

Please note: These minutes are yet to be confirmed as a true record of proceedings

CITY OF BUSSELTON

MINUTES FOR THE AUDIT COMMITTEE MEETING HELD ON 26 OCTOBER 2016

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MINUTES

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN MEETING ROOM ONE, COMMUNITY RESOURCE CENTRE, 21 CAMMILLERI STREET, BUSSELTON, ON 26 OCTOBER 2016 AT 9.30AM.

1. DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Presiding Member opened the meeting at 9.28am.

2. ATTENDANCE

Presiding Member:

Cr Gordon Bleechmore

Members:

Cr Paul Carter
Cr Grant Henley

Officers:

Mr Cliff Frewing, Director, Finance and Corporate Services
Mr Kim Dolzadelli, Manager Financial Services
Ms Sarah Pierson, Manager Corporate Services (until 9.51am)
Mr Ehab Gowegati, Financial Accountant
Miss Hayley Barge, Administration Officer, Governance

Apologies

Nil

Approved Leave of Absence

Nil

3. PUBLIC QUESTION TIME

Nil

4. DISCLOSURE OF INTERESTS

Nil

5. CONFIRMATION OF MINUTES

5.1 Minutes of the Audit Committee Meeting held 10 March 2016

Committee Decision

AU1610/014 Moved Councillor P Carter, seconded Councillor G Henley

That the Minutes of the Audit Committee Meeting held 10 March 2016 be confirmed as a true and correct record.

CARRIED 3/0

6. REPORTS

6.1 CITY OF BUSSELTON 2015/2016 ANNUAL FINANCIAL REPORT, AUDITORS REPORT AND MANAGEMENT LETTER

SUBJECT INDEX:	Financial Operations
STRATEGIC OBJECTIVE:	An organisation that is managed effectively and achieves positive outcomes for the community.
BUSINESS UNIT:	Finance and Corporate Services
ACTIVITY UNIT:	Financial Services
REPORTING OFFICER:	Manager Financial Services - Kim Dolzadelli
AUTHORISING OFFICER:	Director, Finance and Corporate Services - Cliff Frewing
VOTING REQUIREMENT:	Simple Majority
ATTACHMENTS:	Attachment A 2015/2016 Annual Financial Report Including Auditors Report⇒ Attachment B Management Letter⇒

PRÉCIS

The 2015/16 Annual Financial Statement, Auditors Report and Management Letter has been received from Council's appointed Auditor, Mr Tim Partridge from AMD Chartered Accountants, and is provided to Committee Members with the Agenda documents.

Pursuant to its Instrument of Appointment, it is relevant that the Audit Committee considers the 2015/16 Annual Financial Statement, Auditors Report and Management Letter and where appropriate, makes recommendation/s in respect of these reports.

BACKGROUND

Pursuant to Section 7.9 of the Local Government Act (the 'Act'), an Auditor is required to examine the accounts and annual financial report submitted by a local government for audit. The Auditor is also required, by 31 December following the financial year to which the accounts and report relate, to prepare a report thereon and forward a copy of that report to:

- (a) The Mayor or President
- (b) The Chief Executive Officer; and
- (c) The Minister

Furthermore, in accordance with Regulation 10 (4) of the Local Government (Audit) Regulations, where it is considered appropriate to do so, the Auditor may prepare a Management Report to accompany the Auditor's Report, which is also to be forwarded to the persons specified in Section 7.9 of the Act.

The Management Report provides an overview of the audit process and outcomes, whilst also identifying any matters that, whilst generally not material in relation to the overall audit of the financial report, are nonetheless considered relevant to the day to day operations of the City.

STATUTORY ENVIRONMENT

Matters pertaining to the financial audit of a local government authority are detailed within:

- Local Government Act 1995 Section 7.12A.
- Local Government (Financial Management) Regulations 1996.
- Local Government (Audit) Regulations 1996 – Regulation 16.

RELEVANT PLANS AND POLICIES

Not applicable.

FINANCIAL IMPLICATIONS

Not applicable.

Long-term Financial Plan Implications

Nil

STRATEGIC COMMUNITY OBJECTIVES

This matter principally aligns with Key Goal Area 6 – ‘Open and Collaborative Leadership’ and more specifically Community Objective 6.3 - ‘An organisation that is managed effectively and achieves positive outcomes for the community’.

RISK ASSESSMENT

Not applicable.

CONSULTATION

Not applicable.

OFFICER COMMENT

The Audit Committee should note the following Auditors comments that:

“Opinion

In our opinion, the financial report of the City of Busselton:

- i. Gives a true and fair view of the City of Busselton’s financial position as at 30 June 2016 and of its performance for the financial year ended 30 June 2016;*
- ii. Comp[li]es with Australian Accounting Standards; and*
- iii. Is prepared in accordance with the requirements of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).*

Statutory Compliance:

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- i. There are no matters that in our opinion indicate significant adverse trends in financial position or the financial management practices of the city.*
- ii. There are no other matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law noted during the course of our Audit.*
- iii. The asset consumption ratio and asset renewal ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.*
- iv. All necessary information and explanations were obtained by us.*
- v. All audit procedures were satisfactorily completed during our audit.”*

The Auditor's Management Report provides an overview of the approach undertaken in respect of the annual audit process, and the associated outcomes of the audit. The Management Report also identifies any findings that, whilst generally not material in relation to the overall audit of the financial report, are considered relevant to the day to day operations of the City.

As part of the 2015/16 Financial Audit, the Auditor made two findings:

- a) A finding relating to the application of fair value for furniture and equipment; and
- b) A finding relating to excessive leave balances for key personnel;

The review of the City of Busselton's application of fair value for the furniture and equipment asset class for the year ended 30 June 2016 identified that one asset's value was incorrectly posted and another asset was incorrectly flagged for depreciation purposes. The Implications of this is the risk of a material misstatement in respect to the value of Councils furniture and equipment assets, and also the overstatement of depreciation on the same class of asset. An audit recommendation was made that all revaluation inputs are independently reviewed to ensure that they are correct, with a reasonableness analysis undertaken to ensure any significant movements are also correct. Although we acknowledge that a discrepancy did occur a reasonableness analysis is done on a regular basis to identify any major variances prior to finalising the year end books. Based on this finding our processes have been enhanced to ensure that variances of this nature do not reoccur. Furthermore, the two items as identified above have now been amended in the City's financial assets register.

The finding in relation to excessive leave balances of key personnel is acknowledged and while processes were put in place following similar findings over the last few years, including a process of regular reporting on outstanding leave balances, the ability to clear leave balances particularly within some teams has been somewhat limited due to circumstances beyond the City's control. Despite these circumstances, the City has continued to adopt an approach of endeavouring to achieve an overall reduction in long outstanding leave balances while still meeting the needs of the organisation at a particularly busy time, which often involves input from key employees. It should be noted it is an issue in relation to a few key personnel only, the City does not generally have a problem with excessive leave balances. This issue will obviously be the subject of continual review prior to and at next year's financial audit.

CONCLUSION

The City achieved an unqualified audit for the financial year ending 30 June 2016.

Whilst the Auditor has reported two audit findings in the Management Report, the Auditor has rated these as minor (i.e. not of primary concern however still warranting action being taken). Officers have addressed these minor issues as shown above.

OPTIONS

The Audit Committee may determine to make specific recommendations in relation to the audit findings and the actions identified by management in addressing these. Given the relatively minor nature of the issues that have arisen and the actions which are proposed or are underway, officers do not think specific resolutions are necessary.

TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

Not applicable.

Committee Recommendation and Officer Recommendation

AU1610/015 Moved Councillor G Henley, seconded Councillor P Carter

That the City of Busselton Audit Committee recommends to Council that the 2015/16 Annual Financial Report including Auditors Report be accepted.

CARRIED 3/0

6.2 LOCAL GOVERNMENT AUDIT REGULATION 17 - REVIEW OF RISK MANAGEMENT

SUBJECT INDEX:	Risk Management
STRATEGIC OBJECTIVE:	An organisation that is managed effectively and achieves positive outcomes for the community.
BUSINESS UNIT:	Corporate Services
ACTIVITY UNIT:	Employee Services and Risk
REPORTING OFFICER:	Manager, Corporate Services - Sarah Pierson Risk and OSH Officer - Brian McCarroll
AUTHORISING OFFICER:	Director, Finance and Corporate Services - Cliff Frewing
VOTING REQUIREMENT:	Simple Majority
ATTACHMENTS:	Attachment A Organisation Wide Risk Management Policy⇒ Attachment B Risk Management Committee Terms of Reference⇒ Attachment C Risk Management Framework⇒ Attachment D Risk Management Review Evaluation Collated Results⇒

PRÉCIS

This report is provided with the aim of advising Council on the outcome of the biennial review of the appropriateness and effectiveness of the City's risk management systems and procedures and to meet the requirements of the risk management component of Regulation 17 (3). The Audit Committee is asked to acknowledge this report.

