



AUDIT COMMITTEE MEETING

AGENDA

1 March 2016

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CITY OF GREATER GERALDTON
AUDIT COMMITTEE MEETING
ON TUESDAY 1 MARCH 2016 AT 3.30PM
IN THE COMMITTEE MEETING ROOM – CIVIC CENTRE

A G E N D A

DECLARATION OF OPENING

ATTENDANCE

Present:

Officers:

By Invitation:

Apologies:

Leave of Absence:

ELECTION OF CHAIRPERSON

ELECTION OF DEPUTY CHAIRPERSON

CONFIRMATION OF PREVIOUS MINUTES

Recommendation: That the minutes of the City of Greater Geraldton Audit Committee meeting held on 6 October 2015, as attached be accepted as a true and correct record of proceedings.

6 AC040 REVIEW OF AUDIT COMMITTEE CHARTER

7 AC041 COMPLIANCE AUDIT RETURN 2015

8 AC042 AUDIT REVIEWS FOR CITY OF GREATER GERALDTON

8 MEETING CLOSURE

AC040 REVIEW OF AUDIT COMMITTEE CHARTER

AC040 REVIEW OF AUDIT COMMITTEE CHARTER

| | |
|-------------------------------|--|
| AGENDA REFERENCE: | D-16- 00880 |
| AUTHOR: | M Adam, Governance Advisor |
| EXECUTIVE: | B Davis, Director Corporate and Commercial Services |
| DATE OF REPORT: | 6 January 2016 |
| FILE REFERENCE: | GO/11/0020 |
| APPLICANT / PROPONENT: | City of Greater Geraldton |
| ATTACHMENTS: | Yes X 2 |

EXECUTIVE SUMMARY:

The purpose of this report is for the newly elected Audit Committee members to review the Audit Committee Charter with a view to gaining understanding of the charter. It also provides opportunity for the Committee to identify any desired changes to the Charter, for recommendation to Council, should the Committee wish to do so.

EXECUTIVE RECOMMENDATION:

That the Audit Committee by Simple Majority pursuant to Section 7.1C of the Local Government Act RESOLVES to:

1. ENDORSE the Audit Committee Charter.
2. RECOMMEND to Council proposed amendments to the Audit Committee Charter as determined by the Audit Committee.

PROPONENT:

The proponent is the City of Greater Geraldton.

BACKGROUND:

The Audit Committee Charter approved by Council is attached for the purpose of deliberation and discussion by the newly elected Audit Committee, to ensure that Audit Committee Members have shared understanding of the role of the Committee.

At the Ordinary Meeting of Council on 24 November 2015 Item CEO037 Council resolved as follows;

Part D

That the Council by Absolute Majority under Section 5.8 of the Local Government Act 1995 RESOLVES to:

1. *Require each internal Council Committee at the first meeting held following this resolution to :*
 - a. *APPOINT by Committee resolution a Chairperson and a proxy Chairperson for the Committee:*
 - b. *REVIEW the terms of reference of the internal committee and report to Council any required changes in relation to membership of the Committee.*

Part E:

1. *APPOINT the following elected members to the following Committees:*
 - b. *City of Greater Geraldton Audit Committee;*
 - i. *Mayor S Van Styn*
 - ii. *Cr N McIlwaine*
 - iii. *Cr D Caudwell*
 - iv. *Cr M Reymond (Proxy)*

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:

Economic:

There are no economic impacts.

Social:

There are no social impacts.

Environmental:

There are no environmental impacts.

Cultural & Heritage:

There are no cultural or heritage impacts.

RELEVANT PRECEDENTS:

The Audit Committee has previously reviewed its charter and is able to recommend changes, for consideration by Council.

COMMUNITY/COUNCILLOR CONSULTATION:

There has been no Community or Councillor consultation.

LEGISLATIVE/POLICY IMPLICATIONS:

Part 7 Division 1A -1C of the Local Government Act 1995.

FINANCIAL AND RESOURCE IMPLICATIONS:

There are no financial or resource implications.

INTEGRATED PLANNING LINKS:

| | |
|-------------------------------------|---|
| Title: Governance Strategy 5.2.7 | Planning and Policy Ensuring efficient and effective delivery of service |
|-------------------------------------|---|

REGIONAL OUTCOMES:

There are no impacts to regional outcomes.

