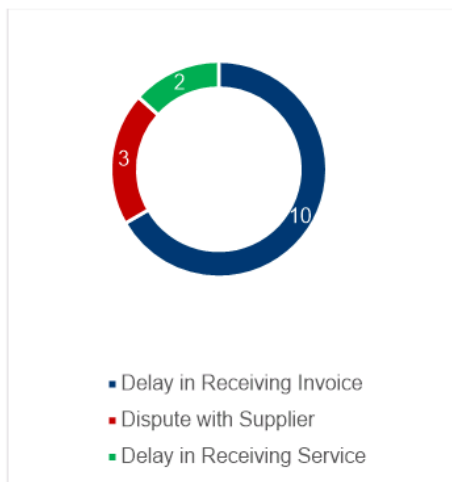


Figure 3: Valid reasons for delays

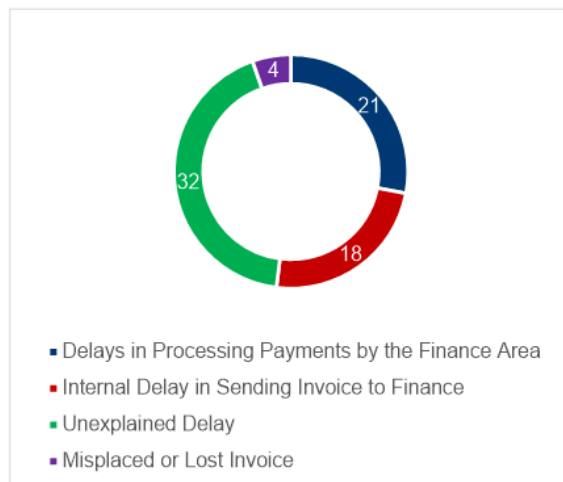


Figure 4: Invalid reasons for delays

## Recommendations

Local governments should:

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

### Response from local governments

Local governments in our sample generally accepted the recommendations and confirmed that, where relevant, they have either amended policies, procedures or administrative systems or will improve practices for managing timely payments.

## Auditor General's reports

Report number	2018 reports	Date tabled
11	WA Schools Public Private Partnership Project	13 June 2018
10	Opinions on Ministerial Notifications	24 May 2018
9	Management of the State Art Collection	17 May 2018
8	Management of Salinity	16 May 2018
7	Controls Over Corporate Credit Cards	8 May 2018
6	Audit Results Report – Annual 2017 Financial Audits and Management of Contract Extensions and Variations	8 May 2018
5	Confiscation of the Proceeds of Crime	3 May 2018
4	Opinions on Ministerial Notifications	11 April 2018
3	Opinion on Ministerial Notification	21 March 2018
2	Agency Gift Registers	15 March 2018
1	Opinions on Ministerial Notifications	22 February 2018







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***(Email Extract to OAG on 23 May 2018 - providing the City's comments on the draft audit report into the Timely Payment of Suppliers to be tabled in Parliament)***

Thank you for providing the City with a copy of the Summary of Findings and giving us the opportunity to pass comment before finalising the report to Parliament. We acknowledge and support the primary purpose of this focus audit in making recommendations that assist the local government sector improve its practices for the timely payment of suppliers.

After having reviewed, considered and internally discussed the audit findings, we provide the following comments and observations:

1. The conclusion section refers to 7 local governments not having any formal policies and practices in place, whilst 3 do. It is important in our view to mention that this reflects the split between metropolitan and regional local governments. All 3 metropolitan local governments audited did have policies in place.
2. For the 3 local governments with policies in place, the conclusion section states that 15% of payments were outside of policy without any valid reason. Given that the City of Cockburn is one of these 3, we question this finding being related to our City. The City's audit found 5 (8% of) payments made outside our policy terms. However, all of these had valid reasons for late payment (3 due to delay in receiving the invoice and 2 from disputing/clarifying details with the supplier), and none of these were for small businesses or trade suppliers (being state government agencies and one community organisation receiving a grant).
3. As the (adverse) finding of 15% in late payments only applies to the 3 identifiable metropolitan local governments, we believe this finding should be further elaborated on within the report. Readers can incorrectly infer that 15% of the City's payments are late, translating to \$17m in value.
4. Why not publish the key findings of individual audits? That is, what were the values of the tested payments, what wasn't paid in accordance with policy or supplier requirements, what was the value of these invoices etc. We note that Figure 1 is demonstrating most high value payments being made within 32 days, but a table by local government would be desirable to ensure factual accuracy and contextual appropriateness.
5. We also note that the Cities of Cockburn and Swan have been singled out with regard to being the only ones recording the date of goods and services received within their systems. Accordingly, more individual references to local governments could be made where the individual results vary significantly.
6. We question how focusing on a \$5.2m state government agency payment that was only one day late will provide useful insight to readers of the report (we understand this payment does not relate to us).
7. The audit findings don't appear to highlight any good practices encountered that could provide insight for other local governments to improve their own practices. Were any good practices found during the audits? We believe the City of Cockburn has several that could have been highlighted (e.g. central point for remittal of invoices, automated paperless invoice data entry, integrated purchase order matching, exception reporting to identify outstanding invoice approvals etc.). These all serve to assist the timely payment of suppliers.
8. Will the final report by the Auditor General to Parliament provide a direct and overall answer to the two questions posed in the audit objectives and scope?
9. Our City's audit report showed only one finding and this had a minor rating (not of primary concern). Will there be a an overall rating provided in the report to

Parliament? We recommend that the individual local government ratings should be included within a table to demonstrate how each local government was assessed.

The City has used these audit results constructively and taken the opportunity to further improve its processes, particularly in regard to outstanding invoices remaining unpaid beyond the City's standard trading terms. New monitoring and reporting procedures have been established to ensure any overdue invoices are paid as soon as practical, rather than scheduled for the next monthly payment run.



**14. ENGINEERING & WORKS DIVISION ISSUES**

Nil

**15. COMMUNITY SERVICES DIVISION ISSUES**

Nil

**16. EXECUTIVE DIVISION ISSUES**

Nil

## 17. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

### 17.1 REVIEW OF POSITION STATEMENT - PSFCS24 - "CORPORATE CREDIT CARDS" AND ASSOCIATED DELEGATED AUTHORITY LGAFCS8

**Author(s)** N Mauricio  
**Attachments** 1. Western Australia Auditor General's Report "Controls Over Corporate Credit Cards" [↓](#)

#### RECOMMENDATION

That the City's Position Statement PSFCS24 "Corporate Credit Cards" and associated Delegated Authority LGAFCS8 be reviewed at the November 2018 meeting of the Audit & Strategic Finance Committee

#### Background

Mayor Logan Howlett provided a notice of motion via email on 14<sup>th</sup> of May as follows:

*Audit & Strategic Finance Committee Meeting  
 Thursday 19 July 2018  
 Notice of Motion*

*That a review of the City's Position Statement PSFCS24 - "Corporate Credit Cards" - and associated Delegated Authority LGAFCS8 be undertaken and a report provided to the November 2018 meeting of the Audit & Strategic Finance Committee.*

#### Reason

To address recommendations contained in the Auditor General's Report 7 to Parliament dated 9 May, 2018 – 'Controls over Corporate Credit Cards' - as they relate to local governments

#### Submission

N/A

#### Report

A report is proposed to be presented at the November 2018 meeting of the Audit & Strategic Finance Committee to address the recommendations contained in the Auditor General's Report 7 to Parliament dated 9 May, 2018 – 'Controls over Corporate Credit Cards' - as they relate to local governments. A copy of the Report is attached.

**Strategic Plans/Policy Implications**

Position Statement PSFCS24 and Delegated Authority LGAFCS8  
“Corporate Credit Cards” refer

**Leading & Listening**

Deliver sustainable governance through transparent and robust policy and processes.

Ensure sound long term financial management and deliver value for money.

**Budget/Financial Implications**

N/A

**Legal Implications**

N/A

**Community Consultation**

N/A

**Risk Management Implications**

Failure to provide a report when a valid notice of motion is received will constitute a breach of the City’s Standing Orders.