BACKGROUND

Regulation 17 of the Local Government (Audit) Regulations states:

“17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
- (3) The CEO is to report to the audit committee the results of that review.”

The CEO last reported to the Audit Committee the results of a review undertaken in 2014. The review demonstrated that the City had effective and appropriate systems and procedures in place equivalent to a strong base level of risk maturity. The following improvements were identified aimed at achieving a more mature classification in management of risks:

- the improved identification and evaluation of risks associated with projects through more robust project planning practices;
- improved processes for the formal capture and monitoring of risks identified through Council reports;
- the undertaking of a process to identify strategic level risks, that is risks associated with Council's strategic direction as laid out in the Strategic Community Plan;
- the improved monitoring of risk evaluation processes through the setting of relevant key performance indicators for each Manager; and

- review and updating of the Organisation Wide Risk Management Policy to ensure full compliance with AS/NZS ISO31000:2009.

Progress has been made with respect to some of these improvements, noting that not all have been prioritised. This report provides an update as to the City's current risk management systems and procedures and their level of effectiveness and appropriateness.

STATUTORY ENVIRONMENT

This review is a requirement of Regulation 17 of the Local Government (Audit) Regulations (1996), as detailed above.

RELEVANT PLANS AND POLICIES

The City of Busselton Organisation Wide Risk Management Policy (attached) was adopted by Council on 10 May 2006. It was subsequently reviewed and the updates endorsed by Council on 27 July 2011. As per the recommendations of the 2014 risk report a review of the policy was completed and endorsed by Council on 12 August 2015. A further minor review of the policy to clarify roles and responsibilities was endorsed by Council on 12 October 2016.

As required by the Policy, the Risk Management Committee Terms of Reference (attached) has assisted Corporate Services in the development of the Risk Management Plan. The Plan has undertaken continual improvement and was recently re-badged as the Risk Management Framework (attached) to align with the terminology of the AS/NZS ISO 31000:2009 Risk management – Principles and guideline.

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with this matter. Appropriate application of the risk management framework should however mitigate any potential financial loss associated with identified risks.

Long-term Financial Plan Implications

Nil

STRATEGIC COMMUNITY OBJECTIVES

The provision of this report as well as the City's Risk Management System and Procedures contributes to Community Objective 6.3 of the City's *Strategic Community Plan 2013* – 'An organisation that is managed effectively and achieves positive outcomes for the community.'

RISK ASSESSMENT

This review of the City's risk management systems and procedures found no material risks.

CONSULTATION

No specific external consultation has been undertaken in the development of this report. The report was developed with input provided by the City of Busselton Risk Management Committee.

OFFICER COMMENT

As detailed above the City has a Risk Management Policy under which sits a Risk Management Framework. This framework outlines the City's formal risk management system and processes for the management of risks. Specifically it outlines:

- The definition of risk and risk management
- The City's risk reference tables
- The risk tolerance levels
- The risk management processes and procedures

The Risk Management Committee, made up of officers representing each directorate, is responsible for overseeing the implementation of the framework and for championing a risk management culture within the City of Busselton. Risks are most commonly identified formally at an operational level either through the annual Business Unit planning processes or as they arise during the year, for example the risks associated with a proposed officer recommendation in a report to Council. Risks may also be identified through organisational processes such as safety inspections or investigations or in the process of planning for significant projects.

A risk management workshop was held with Managers and Senior Managers in March 2014 to assist in the identification of more strategic and key operational risks. We have identified through this review the need to run another strategic risk workshop with Senior Management to review and properly categorise risks of strategic importance. This is discussed further in the recommendations outlined below.

Under the City's Risk Management Framework risks are first identified and then assessed, at which time many are given an indicative risk rating based on the identifying Officer's initial assessment. A risk rating is determined by assessing the likelihood of an event occurring resulting in a specific consequence. The consequence of the event is measured in terms of one or more of the following consequence categories:

- Public Health
- Occupational Safety and Health
- Financial
- Operational
- Reputational
- Environmental

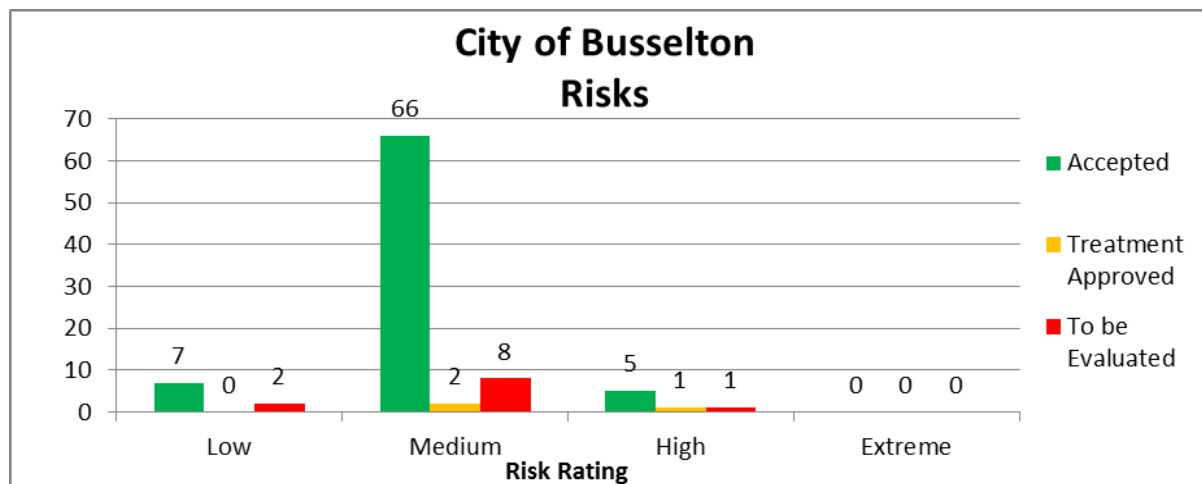
A risk rating of either low, medium, high or extreme is determined from the combined consequence and likelihood. For example, an operational risk with a moderate consequence (significant delays in service delivery with unacceptable recovery time or inconvenient delays to major deliverables) and a possible likelihood (should occur at some time in the future, at least once in five years) would be assessed with a medium level of risk.

That assessment is then further evaluated in conjunction with the risk team, with the risk being formally 'accepted' by the relevant Manager / Director as appropriate to the level of risk. By 'accepting' a risk an officer is indicating that the risk is within acceptable tolerance levels once all reasonable and practical treatment options are considered. Where a risk is not considered acceptable a treatment plan is generally approved and adopted to reduce the risk rating to within acceptable tolerance levels over a period of time. Acceptance of the risk will also be dependent on the effectiveness of the controls in place.

A risk with a rating of medium which has adequate or excellent controls will usually be accepted, whilst a risk with a rating of low will usually be accepted, irrespective of the effectiveness of the controls. High rated risks may be accepted by a Director if it has adequate or excellent controls. Alternatively a treatment plan may be put in place to reduce the level of risk, although it should be

noted that given the City's statutory responsibilities in a number of areas, there is sometimes no choice but to 'accept' high risks and manage them in the best and most practical and reasonable manner. Extreme rated risks could be accepted by the Senior Management Group where they have excellent controls. Extreme rated risks would be reported to the Audit Committee.

As at 12 October 2016 the City has 92 risks formally captured. It is pleasing to note that the City does not have any risks with an extreme risk rating, as shown in the City's current risk profile chart below.



This chart indicates that most risks, as shown by the green bars, have been assessed, evaluated and accepted and are now being monitored until they are due for a formal review. The purpose of the review being to ensure that changing environmental factors have not impacted on the level of risk and that any controls identified continue to be in place and effective. Risks may also be consolidated together as part of review processes where they are similar or removed from the risk register on the basis that they are inherently low risk, that is, low risk regardless of any controls.