RISK MANAGEMENT:

The Audit Committee is required by Council Resolution of 24 November 2015 (CEO037) to review its terms of reference. Any changes to the Audit Committee Charter proposed by the Committee will be required to be submitted to Council for approval.

ALTERNATIVE OPTIONS CONSIDERED:

The Committee may choose to simply discuss the Charter with the view to enhancing understanding by newly elected Committee Members. The Committee may also choose to discuss and recommend changes to the charter, for consideration by Council. Note that the Committee is able to seek a review of its Charter at a future time.



AUDIT COMMITTEE CHARTER

Audit Committee Charter

1. Objectives of Audit Committees

- 1.1. 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.
- 1.2. 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.
- 1.3. 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.
- 1.4. The committee at the time of the mid-year budget review will review the financial performance of the Council and identify any variance due to the failure of lack of internal controls.

2. Powers of the Audit Committee

- 2.1 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.
- 2.2 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.

3 Membership

- 3.1 The committee will consist of four members with three elected and one external person. All members shall have full voting rights.
- 3.2 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.
- 3.3 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 shall be aligned to the biennial council election cycle.
- 3.4 Reimbursement of approved expenses will be paid to each external person who is a member of the committee.
- 3.5 The CEO and employees are not members of the committee.

- 3.6 The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.
- 3.7 The local government shall provide secretarial and administrative support to the committee.
- 3.8 The Chairperson shall be recommended by the Audit Committee and appointed by Council.

4. Meetings

- 4.1. The committee shall meet at least quarterly.
- 4.2. Additional meetings shall be convened at the discretion of the presiding person.

5. Reporting

- 5.1. Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.
- 5.2. The committee shall report annually to the Council summarising its activities during the previous financial year.

6 Duties and Responsibilities

6.1 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 and –
 - 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.

7. Internal Audit

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.
- 7.4. 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.
- 7.5. 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, and
 - 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.
 - h. specific tasks requested by management.
- 7.6. 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.
- 7.7. 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.
- 7.8. 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.
- 7.9. 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.
- 7.10. 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*.
- 7.11. 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.



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.
- 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 –

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;
- (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



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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AC041 COMPLIANCE AUDIT RETURN 2015

AC041 COMPLIANCE AUDIT RETURN 2015

| | |
|-------------------------------|--|
| AGENDA REFERENCE: | D-16- 00881 |
| AUTHOR: | M Adam, Governance Advisor |
| EXECUTIVE: | B Davis, Director Corporate and Commercial Services |
| DATE OF REPORT: | 6 January 2016 |
| FILE REFERENCE: | RM/6/0020 |
| APPLICANT / PROPONENT: | City of Greater Geraldton |
| ATTACHMENTS: | Yes X 1 |

EXECUTIVE SUMMARY:

The purpose of this report is to review the Compliance Audit Return 2015 (CAR).

Amendments to Regulation 14 of the *Local Government (Audit) Regulations 1996* requires that the Audit Committee now reviews the Compliance Audit Return and reports the results of that review to Council prior to adoption by Council and submission to the Department of Local Government by 31 March 2016.

EXECUTIVE RECOMMENDATION;

That the Audit Committee by Simple Majority pursuant to Section 7.13(1) of the Local Government Act RESOLVES to:

1. ENDORSE the results of the Compliance Audit Return 2015.
2. REPORT the results of the Compliance Audit Return 2015 to Council at the Ordinary meeting to be held on 23 February 2016.

PROponent:

The proponent is the City of Greater Geraldton.

BACKGROUND:

In accordance with section 7.13(1) of the Local Government Act 1995 and the Local Government (Audit) Regulations, the City is required to complete a Compliance Audit Return in relation to the period 1 January 2015 to 31 December 2015 against the requirements set out in the CAR.

The 2015 CAR continues in a reduced format, with the areas of compliance included restricted to those considered high risk.

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:**Economic:**

There are no economic impacts.

Social:

There are no social impacts.

Environmental:

There are no environmental impacts.

Cultural & Heritage:

There are no cultural or heritage impacts.

RELEVANT PRECEDENTS:

There are no relevant precedents.

COMMUNITY/COUNCILLOR CONSULTATION:

There is no requirement for councillor / community consultation on this matter.

LEGISLATIVE/POLICY IMPLICATIONS:

As per section 7.13(1) of the Local Government Act 1995 and the Local Government (Audit) Regulations 1996.