**Advice to Proponent(s)/Submitters**

N/A

**Implications of Section 3.18(3) *Local Government Act, 1995***

Nil

# Western Australian Auditor General's Report



## Controls Over Corporate Credit Cards



Report 7: May 2018

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Controls Over Corporate Credit Cards**

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Report 7  
May 2018



**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

### **CONTROLS OVER CORPORATE CREDIT CARDS**

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

The report summarises the results of my first focus area audit in the local government sector.

The audit assessed whether 8 local governments have effective controls over the use of corporate credit cards. We found that they generally had satisfactory controls, but we did note various shortcomings and have made related recommendations for improvement.

I wish to acknowledge the cooperation of the staff at the local governments included in this audit.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY  
AUDITOR GENERAL  
9 May 2018

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## Auditor General's overview

I am pleased to present my first local government audit report to Parliament, under the *Local Government Amendment (Auditing) Act 2017*.

This report reflects the results of a focus area audit on Controls Over Corporate Credit Cards. These audits have a narrow scope and normally focus on specific areas of financial controls. We audited 8 local governments, some big in size and some small, some metropolitan based and some regional, to give an idea of how local governments are performing in this area.



Given the huge diversity among local governments, the intent of these audits is not to compare, but to provide examples of better practice as well as opportunities for improvement.

Corporate credit cards offer significant benefits to entities. They can reduce costs and streamline business processes associated with authorising, tracking, purchasing, payment and reconciling purchases. But like all financial processes and tools, they can be misused if not properly managed.

I recognise the challenges that small local governments in particular experience with regard to matters such as segregation of duties and suitable arrangements while key staff are on leave. In saying that, the results of this audit are generally good. While we noted some areas that could be done better, the local governments mostly had satisfactory controls in place.

Importantly, the local governments were accepting of our findings and were open to change to address the issues we identified. And I encourage all local governments to follow suit – to assess their own management of corporate credit cards against the findings and recommendations of this report and to promptly act where required.

Parliament gave the Auditor General the mandate to audit local government to enhance accountability and transparency across the sector. For this to be a success we need to continue on the path we started with this audit. That is working together to recognise good practice as well as identify areas where things can and should be done better – in the public interest.

## Controls over corporate credit cards

### Background

Corporate credit cards are an important part of modern purchasing systems, offering significant benefits such as reduced costs and streamlined business processes. They are used for local government purchases including computing and other equipment, general consumables, hospitality and travel. While local governments generally use credit cards for a small proportion of their payments, it is important they are effectively managed to reduce the risk of improper or unauthorised use.

Local government employees and chief executive officers (CEOs) use corporate credit cards. However, the elected members that make up a local government Council cannot use these cards as the *Local Government Act 1995* (LG Act) does not allow them to incur debts. Instead, local governments pay allowances or reimburse expenses to an elected member.

The LG Act and associated regulations require:

- the Council to oversee allocation of the local government's finances and resources and to determine policies
- the CEO to ensure that proper accounts and records are kept in accordance with regulations
- local governments to develop procedures for the payment of accounts to ensure that there is effective security for, and properly authorised use of credit cards.

In conducting our audit, we considered the above requirements, *Local Government Operational Guidelines Number 11 – September 2006 Use of Corporate Credit Cards* and other accepted better practice guidance.

### Conclusion

Local governments in our sample generally had satisfactory controls in place to manage the use of credit cards. We noted shortcomings however, of varying significance, in the policies and practices at most local governments we audited. We did not find any inappropriate use of credit cards.

### Recommendations

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

## What we did

The focus of this audit was to determine if the local governments in our sample have effective controls over the use of corporate credit cards. We also assessed if there was adequate independent review of the credit card use of CEOs.

We assessed the policies and practices at 8 local governments, over the period 1 January 2017 to 30 September 2017, using the following lines of inquiry:

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

We conducted this audit under sections 18 of the *Auditor General Act 2006* and 7.12AJ of the *Local Government Act 1995* and in accordance with Australian Auditing and Assurance Standards.