The risks in the orange bars have been evaluated as outside tolerance levels and therefore unacceptable and a mitigating treatment plan has been approved in order to reduce the level of risk to an acceptable level. Risks in the red bars are either:

- Recently identified and their assessment is yet to be fully evaluated;
- Had a treatment plan approved, whose implementation date has past and therefore need to be reviewed again; or
- Previously accepted risks that are overdue for a formal review.

The City has currently identified seven high level risks

- Loss or injury at airport hangars;
- Diminishing water resources;
- GLC drowning;
- Climate change and sea level rise;
- Waste site environmental issues – Busselton & Dunsborough;
- Rock fishing anchor points; and
- Aviation accident.

In relation to the risk of loss or injury associated with the airport hangars, this is assessed as having a consequence of 'catastrophic' and a likelihood of 'unlikely' and hence is a high risk. Two of the three hangars do not currently meet the required fire rating under the Building Code of Australia (BCA) and hence in the event of a fire loss in relation to both hangars is of a high risk. To bring the hangars into compliance would be very expensive and not practicable for the lessees. Additionally the issue is likely to be addressed with the airport expansion.

Diminishing water resources is an issue facing the whole of the state. The nature of the services we provide in the maintenance of Public Open Space, results in this being a high risk operational issue for the City, with it being assessed as a major consequence that we will not have enough water to function effectively but unlikely that it will occur. In response the City has developed a Local Water Action Plan and a Water Conservation Plan and works closely with developers and other relevant stakeholders to ensure Water Sensitive Urban Design principles are utilised. These controls assist in the reasonable and practical management of the risk, which remains however high.

The City has a duty to provide a safe environment for patrons within its Leisure Centre. The operation of a pool within the centre brings with it inherent risks, most obviously of a patron drowning. This is a risk that has of course been contemplated by the industry and there are numerous standards and guidelines in place to control risk factors. There has recently been concern raised as to whether current supervision levels at the GLC are adequate for the increasing level of pool usage, with an internal review identifying the issue as a high risk. A report has recently been presented to Council on the matter and additional resources approved. A further review of the risk level is pending post the implementation of these resources.

Global climate is changing and continues to change at an accelerating rate. Climate change and related sea level rise may impact on coastal erosion, coastal inundation and inland flooding. The City has a responsibility to implement planning processes to protect the community from the impacts of climate change. The City, through its work with the Peron Naturaliste Partnership, is seeking to develop a greater understanding of the impact of rising sea levels and climate change such that it can make more informed decisions about planning and the allocation of resources to coastal management. The risk for the City however, given its geography and susceptibility to sea level rises, remains high.

As with all waste facilities the Busselton & Dunsborough waste sites have a number of environmental issues including leachate pollutants, such as liquid waste escape; landfill gases; and buried hazardous substances. These issues are controlled through ongoing environmental monitoring, standard procedures and regular inspections however the risk level remains high being assessed as a major consequence of environmental contamination but unlikely that it will occur.

Rock fishing anchor points were installed by the then state government's Department of Environment and Conservation (DEC). DEC installed a number of anchor points on land that is under the City's ownership and therefore the City has responsibility for maintaining them. The City is in the process of establishing arrangements for maintenance of this infrastructure, likely through an agreement with the Department of Parks and Wildlife for their continued assistance, and arranging for instructional signage. Once this has been finalised the risk will be reassessed.

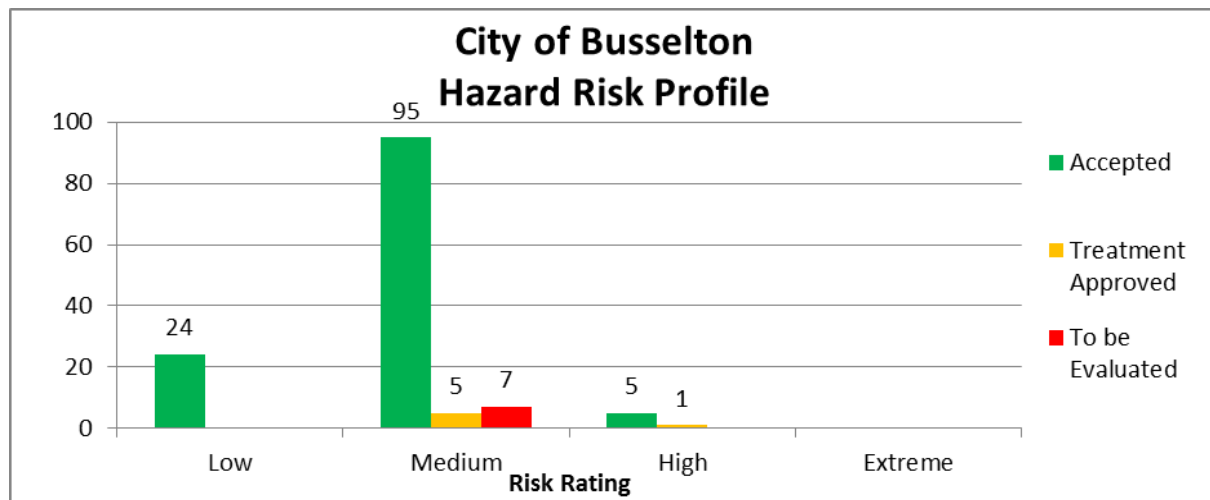
The risk of an aviation accident at the Busselton airport is a high risk as the potential consequences would be major, although it is unlikely. The most likely cause of an aviation accident at the airport is either pilot error or due to an inadequately maintained airplane, both of which are outside of our control. The risk is controlled and managed through various regulatory procedures, with the City doing all it can to ensure it is unlikely to occur.

The captured risks have been identified using the formal system and procedures for managing risks. While we continue to encourage and embed use of the City's formal risk management system and framework it is acknowledged that City Officers also identify and treat risks using other, often less formalised processes. During Business Unit planning for instance many operational risks are identified that have previously, through good management practices, had controls put in place to mitigate them to an acceptable level. Not all of these are formally assessed and translated through to the formal risk register as they are already managed as part of core business. For instance most Business Units have identified and manage risks associated with the loss of key personnel and skills.

Similarly the City has established a wide range of purchasing and budget management controls aimed at preventing improper expenditure and ensuring proper financial management. These controls are now associated with an identified formal risk of Financial Deception, but were implemented outside of the formal risk management process as part of good financial governance. Separate reports will be presented to the Audit Committee on the appropriateness and effectiveness of the City’s systems and procedures in relation to internal controls and legislative compliance with in effect many of the matters referred to in these reports being risk management or mitigation measures.

A number of systems have also been designed to specifically mitigate risks, including the Customer Request Management System and the Occupational Safety and Health (OSH) Management System. These systems provide the City with proactive management of hazards impacting on employees and contractors in day to day operations and on the community.

The OSH Management System in particular is used to assess the risk level of identified hazards, with hazards being defined as “Anything that may result in injury to a person, or harm to the health of a person.” The risk assessment and management of hazards is a significant part of the City’s risk management procedures with the City having the following hazard risk profile.



The City has currently identified five hazards with high level risks

- Spiders and insects;
- Uneven ground;
- Manual handling;
- Chainsaws involved in bridge maintenance; and
- Services to the workplace.

It should be noted that most of these hazards are rated as high risk as they have a high likelihood, almost certain in most cases, of having what is a relatively minor level consequence, that is injury / disease causing medical treatment.

City of Busselton staff encounter spiders and insects on a regular basis. This hazard has been risk assessed as almost certain that someone will be stung or bitten and need medical treatment and hence is a high risk. We have over the past 2 years had a number of more severe insect bites / stings which has perhaps elevated the rating for this risk. More recently the number and severity of bites and stings has reduced. We will at the next review consider whether the risk can be reduced to a medium on the basis of first aid being more typical than medical treatment as a consequence.

Workers, who work outside tend to work in areas where the ground is uneven. These workers include workers from Operations Services, Rangers, Survey Services and Building Services. Based on

previous history, the risk of uneven ground has a likelihood of almost certain for an ankle to be rolled and / or sprained resulting in injury requiring medical attention. Based on more recent experiences it is expected that this likelihood will be revised down as part of a pending review and the risk will probably be reassessed as a medium level risk.

Due to the nature of the work undertaken by Operations Services workers, there are many manual handling tasks. Whilst these workers are all required to attend manual handling training on a regular basis, it has still been assessed as a high level risk as there is an almost certain likelihood of an injury requiring medical treatment.