FINANCIAL AND RESOURCE IMPLICATIONS:

There are no financial or resource implications.

INTEGRATED PLANNING LINKS:

| | |
|-------------------|---|
| Title: Governance | Planning and Policy |
| Strategy 5.2.7 | Ensuring efficient and effective deliver of service |

REGIONAL OUTCOMES:

There are no impacts to regional outcomes.

RISK MANAGEMENT

The CAR is a statutory compliance requirement for local governments and requires a review first by the Audit Committee and then a report to Council for adoption before being submitted to the Department of Local Government. The City is required to provide this to the Department prior to 31 March 2016.

The Audit Committee does not have the option not to review the CAR as it would therefore be non-compliant with the Local Government Act and associated regulations.

ALTERNATIVE OPTIONS CONSIDERED BY CITY OFFICERS

No alternative options were considered by City Officers.



Greater Geraldton - Compliance Audit Return 2015

Certified Copy of Return

Please submit a signed copy to the Director General of the Department of Local Government and Communities together with a copy of section of relevant minutes.

| Commercial Enterprises by Local Governments | | | | | |
|--|-----------------------------------|---|-----------------|---|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | s3.59(2)(a)(b)(c) F&G Reg 7,9 | Has the local government prepared a business plan for each major trading undertaking in 2015. | N/A | The City has no existing trading undertakings with expenditure exceeding the amount prescribed in LG(F&G) Reg'n 9 and no new undertakings were commenced in 2015. | Bob Davis |
| 2 | s3.59(2)(a)(b)(c) F&G Reg 7,10 | Has the local government prepared a business plan for each major land transaction that was not exempt in 2015. | N/A | No such major land transactions were initiated in 2015. | Bob Davis |
| 3 | s3.59(2)(a)(b)(c) F&G Reg 7,10 | Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2015. | N/A | No such land transactions were initiated in 2015. | Bob Davis |
| 4 | s3.59(4) | Has the local government given Statewide public notice of each proposal to commence a major trading undertaking or enter into a major land transaction for 2015. | N/A | No new major trading undertakings or major land transactions were commenced in 2015. | Bob Davis |
| 5 | s3.59(5) | Did the Council, during 2015, resolve to proceed with each major land transaction or trading undertaking by absolute majority. | N/A | No new major land transactions or major trading undertakings were initiated in 2015. | Bob Davis |



| Delegation of Power / Duty | | | | | |
|-----------------------------------|--------------------------------|--|-----------------|--|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | s5.16, 5.17, 5.18 | Were all delegations to committees resolved by absolute majority. | N/A | There were no delegations to committees. | Sheri Moulds |
| 2 | s5.16, 5.17, 5.18 | Were all delegations to committees in writing. | N/A | | Sheri Moulds |
| 3 | s5.16, 5.17, 5.18 | Were all delegations to committees within the limits specified in section 5.17. | N/A | | Sheri Moulds |
| 4 | s5.16, 5.17, 5.18 | Were all delegations to committees recorded in a register of delegations. | N/A | | Sheri Moulds |
| 5 | s5.18 | Has Council reviewed delegations to its committees in the 2014/2015 financial year. | N/A | | Sheri Moulds |
| 6 | s5.42(1),5.43 Admin Reg 18G | Did the powers and duties of the Council delegated to the CEO exclude those as listed in section 5.43 of the Act. | Yes | | Margot Adam |
| 7 | s5.42(1)(2) Admin Reg 18G | Were all delegations to the CEO resolved by an absolute majority. | Yes | | Margot Adam |
| 8 | s5.42(1)(2) Admin Reg 18G | Were all delegations to the CEO in writing. | Yes | | Margot Adam |
| 9 | s5.44(2) | Were all delegations by the CEO to any employee in writing. | Yes | | Margot Adam |
| 10 | s5.45(1)(b) | Were all decisions by the Council to amend or revoke a delegation made by absolute majority. | N/A | There was no decision to amend or revoke a delegation made | Margot Adam |
| 11 | s5.46(1) | Has the CEO kept a register of all delegations made under the Act to him and to other employees. | Yes | | Margot Adam |
| 12 | s5.46(2) | Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2014/2015 financial year. | Yes | | Margot Adam |
| 13 | s5.46(3) Admin Reg 19 | Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required. | Yes | | Margot Adam |