## Local governments included in our audit

Focus area audits assess local governments against common business practices to identify good practices, and control weaknesses and exposures so that local governments, including those not audited, can compare their own performance.

When deciding which local governments to include in this audit we aimed for a mix of different size local governments from diverse locations with varying budgets, resourcing and purchasing requirements. This allowed us to identify potential issues, better practice examples and improvement opportunities that are likely to be applicable across the broader local government sector.

We included the following local governments in this audit:

Local government	Number of credit cards	Number of credit card purchases made	Number of credit card purchases as a % of all purchases made	Value of credit card purchases	Value of credit card purchases as a % of all purchases made
City of Kalamunda	12	959	14%	\$159,585	0.34%
City of Rockingham	90	4,391	20%	\$1,213,175	0.89%
City of Wanneroo	54	3,199	4%	\$417,185	0.28%
Shire of Carnarvon	4	108	4%	\$17,144	0.17%
Shire of Cranbrook	2	293	16%	\$45,688	1.06%
Shire of Dandaragan	4	143	4%	\$41,249	0.43%
Shire of Denmark	4	122	6%	\$22,799	0.34%
Town of Port Hedland	8	553	12%	\$176,929	0.47%

**Table 1: Key expenditure statistics from 1 January 2017 to 30 September 2017**

## What did we find?

### Overall policies and administrative systems for managing corporate credit cards were appropriate

Good policies and procedures provide essential guidance for staff to manage credit cards in accordance with management’s expectations. They should cover matters such as controls over issuing and cancelling cards as well as approving and acquitting purchases.

We found that appropriate policies and administrative systems were generally in place for use of credit cards, however:

- at the Shire of Denmark and the City of Wanneroo we found that policies did not specify the timelines for acquitting and approving monthly credit card statements. Setting timelines is important as they help ensure timely acquittal and approvals, and also early identification of any unauthorised transactions
- at the City of Wanneroo, we found 2 instances where cardholders had not completed cardholder agreements. Cardholder agreements outline cardholder duties and responsibilities.

### Suitable controls were generally in place for managing credit card use, however most local governments had opportunities for improvement

Strong controls assist in the early identification of erroneous, inappropriate or unauthorised transactions. It is good practice for transactions to be matched to invoices and vetted by the cardholder before being independently approved by the cardholder’s supervisor. These steps should be completed within a reasonable timeframe on a monthly basis.

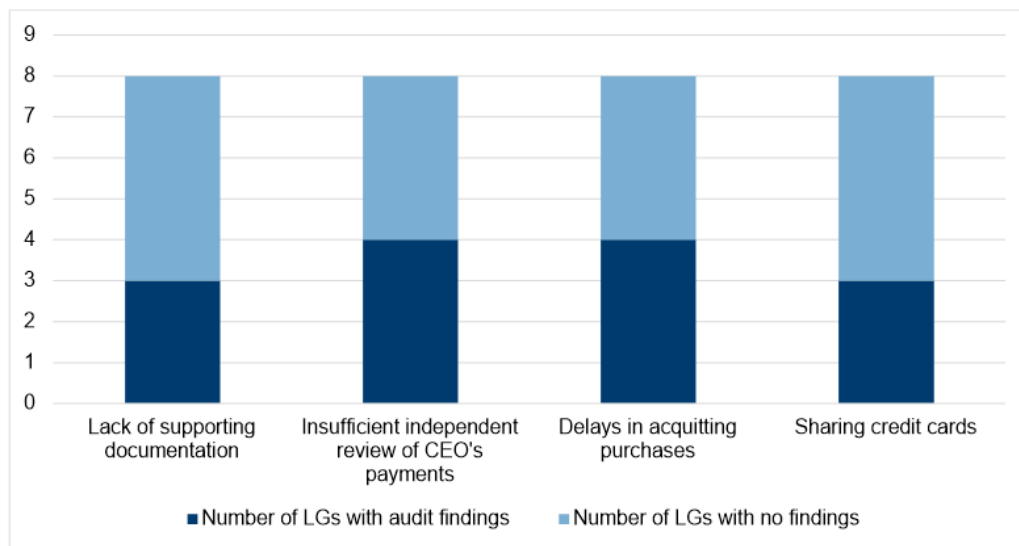


Figure 1: Audit findings by number of local governments (LGs)

We identified control weaknesses of varying significance at all local governments, except the Shire of Carnarvon:

- The City of Rockingham did not always have appropriate independent approval of credit card transactions. For 54% of cardholders, the coding and review of their transactions was performed by subordinates, and the cardholders thereafter approved their own transactions.