With respect to all of the above hazards – spiders and insects, uneven ground and manual handling - initiatives such as Step Back 5 x 5 have been put in place to encourage workers to assess environmental factors and surrounds and have had some success in reducing the risk level (for example incidents of uneven ground causing injury have reduced). The City's OSH team is continuing to work with relevant areas to explore ways in which such programs can be implemented more effectively to reduce these risks at the 'shop floor' level.

When carrying out bridge maintenance work chainsaws are required to be used to carry out what is called a plunge cut. This particular cut may require the worker to operate the chainsaw whilst lying down under a bridge and is considered to be a high risk activity. Workers do need to be trained, very experienced and authorised to conduct a plunge cut but regardless of this the risk has been assessed as high, with potential for a major health consequence but an unlikely likelihood of it occurring.

The City is responsible for many buildings and public open spaces where they have installed and are continuing to install underground services. While systems and processes for the gathering of as constructed drawings showing service locations have improved significantly there remain some historical projects where as constructed drawings have not been documented. Controls such as pot holing and hand digging are in place to identify service locations however the risk of a service being impacted on and the potential consequences of this has been assessed as high, being of a major consequence but unlikely to occur.

Review

A review of the appropriateness and effectiveness of the City's formal risk management systems and procedures has been conducted by the Risk Management Committee, using the evaluation questionnaire attached. The collated results are included in the attached with some commentary as to aspects that are only considered to be partially met.

In summary, the City continues to use risk management processes to compliment traditional business management practices with its systems and procedures overall deemed to be effective and appropriate, taking into account the City's size, complexity, and level of resources. Risk status reports are provided to the Senior Management Group each quarter detailing the City's risk profile, the high level risks, and risks that are overdue for review or have treatment plans in place. Included also are the following Key Performance Indicators:

- All extreme and high risks are assessed within 30 days; and
- All medium and low risks are assessed within 90 days.

The Key Performance indicators, reported on by Business Unit, are generally met, noting that we have had instances of medium and low risks not being assessed within 90 days.

There remains scope for the City to further integrate and mature its risk management system, with the ultimate success of this being dependent on the level of resources (particularly management

resources) able to be dedicated to formal risk management processes. Officers across the City are working hard to meet the demands of a growing population with increasing needs for infrastructure and services. Cognisant of this, it is important that actions aimed at further enhancing the City's risk management systems do not result in the system becoming overly complicated or prescriptive and that a level of flexibility is maintained.

It is considered that the current system, while there are areas that can be improved, allows for this flexibility and overall provides for the effective management of risk. Recommended improvement actions are as follows:

- the review of the City's Risk Management Framework and in particular the City's risk matrix. Recent advice from Local Government Insurance Services indicates that our risk matrix is relatively risk adverse when compared to their recommended matrix for a public authority. That is, a greater number of consequence and likelihood combinations are rated as high. Cognisant of this a review of the Framework and matrix is recommended to ensure it is appropriate for the City;
- the defining of strategic and operational risk categories and the grouping of risks into the two categories;
- the running of a strategic risk workshop with the City's Senior Management Group, to be undertaken as part of the current review of the City's Strategic Community Plan;
- the review of the City's risk management IT system to improve accessibility and useability for individual risk managers;
- the improved identification and evaluation of risks associated with projects.

CONCLUSION

The Risk Management Committee are responsible for implementing a risk management culture within the City of Busselton and are progressively achieving this through the risk management policy and framework. The organisation is utilising the framework to identify, assess and either accept risks or determine a treatment action plan to reduce risks to an acceptable level.

The City has conducted a review of its systems and procedures and found them to be both appropriate and effective overall. Notwithstanding this there are improvements that can be made and this report identifies a number of recommendations to further improve the maturity of its systems and procedures and in turn further reduce and / or mitigate its risk exposure.

OPTIONS

The Committee could consider not endorsing the recommendations of this report because it believes our processes are not adequate and / or could seek further information.

TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

There is no timeline associated with implementation of the recommendation.

Note: Councillor Paul Carter enquired about the risks associated with bushfires.

The Manager Corporate Services advised that recently a bushfire risk assessment had been completed and would be included in future risk management framework.

Committee Recommendation and Officer Recommendation

AU1610/016 Moved Councillor P Carter, seconded Councillor G Blechmore

That the Audit Committee note the contents of this report in relation to Risk Management as required by Regulation 17 of the Local Government (Audit) Regulations (1996).

CARRIED 3/0

9.51am At this time the Manager Corporate Services left the meeting and did not return.

6.3 REVIEW OF ORGANISATIONAL SYSTEMS AND PROCEDURES - INTERNAL CONTROL

SUBJECT INDEX:	Financial Compliance and Advice
STRATEGIC OBJECTIVE:	An organisation that is managed effectively and achieves positive outcomes for the community.
BUSINESS UNIT:	Financial Services
ACTIVITY UNIT:	Financial Services
REPORTING OFFICER:	Financial Accountant - Ehab Gowegati
AUTHORISING OFFICER:	Director, Finance and Corporate Services - Cliff Frewing
VOTING REQUIREMENT:	Simple Majority
ATTACHMENTS:	Attachment A Key Control and Monitoring Activities Worksheet⇒ Attachment B City of Busselton Digital Penetration Test Results⇒ Attachment C SAMEngCertificate⇒

PRÉCIS

Regulation 17 of the Local Government (Audit) Regulations requires the Chief Executive Officer (CEO) to review the appropriateness and effectiveness of a local governments systems and procedures in relation to several matters, including internal control. The results of the review are to be reported to the Audit Committee for review and deliberation, prior to formal presentation to the Council.

This report presents the Audit Committee with the results of a review of the appropriateness and effectiveness of the City's systems and procedures in respect of internal control.

BACKGROUND

In February 2013, several amendments to the Local Government (Audit) Regulations (the Regulations) were mandated. At this time, a new Regulation (number 17) was effected, requiring the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in relation risk management, internal control and legislative compliance; the results of which are required to be reported to the Audit Committee. The new Regulation is detailed as follows:

17. *CEO to review certain systems and procedures*

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in sub-regulation (1) (a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

In addition to the regulation, a further sub-regulation was also introduced as part of existing Regulation 16, further clarifying the Audit Committee's actions upon receipt of the aforementioned report from the CEO. This addition is detailed as follows:

16. *Audit committee, function of*

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

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

In order to be compliant with the new review and reporting requirements, the reviews on risk management, internal control and legislative compliance are all required to be presented to the Audit Committee on or before 31 December 2016 (i.e. within 2 calendar years from the last review date).

To provide guidance to local governments in the completion of the review requirements, in September 2013, the Department of Local Government and Communities (the Department) released an updated version of Local Government Operational Guideline 9 – 'Audit in Local Government'. This guideline includes a section specifically relating to the review, and exemplifies the types of activities that could potentially be undertaken as part of the review process.

Whilst the review of internal control has been informed by the aforementioned guideline, the guideline also makes reference to the Local Government Accounting Manual; a document also developed by the Department. As the Manual provides a more comprehensive framework relating to internal control, this review has been more specifically guided by that document, with particular focus on a list of internal control related activities as detailed in the Manual. This list forms the basis of the attachment to this report.

STATUTORY ENVIRONMENT

- Section 7.1A of the Local Government Act requires a local government to establish an Audit Committee.
- Regulation 16 of the Local Government (Audit) Regulations details the functions of an Audit Committee.
- Regulation 17 of the Local Government (Audit) Regulations requires the CEO to review the appropriateness and effectiveness of a local government's systems and controls in relation to risk management, internal control and legislative compliance, and report the results of the review to the Audit Committee.
- Regulation 16 (c) of the Local Government (Audit) Regulations states that the Audit Committee is to review the report on the appropriateness and effectiveness of the local government's systems and controls, and report the results of that review to the Council.
- The Local Government (Financial Management) Regulations incorporate a number of regulations specifically relating to a range of internal control functions.

RELEVANT PLANS AND POLICIES

A number of Council Policies guide activities which have been incorporated within the review. These include, but are not limited to, the Investment Policy, the Purchasing Policy and the Salary Packaging Policy.

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with the recommendations as detailed within this report. However, should the Audit Committee or the Council determine that future reviews are to be undertaken externally, appropriate budget allocations will be required to be raised in relevant financial years.

Long-term Financial Plan Implications

Nil

STRATEGIC COMMUNITY OBJECTIVES

This matter principally aligns with Key Goal Area 6 – ‘Open and Collaborative Leadership’ and more specifically Community Objective 6.3 - ‘An organisation that is managed effectively and achieves positive outcomes for the community’.

RISK ASSESSMENT

The Local Government Operational Guideline – ‘Audit in Local Government’, suggests that strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government. Risk assessments have previously been completed on overarching internal control matters including, but not limited to, statutory and legislative compliance, financial deception, and the incorrect use of business software. As the associated risks have been accepted with existing treatments, it is not considered necessary to assess the risk of individual activities against current processes and procedures. Experienced and skilled staff at the City are aware of where the most significant individual risks lie, and internal processes and procedures, coupled with adequate segregation of duties, have been established to mitigate the associated risks to the organisation.

CONSULTATION

Not applicable.

OFFICER COMMENT

The Local Government Operational Guideline – ‘Audit in Local Government’, states that 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. The guideline further suggests that aspects of an effective internal control framework will ideally include the following:

- 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 guideline does however acknowledge that the extent to which internal controls are implemented, monitored and reviewed will be impacted by, amongst others, the size and nature of individual local governments.

Similarly, the Local Government Accounting Manual notes that an effective system of internal controls provides a level of assurance that financial information is reliable and the local government is meeting compliance with applicable regulations and internal procedures. The Manual also infers that the achievement of regulatory compliance should be viewed as the fundamental goal of an effective internal control system with further enhancement being ongoing as part of an overall organisational risk management process.

With regards to regulatory compliance (from an internal control perspective), the Manual highlights a range of regulations that local governments are presently required to comply with. Many, if not all, of these regulations are reviewed and tested annually as part of existing statutory compliance processes, namely the financial audit and the compliance audit.

In addition to the above, local governments are also required to undertake periodic reviews of financial management systems and procedures, in accordance with Regulation 5(2)(c) of the Local Government (Financial Management) Regulations, which states:

5. (2) *The CEO is to –*

(c) Undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews.

This requirement, commonly referred to as the Financial Management Systems Review (FMSR), is completed every four years, by the City's appointed Auditor. Whilst there is no regulatory requirement prohibiting the review from being undertaken internally, having it performed by a qualified external party ensures thoroughness in review, independence, transparency and objectivity.

The last FMSR was conducted in June 2016. At this time, the Auditor stated that in the context of Council's overall operations and size, it is considered that operating procedures and systems in place are adequate and have operated effectively from July 2015 (with the exception of recommendations outlined within the report), to the date of the audit site visits. Furthermore, testing indicated that internal procedures and controls are appropriate, compliant with statutory requirements, with supporting reconciliations of key accounts being completed on a timely basis. Whilst 12 matters were specifically identified as part of the review wherein processes could be strengthened, of these, four were rated as having a low risk rating, with the other eight having a medium risk rating. All of the matters raised in the 2016 FMSR are in the process of being addressed.

The FMSR process closely aligns with the intent of the review requirements; particularly in respect of the internal control component. It is therefore reassuring that the most recent external review of the City's financial management systems and procedures did not identify any areas whereby current systems and processes are considered to be inadequate.

As previously mentioned, the review of the appropriateness and effectiveness of the City's systems and procedures in relation to internal control has been guided by both the relevant Local Government Operational Guideline and the Local Government Accounting Manual. Whilst more descriptive, the Operational Guideline provides an example list of the types of internal controls that could be typically reviewed. However, the Local Government Accounting Manual incorporates more specific detail in this regard, and particularly in relation to key control activities and monitoring activities.

Key control activities represent those processes and procedures that should be in place to ensure the proficiency of internal control, whilst monitoring activities represent the processes and procedures required to review and monitor the effectiveness of the primary key controls. The Manual lists a range of key control and monitoring activities which local governments should be reviewing on an ongoing basis. In the absence of any specific guideline pertaining to how the review of internal control is to be undertaken by local governments, a review the City's performance against each of the listed control and monitoring activities has been considered as a reasonable basis for carrying out this review.

Assessing the City's current internal control systems and procedures against the listed key control and monitoring activities has been invaluable in informing those areas in which current processes and procedures could be further improved. Attachment A to this report lists each activity, provides a

synopsis of the City’s current processes and procedures, and importantly, highlights further actions required where identified. It is believed that the range of activities reviewed fully encompasses the principal internal controls applicable to the City, and as such forms a solid platform upon which the overall effectiveness of the City’s current internal control environment can be reasonably assessed.

The associated regulation requires the CEO to report the results of the review to the Audit Committee. As such, and whilst providing summary comments as appropriate, the following section of this report will more specifically discuss those activities whereby the review has identified that further actions are required. For ease of review, the results have been grouped by similar action requirements, and where possible, in line with the internal control summary areas as reflected in the Local Government Accounting Manual.

Documented Procedures – Control Documentation

The Accounting Manual states that appropriate control documentation has the effect of clarifying the control activity and creating the appropriate control environment by improving the awareness and actions of staff. At the City of Busselton, formal control documentation generally takes the form of Council Policies and to a greater extent, Operational Practices and Procedures (OPP’s). Whilst Council policies ordinarily set the strategic decision making framework, OPP’s detail the processes, procedures, compliance requirements and authority levels in relation to operational matters.

The above control documents generally relate to matters of relevance to the organisation as a whole. As such, it would not be expected that OPP’s would need to be developed, authorised and published in respect of specific work instructions. However, from an internal control perspective, it is important to recognise those work instructions which ideally should be documented, and those which, due to their nature or organisation wide ramifications, may be worthy of formally documenting as an OPP.

The key control and monitoring activities review identified numerous instances whereby current internal controls could be augmented by the development of associated control documentation. These activities are discussed as follows:

1.(i)	Employees responsible for financial report preparation are competent and adequately trained.
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As part of the 2016 performance review process a plan was initiated to train and develop staff in key financial functions and encourage and promote information sharing to ensure efficiencies are attained in continuation of services and succession planning. This will include the full documentation of key finance roles with a focus on process and knowledge sharing to ensure all key financial roles has the coverage required to ensure service continuity.

1.(ii)	All journal entries require supporting documentation. Any non-routine entries require documented approval prior to being posted.
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Whilst associated processes are complied with, it is considered prudent to formally list all journals posted on a monthly basis and for management to peruse/ authorise this list. This will ensure that efficiencies remain with regard to the timely processing of all required journals, whilst also adding assurances that the journals are being reviewed and are in accordance with expected practices and consistent with set budget constraints.

3.(i)	Rates/debtors officers are competent for their assigned tasks, adequately trained and supervised.
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As part of the 2016 performance review process a plan was initiated to train and develop staff in key rating/ Debtors functions to ensure efficiencies are attained in continuation of services and

succession planning. This will include the full documentation of key rates/ debtors roles with a focus on process and knowledge sharing to ensure all roles have the coverage required to ensure service continuity.

4.(vii)	All receipts, cash and cheques, deposited on a regular and timely basis.
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The City's processes and procedures in relation to the receipting and banking of deposits (including electronic payments) are considered to be adequate. Additionally, banking of deposits, particularly in relation to operational revenues (administration and outstation based), is timely, which promotes efficiency in the associated bank reconciliation processes.

Having said that however it is possible that due to the volume of transactions or other valid reasons, that monies collected at outstations may not be banked immediately. To this end it is expected that having documented procedures relating to the administration and security of the funds whilst being held, along with associated approval for the subject processes. It is considered important that the above-mentioned matters are documented and appropriately authorised, preferably as part of an Accounting Procedures Manual to be developed by each function/ outstation directly dealing with financial transactions.

4. (viii)	Reconciliation of daily deposit total to receivable posting and cash sales is prepared and reviewed.
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The review did not identify any specific areas whereby current processes and procedures are considered to be lacking. However in most instances, associated processes, procedures, and review/ reconciliation practices are not formally documented. For instance, whilst deposits made to the bank are reconciled against deposit listings, there is no documented evidence that independent checks are being made against cash till listings (primarily for outstations). Analogous with the previous finding, it is considered essential that all functions and outstations dealing with cash deposits develop formal Accounting Procedures Manuals, which not only document relevant processes and procedures, but also address internal control and monitoring activities.