- CEO credit card transactions were approved by a subordinate, or were self-approved at 4 local governments. This process could be improved to increase transparency, without introducing additional approval processes, by periodically reporting the CEO's transactions to the Council, and clearly identifying them for noting.
- To ensure the person using the credit card is identifiable and accountable, staff should not share credit cards. We found sharing of cards at 3 local governments:
  - At the City of Kalamunda, we found that cardholders permitted staff within their departments to use their card. The monthly statement was then signed off by the cardholder and a subordinate. We were unable to determine who made the purchases and could not substantiate if approvals were independent. Staff at the City of Wanneroo and Shire of Dandaragan also shared cards but they were able to demonstrate independent approval and monitoring of these purchases.

We recognise the challenges of small local governments in this regard, however they should consider other arrangements to avoid sharing of cards.

- We found delays in cancelling cards when staff resigned, at the Shire of Denmark and the City of Wanneroo. The maximum delays were 4 months and 11 months respectively. If cards are not cancelled promptly, they may be used by other non-authorised staff.
- The City of Rockingham did not have adequate documentation for 20% of the transactions we audited. The Shire of Cranbrook and Shire of Denmark lacked adequate documents for a small number of transactions. This makes it difficult for management or auditors to determine the appropriateness of purchases.
- We found 4 local governments were not always acquitting their credit card transactions in a timely manner or in line with their own policy. The delays ranged from 7 business days later than required by the policy, to over 4 months. Timely acquittals help identify any erroneous or inappropriate payments.

### **While local governments were reviewing credit card usage, there was inconsistent reporting to Council**

We found that all the local governments were reviewing the use of credit cards in some way, on a regular basis. We were pleased to note that the City of Rockingham and the Shire of Carnarvon recently audited their credit cards. Internal audits provide management with important insight into credit card usage and associated effectiveness of controls.

Reporting to Council on credit card expenditure was inconsistent as:

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

The latter approach clearly provides more transparent oversight of this expenditure as regular detailed review of all payments can help identify unusual card use. Councils interpreted Regulation 13 of the Local Government (Financial Management) Regulations 1996 inconsistently. This regulation requires local governments to present the details of all payments, including corporate credit card payments to Council on a monthly basis.

## Response from local governments

Local governments in our sample generally accepted the recommendations and confirmed that, where relevant, they have amended policies and administrative systems or will improve practices for managing credit cards.

The City of Wanneroo agreed that in future credit cards will be cancelled when staff leave. The City advised that in the instances identified during our audit, although the cards had not been promptly cancelled with the bank, they had been promptly destroyed when the staff members resigned and that no transactions had been made using those cards.

## Auditor General's Reports

Report number	2018 reports	Date tabled
6	Audit Results Report – Annual 2017 Financial Audits and Management of Contract Extensions and Variations	8 May 2018
5	Confiscation of the Proceeds of Crime	3 May 2018
4	Opinions on Ministerial Notifications	11 April 2018
3	Opinion on Ministerial Notification	21 March 2018
2	Agency Gift Registers	15 March 2018
1	Opinions on Ministerial Notifications	22 February 2018



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- 18. NOTICES OF MOTION GIVEN AT THE MEETING FOR CONSIDERATION AT NEXT MEETING**
  
- 19. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY MEMBERS OR OFFICERS**
  
- 20. MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE**  
  
Nil
  
- 21. CONFIDENTIAL BUSINESS**  
  
Nil
  
- 22. CLOSURE OF MEETING**