5.(i)	Personnel responsible for the purchasing, shipping, receiving and payable functions are competent, adequately trained and supervised.
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As part of the 2016 performance review process a plan was initiated to train and develop staff in key purchasing functions to ensure efficiencies are attained in continuation of services and succession planning. This will include the full documentation of purchasing roles with a focus on process and knowledge sharing to ensure all key roles has the coverage required to ensure service continuity.

Additionally, staff will compile a new operational practice to identify/ enforce requirements associated with the addition of a new creditor and subsequent amendments made to an existing creditor. One of the key checks will be verify the validity of the creditor and the associated bank account details to minimise the risk of fraud.

5. (vi)	Spending limits are set by budget or individual levels of authority. These limits are monitored by the system or manually.
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The City's internal controls in relation to 'purchasing authorisation limits' (spending limits) are considered adequate. The ability to raise purchase requisitions in the system, and the associated value of the same, is controlled by system parameters. Any request to establish or amend a purchasing authority limit must be in writing, and authorised by a staff member authorised to do so. With regards to expenditures raised outside of the purchase order system, any payment must be authorised by an officer with the necessary purchasing authorisation limit (in dollar value).

Verification of this authority is undertaken by Finance staff (at multiple levels) prior to the associated payment being processed.

Whilst the current processes are working well, there is currently no overarching control documentation detailing the required processes to be undertaken, including the purchasing authorisation limit approval process. As part of this review, it has been identified that an OPP should be established for this purpose, due to its ‘whole of organisation’ implications.

5. (xxiii)	The accounting policy for when goods should be capitalised is documented and clearly understood by accounting personnel.
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Accounting personnel dealing with the capitalisation of assets are fully aware of the applicable standards and associated thresholds (as per significant accounting policies). However, there is currently no endorsed control documentation available for the wider organisation, other than that issued as part of the draft budget compilation process. This can be problematic for staff when developing annual budgets, insofar as budget allocations may be unintentionally misallocated between capital and operational accounts.

A comprehensive (draft) OPP in relation to asset capitalisation has been under development for some time now. Consultation is presently occurring with the Engineering and Works Services Directorate in respect of the OPP, as this area will be most significantly impacted. Consequent to this input, the draft OPP will be finalised and submitted to the CEO for consideration and approval.

19. (i)	All journals are independently reviewed (including checks to ensure correct account allocation) and contain sufficient support information.
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This activity is similar in its intent to activity 1. (ii); particularly in respect of the supporting documentation requirement. As previously mentioned it is considered prudent to formally compile a monthly report listing of all journals posted on a periodic basis for management’s perusal/authorisation. This will ensure that efficiencies remain with regard to the timely processing of all required journals, whilst also adding assurances that the journals are being reviewed and are in accordance with expected practices and consistent with set budget constraints. This matter is further discussed in the following ‘Segregation of Duties’ internal control summary area.

20. (i)	Regular IT audits performed focusing on data accuracy, retention, recovery and security. Results of these IT Audits reviewed by management and action plan promptly implemented.
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This activity is discussed in more detail in the following Information Technology Controls (General and Application) summary area. Whilst robust internal controls are existent at the City, in some instances these are not formally documented. From an internal control perspective, it is important that all material controls are recorded and regularly reviewed/ updated; to ensure consistency in approach.

Summary – Documented Procedures

The internal control review has identified several instances whereby the formal documentation/ development planning of associated processes and procedures needs to occur. As previously mentioned, appropriate control documentation has the effect of clarifying the control activity and creating the appropriate control environment by improving the awareness and actions of staff. Based on the above key control and monitoring activity anomalies identified, the following provides a summary of identified actions to be undertaken:

- (a) The establishment of documentation/ training and information sharing to ensure uninterrupted business continuity,

- (b) The establishment of work instructions and new reporting requirements pertaining to the processing and approval of journal entries,
- (c) The establishment/ formalisation of ‘Accounting’ Procedures Manuals for all City outstations that are involved with the processing of financial transactions (to include the administration and security of bond and deposit funds being held for extended periods)
- (d) The establishment of an Operational Practice and Procedure (OPP) detailing the processes, procedures and approval requirements in relation to the establishment/ amendment of staff purchasing authority limits
- (e) The formalisation and approval of an OPP in respect of asset capitalisation thresholds
- (f) The ongoing review/ establishment/ formalisation of processes and procedures in relation to Information Technology internal controls (also refer Summary – Information Technology Controls)

Segregation of Duties

The Accounting Manual states that a fundamental application of internal control is the segregation of duties, which relies on the premise that the risk of two or more officers making the same error or colluding to defraud the local government is less likely than an individual act. Due to its size, the City of Busselton has the capacity to implement segregation of duties as a key component of its overall internal control provisions.

As part of its 2014/15 financial audit Management Letter, the Council’s Auditor has acknowledged the sound internal control environment present at the City of Busselton, which is in part attributable to the “appropriate levels of segregation of financial duties and independence checks which are in place”. It is anticipated that the same finding will be made within the 2015/16 financial audit. Whilst this comment supports the City’s view that adequate segregation of duties are in existence, the internal control review has identified one area in which existing controls could potentially be further supplemented. This is discussed as follows:

19. (i)	All journals are independently reviewed (including check to ensure correct account allocation) and contain sufficient support information.
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This activity was discussed as part of the aforementioned ‘Documented Procedures’ area. Whilst current procedures, particularly in relation to support information, are considered adequate, the need to formally list and report all journal transactions on a periodic basis has been identified.

Finance personnel have varying levels of authority to process and post journals; which form part of their ‘day to day’ functions. However, as a consequence of the internal control review, it is felt that an independent review of all journals should ideally occur. New processes will be established to ensure that all journal entries require dual approval via an end of month authorisation process whereby the manager of finance will endorse the validity of all journals posted. This will not impact on efficiency but will ensure that journals are being reviewed and are in accordance with expected practices and consistent with set budget constraints.

Summary – Segregation of Duties

The internal control review has identified one instance whereby current processes and procedures could be further augmented by the introduction of a higher level of segregation of duties. Based on the above key control and monitoring activity anomalies identified, the following provides a summary of identified actions to be undertaken:

- (a) The proposed implementation of a new process to compile a monthly journal listing report,
- (b) The proposed implementation of a dual approval via an end of month authorisation process whereby the manager of finance will endorse the validity of all journals posted.

Information Technology Controls (General and Application)

The Accounting Manual identifies two controls within the Information Technology (IT) environment; general controls and application controls. General controls relate to a local government’s wider IT environment and include items such as virus protection, backups, and system password and access controls. Application controls are more specific and relate to items such as application password and access controls, data field validations, processing restrictions and reporting restrictions. The Manual does highlight that a lack of control in either of the above areas can undermine the effectiveness of established controls in the other. Consequently, the implementation and review of IT related internal controls need to be considered at multiple levels.

The key control and monitoring activities as reviewed include a range of activities that have a relationship with associated IT controls, albeit to differing extents. Whilst the above summary area (Segregation of Duties) includes recommendations directly relating to IT controls, for the purposes of this review, the review of IT controls is based on the following monitoring activity:

20. (i)	Regular IT audits performed focusing on data accuracy, retention, recovery and security. Results of these IT Audits reviewed by management and action plan promptly implemented.
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The traditional approach to IT administration sees a system administration function performed by a person or groups of persons who have access and control over both the general and application controls within the IT environment. However at the City of Busselton this is not the case. The IT controls have been allocated to two separate teams, namely the Business Systems team and the ICT Operations team. The Business Systems team have administrative access to the application controls but do not have administrative access to the general controls. These are the domain of the ICT Operations team, who in turn do not have access to the application controls.

This intentional separation of duties ensures City officers have to work together in the administration of the IT systems, which leads to automatic auditing of access between the teams. That said the IT audits required for each type of control is different and therefore will be addressed separately.

General Controls

These controls currently reside in the domain of the City’s ICT Operations team; with some lower level components delegated to the City’s ICT Helpdesk team. The City’s current approach to the review of the various IT infrastructure and security components is tied into the asset management cycle of each component. As part of the asset replacement cycle each component being replaced is assessed in the IT scheme and appropriate control requirements are raised for the replacement equipment. Generally the replacement program also includes an external party review and report on the effectiveness of the equipment.

Additionally the City’s ICT Coordinator commissions an external security review in the form of penetration testing every 24 months. This task is aimed at highlighting the City’s security exposures and risks. Attached (**Attachment B – City of Busselton Digital Penetration Test Results**) please find the results of this review undertaken by DELL Pty Ltd, which indicate the City has a high level of external digital security and only one minor item was recommended for action. During the 2015/16 financial year the City has also been audited by Microsoft to assess the City’s level of licencing compliance as it relates to the core IT operating environment, attached please find the compliance certificate (**Attachment C – SAMEngCertificate**). These results were assessed by the Manager Information Services on behalf of City management.

Application Controls

The City utilises a variety of corporate software packages to support the myriad of service deliverables required. Within the domestic software market there is no singular product that can support all of the services that the City requires. Consequently, application controls have to be applied at a higher level than each individual software package. In order to accommodate this all application control originates within the City's Active Directory and is then further refined within each of the software packages, administered by a variety of administrative staff that may or may not be part of the ICT team. It is the task of the City's Business Systems team to audit the access and controls being applied by non-IT administrators to ensure appropriate system access, data controls and data backups are in place.

Within the Business Systems unit itself the team members are expected to review each other's access and data controls. That said the most critical application access would be the products in control of the financial and document management components of the City. These controls also formed part of the City's financial management system review undertaken June 2016, by external auditors. In addition to the internal controls the City employ external consulting services on a regular basis to perform health checks on components of the core software products (i.e. rates, human resources, payroll, etc.). For example in May 2016 the City engaged the services of LG Connect Pty Ltd to perform a rates data integrity health check, which resulted in a number of system and process improvements implemented by the City's rates team.

Summary – Information Technology Controls

As discussed above, there are a variety of controls in place within the general and application IT environments, which include a number of officers reviewing each other's controls and external resources performing reviews over a longer period of time. That said, over the past two years the City has experienced a growth in the number of mobile applications and cloud hosted business applications. As part of the review it was noted the City does not have any specific rules relating to the use and security requirements of these external systems. The City's ICT Coordinator has been assigned the task of reviewing and consolidating the City's IT related Operational Practices and Procedures during the 2016/17 financial year, which will represent an ideal opportunity to also address the mobile application and cloud hosted business application usage and security requirements.

CONCLUSION

From a financial perspective, the City's internal controls have historically been reviewed every four years in line with the requirements of Regulation 5(2)(c) of the Local Government (Financial Management) Regulations. The last such review was undertaken in 2016 by the City's appointed auditor. At this time, the Auditor stated that in the context of Council's overall operations, it is considered that operating procedures and systems are adequate. Furthermore, testing indicated that internal procedures and controls are appropriate, compliant with statutory requirements, with supporting reconciliations of key accounts being completed on a timely basis.

Whilst certainly not to the same extent, the annual financial audit process does include a review of principal internal controls; primarily to satisfy the Auditor that the annual financial report is free from material misstatement. With regards to the 2014/15 financial audit, the Auditor has stated that the sound financial control environment present at the City of Busselton has been adequately maintained throughout the 2014/15 financial year. Although yet to be finalised, it would also appear at the time of compiling this report that there are no matters of any significance will be noted within the 2015/16 audit.

Notwithstanding the above, and as this review of internal control is now required to be undertaken biennially, the review has identified a number of areas in which existing internal control processes can be further improved. Whilst the identified anomalies in current processes and procedures are all considered minor in nature, it is felt that their rectification will further strengthen the City's overall internal control processes.

In closing, whilst limited guidance has been provided to local governments as to how the review of internal control is to be undertaken, it is felt that the methodology utilised in compiling this review is sound.

OPTIONS

This report does not propose to make any specific recommendations to the Audit Committee, other than to receive the report and note the results of the review. The identified actions as comprised within the report are operational in nature and will be addressed accordingly. Notwithstanding, the Audit Committee may determine to:

- Seek a formal update report on the progression of identified actions as comprised within this report;
- Identify any additional actions it wishes to have specifically reviewed from an internal control perspective;

TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

All identified actions will be investigated, and implemented where possible, prior to the next biennial review of internal control; due by 31 December 2018.

Committee Recommendation and Officer Recommendation

AU1610/017 Moved Councillor G Henley, seconded Councillor P Carter

That the Audit Committee note the contents of this report in relation to the review of organizational systems and procedures and internal control as required by Regulation 17 of the Local Government (Audit) Regulations (1996).

CARRIED 3/0

6.4 LOCAL GOVERNMENT (AUDIT) REGULATION 17 - AUDIT OF LEGISLATIVE COMPLIANCE

SUBJECT INDEX:	Reporting and Compliance
STRATEGIC OBJECTIVE:	Governance systems that deliver responsible, ethical and accountable decision-making.
BUSINESS UNIT:	Finance and Corporate Services
ACTIVITY UNIT:	Governance Support
REPORTING OFFICER:	Director, Finance and Corporate Services - Matthew Smith
AUTHORISING OFFICER:	Director, Finance and Corporate Services - Cliff Frewing
VOTING REQUIREMENT:	Simple Majority
ATTACHMENTS:	Attachment A Legislative Compliance Report - Local Government Act 1995 and Associated Regulations ⇒

PRÉCIS

Regulation 17 of the *Local Government (Audit) Regulations* (the “Audit Regulations”) requires the Chief Executive Officer to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to several matters, including legislative compliance. The results of the review are to be reported to the Audit Committee for review and deliberation, prior to formal presentation to the Council.

The first review of the City’s legislative compliance was submitted to the Audit Committee in December 2014 and was ultimately considered at the Council meeting of 28 January 2015. However Regulation 17 requires that the City’s legislative compliance systems, along with risk management and internal compliance systems, be reviewed at least once every two years. Thus a second review has recently been undertaken by officers.

This report presents the Audit Committee with the results of the second review of the appropriateness and effectiveness of the City’s systems and procedures in respect to legislative compliance.

BACKGROUND

In February 2013, several amendments to the Audit Regulations were made. At this time, a new Regulation number 17 was effected, requiring the CEO to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to risk management, internal control and legislative compliance; with the results of the review to be reported to the Audit Committee.

In order to be compliant with the new review and reporting requirements, the initial review of the City’s legislative compliance was presented to the Audit Committee on 11 December 2014 and then to the Council on 28 January 2015. This report is now presented to the Audit Committee and the Council in order to meet the requirements of Regulation 17 of the Audit Regulations that systems in relation to legislative compliance be reviewed once at least every two calendar years.

The same approach has been taken to this second review as was taken upon the initial review of the City’s legislative compliance. That is, officers have primarily relied on the outcome of the Annual Statutory Compliance Audit Return for the most recent calendar year, which was conducted in March 2016. This return and the external Auditor’s report and review of the Statutory Compliance Audit was presented to Council at the meeting held on 23 March 2016 (item 10.7) and approved. In addition to this, officers have undertaken a broader review of compliance with the *Local Government Act* and associated regulations utilising the format of the older version of the Statutory Compliance Audit Return (Attachment A) which used to include questions in relation to a much larger number of provisions of the *Local Government Act* and regulations. Similarly to last time, the Officer Comment

section of this report also makes reference to a number of management systems and approaches which the City utilises to endeavour to ensure understanding of and compliance with the vast range of other legislation which regulates and impacts on the City's operations.

STATUTORY ENVIRONMENT

The *Local Government (Audit) Regulations* now require local governments to present formal reports from the CEO to its Audit Committee. The regulations provide:

17. CEO to review certain systems and procedures

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –*
 - (a) *Risk management; and*
 - (a) *Internal control; and*
 - (b) *Legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

In addition to the new regulation, a further subregulation was also introduced as part of existing Regulation 16, further clarifying the Audit Committee's actions upon receipt of the aforementioned report from the CEO. This addition is detailed as follows:

16. Audit committee, function of

- (c) *is to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to -*
 - (i) *Report to the council the results of that review; and*
 - (ii) *Give a copy of the CEO's report to the Council.*

This report provides an overview of the organisation's compliance with a range of requirements in the *Local Government Act 1995* and its associated regulations, including *Elections Regulations, Administration Regulations, Financial Management Regulations and Functions and General Regulations*.

RELEVANT PLANS AND POLICIES

A number of Council Policies guide activities which have assisted the organisation to remain compliant with a range of provisions of the Act and Regulations. These include, but are not limited to, the Fees, Allowances and Expenses for Elected Members Policy, Purchasing Policy, Regional Price Preference Policy, Meetings, Information Sessions and Decision-making Processes Policy, Complaints Handling Policy and the Code of Conduct.

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with the recommendations as detailed within this report.

Long-term Financial Plan Implications

Nil

STRATEGIC COMMUNITY OBJECTIVES

Ensuring understanding of and compliance with the legislation impacting on the operations of the City is consistent with key goal area 6 of the City's Strategic Community Plan 2013 (Reviewed 2015) and in particular Community Objective 6.2 "Governance systems that deliver responsible, ethical and accountable decision-making".

RISK ASSESSMENT

There are no risks of a medium or higher level identified as part of this review, noting that a separate report will be put to the Audit Committee and Council in respect of the second review of the systems and procedures relating to risk management, which discusses the City's procedures for identifying and dealing with risks associated with the City's operations.

CONSULTATION

Not applicable as this report relates to a review of internal operational statutory compliance.

OFFICER COMMENT

A similar approach has been taken in respect of the second review of the appropriateness and effectiveness of the City's systems and procedures in relation to legislative compliance, as was taken at the initial review in 2014. The primary focus of the review has been on the Statutory Compliance Audit Return which the City has most recently completed, in this case being the return completed in March 2016 and the report from the external auditor accompanying that return. In addition, officers have completed the broader format of the Compliance Audit Return that used to be required by the Department of Local Government until 2011. This broader format contains many additional questions dealing with many aspects of the City's operations and their compliance with legislative requirements. The broader Compliance Audit Return is shown at Annexure A, noting that the format in this Annexure only contains questions which are additional to the current Compliance Audit Return and generally officers have not doubled up and answered the same question in both forms.

In his report, Lindsay Delahaunty, the external consultant appointed by the City to review the most recent (2015 Statutory Compliance Return), noted that "overall the City has continued to attain a high level of compliance in the areas under review and all supporting documentation has been maintained to a high standard". In his report Mr Delahaunty noted a range of statutory processes in respect of which he had reviewed all relevant documentation and come to the view that the City was fully compliant, including a number of property disposals under the *Local Government Act*, the tender register and a number of specific tender and expression of interest processes and an extensive review of the Council and Committee meetings minutes and agendas. The very good outcome and extremely high level of statutory compliance noted in this review should give the Council a high level of confidence in the internal systems and procedures of the City which are aimed to ensure legislative compliance.

A similar result has been achieved in the broader review of statutory and regulatory compliance contained at Annexure A. While it is noted that at the time of completing the broader review, some of the questions related to matters which were not currently relevant to the City's operations and other requirements were still in the process of being complied with, generally the outcome of the review demonstrates the City's high level of statutory compliance with only relatively minor issues of concern being noted.

While the City is formed as a statutory body under the *Local Government Act* and the Act and Regulations contain many of its key statutory functions, there is a broad range of other State and Federal laws that the City carries out statutory processes under or which otherwise impact on the City's operations.

A small snapshot of some of the other Acts that the City implements or adheres to is provided below:

- Bush Fires Act 1954
- Caravan Parks and Camping Grounds Act 1995
- Cat Act 2011
- Cemeteries Act 1986
- Dog Act 1976
- Emergency Management Act 2005
- Environmental Protection Act 1986
- Health Act 1911
- Land Administration Act 1997
- Liquor Control Act 1988
- Litter Act 1979
- Local Government (Miscellaneous Provisions) Act 1960
- Occupational Safety and Health Act 1984
- Planning and Development Act 2005
- Public Interest Disclosure Act 2003
- Rail Safety Act 2010
- State Records Act 2000
- Strata Titles Act 1985

There are a variety of processes and procedures that the City has in place in respect of these pieces of legislation and a variety of ways in which the City ensures that it complies with them. For example, many of the City's development consent and scheme amendment processes are carried out in accordance with the *Planning and Development Act 2005* and the City of Busselton Local Planning Scheme No. 21 which is delegated legislation made under that Act. Those statutory processes are reflected in a number of the City's business systems which are automated through the City's information technology systems, including document retention and retrieval process and online applications. Further, the City relies on employing qualified staff who are trained in and are aware of these statutory requirements and the requirement for this knowledge is reflected in the position descriptions for those staff, as is their authority to act in accordance with these laws.

A similar approach is taken in respect of Environmental Health Officers under the *Health Act 1911*, who are required to be sufficiently qualified to carry out processes under that Act and who in many instances require written authorisation reflecting this, which is held by the City. The statutory processes relevant to the City's Busselton and Dunsborough cemeteries under the *Cemeteries Act 1986* are reflected in written procedures and to some degree enshrined in IT business systems. The City has many occupational safety and health policy documents and guidelines which reflect the requirements of the *Occupational Safety and Health Act 1984* and again the City employs an OSH and Risk Officer who must be qualified and have sufficient knowledge in respect of the legislative requirements of that Act as they relate to the City's operations.

As well as making use of appropriately qualified officers who have appropriate knowledge, skills and training, and designed information technology software systems or documented internal processes, the City sometimes also utilises systems and guidelines designed by relevant State or Federal regulatory bodies to ensure statutory compliance with the legislation they regulate. Thus, for example, in order to ensure compliance with *Public Interest Disclosure Act 2003*, the City has a designated Public Interest Disclosure Officer who has received the appropriate training from the

regulatory body and utilises guidelines and manuals published by the regulatory body in conjunction with the City's own information and guidelines which are on the City's intranet and external website. Similarly, many of the City's dealings in property involve carrying out processes under the *Land Administration Act 1997* and other legislation relevant to dealings involving State land and the City, as well as utilising the skills of officers knowledgeable in these areas, retains an up to date copy of the Land Titles Registration Practice Manual produced by Landgate which identifies the forms and processes required in relation to dealings in land.

These are examples of some of the ways in which the City ensures compliance with the requirements and processes of the various legislation which it is involved in the implementation of or has to comply with in carrying out City processes. Ultimately the City relies on a combination of properly structured and configured IT business systems, documented processes and procedures and appropriately qualified, knowledgeable and authorised staff (whose position descriptions reflect the necessary qualifications and skills for their role) to ensure it complies with the many and varied laws impacting on its operations.

CONCLUSION

The Statutory Compliance Returns, both the most recent Annual Return for the 2015 calendar year and the more detailed review carried out for the purpose of this report, demonstrate the generally very high level of statutory compliance which the City achieves in relation to a range of key legislative functions. The high standard of statutory compliance in the City's operations was also noted by the external auditor appointed by the City to review the 2015 Annual Compliance Return.

In addition to this, the Officer Comment section of this report details the approach the City takes to ensuring compliance with a range of different types of legislation which the City implements or has to comply with in carrying out its operations. Achieving compliance in relation to these laws primarily relies on the knowledge and skills of the appropriately qualified officers the City employs and the systems and processes they help design and oversee.

Officers believe that the information provided in this report, together with the Compliance Returns and independent report, sufficiently demonstrates that the City has appropriate and effective systems and procedures in place to ensure legislative compliance in respect of its operations.

OPTIONS

The recommendation is for the report to be received and noted and then provided to the Council. The Audit Committee may determine that more information is required prior to presenting the report to Council.

TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

The recommendation is effective upon receipt of the report by the Audit Committee and the Council.

Committee Recommendation and Officer Recommendation

AU1610/018 Moved Councillor P Carter, seconded Councillor G Blechmore

That the Audit Committee note the contents of this report in relation to the review of legislative compliance as required by Regulation 17 of the Local Government (Audit) Regulations (1996).

CARRIED 3/0

7. GENERAL DISCUSSION ITEMS

Councillor Paul Carter enquired about the enforcement of conditions on City approved applications and the repercussions if conditions are not abided by.

Councillor Grant Henley advised that this was dealt with as part of the City’s Prosecutions Policy.

Councillor Gordon Bleechmore enquired about the requirement of the Auditors attendance.

The Director, Finance and Corporate Services advised that the Audit Committee is to meet with the Auditor once every financial year in accordance with Local Government Act 1995 and that the Auditor would be invited to attend the next meeting of the Audit Committee in 2017.

8. NEXT MEETING DATE

To be advised.

9. CLOSURE

The meeting closed at 10.24am.

THESE MINUTES CONSISTING OF PAGES 1 TO 31 WERE CONFIRMED AS A TRUE AND CORRECT RECORD ON .

DATE: _____ PRESIDING MEMBER: _____