| Disclosure of Interest | | | | | |
|-------------------------------|------------------------------|---|-----------------|--|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | s5.67 | If a member disclosed an interest, did he/she ensure that they did not remain present to participate in any discussion or decision-making procedure relating to the matter in which the interest was disclosed (not including participation approvals granted under s5.68). | Yes | | Sheri Moulds |
| 2 | s5.68(2) | Were all decisions made under section 5.68(1), and the extent of participation allowed, recorded in the minutes of Council and Committee meetings. | Yes | | Sheri Moulds |
| 3 | s5.73 | Were disclosures under section 5.65 or 5.70 recorded in the minutes of the meeting at which the disclosure was made. | Yes | | Sheri Moulds |
| 4 | s5.75(1) Admin Reg 22 Form 2 | Was a primary return lodged by all newly elected members within three months of their start day. | Yes | | Margot Adam |
| 5 | s5.75(1) Admin Reg 22 Form 2 | Was a primary return lodged by all newly designated employees within three months of their start day. | No | Due to an administrative error a position which was designated from 1 July 2015 was recorded as vacant. Consequently the incumbent did not lodge a return. The error was rectified with a primary return lodged by 20.10.15. | Margot Adam |
| 6 | s5.76(1) Admin Reg 23 Form 3 | Was an annual return lodged by all continuing elected members by 31 August 2015. | Yes | | Margot Adam |
| 7 | s5.76(1) Admin Reg 23 Form 3 | Was an annual return lodged by all designated employees by 31 August 2015. | Yes | | Margot Adam |
| 8 | s5.77 | On receipt of a primary or annual return, did the CEO, (or the Mayor/ President in the case of the CEO's return) on all occasions, give written acknowledgment of having received the return. | Yes | | Margot Adam |
| 9 | s5.88(1)(2) Admin Reg 28 | Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76 | Yes | | Margot Adam |
| 10 | s5.88(1)(2) Admin Reg 28 | Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28. | Yes | | Margot Adam |
| 11 | s5.88 (3) | Has the CEO removed all returns from the register when a person ceased to be a person required to lodge a return under section 5.75 or 5.76. | Yes | | Margot Adam |
| 12 | s5.88(4) | Have all returns lodged under section 5.75 or 5.76 and removed from the | Yes | | Margot Adam |



| | | | | | |
|----|--|---|-----|--|--------------|
| | | register, been kept for a period of at least five years, after the person who lodged the return ceased to be a council member or designated employee. | | | |
| 13 | s5.103 Admin Reg 34C & Rules of Conduct Reg 11 | Where an elected member or an employee disclosed an interest in a matter discussed at a Council or committee meeting where there was a reasonable belief that the impartiality of the person having the interest would be adversely affected, was it recorded in the minutes. | Yes | | Sheri Moulds |
| 14 | s5.70(2) | Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to the Council or a Committee, did that person disclose the nature of that interest when giving the advice or report. | Yes | | Sheri Moulds |
| 15 | s5.70(3) | Where an employee disclosed an interest under s5.70(2), did that person also disclose the extent of that interest when required to do so by the Council or a Committee. | Yes | | Sheri Moulds |
| 16 | s5.103(3) Admin Reg 34B | Has the CEO kept a register of all notifiable gifts received by Council members and employees. | Yes | | Margot Adam |

Disposal of Property

| No | Reference | Question | Response | Comments | Respondent |
|----|-----------|---|----------|---|-----------------|
| 1 | s3.58(3) | Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58(5)). | Yes | Complied with in accordance with requirements | Brian Robartson |
| 2 | s3.58(4) | Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property. | Yes | Complied with in accordance with requirements | Brian Robartson |

Elections

| No | Reference | Question | Response | Comments | Respondent |
|----|-------------------|--|----------|----------|-------------|
| 1 | Elect Reg 30G (1) | Did the CEO establish and maintain an electoral gift register and ensure that all 'disclosure of gifts' forms completed by candidates and received by the CEO were placed on the electoral gift register at the time of receipt by the CEO and in a manner that clearly identifies and distinguishes the candidates. | Yes | | Margot Adam |



| Finance | | | | | |
|----------------|------------------|---|-----------------|---|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | s7.1A | Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act. | Yes | | Paul Radalj |
| 2 | s7.1B | Where a local government determined to delegate to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority. | N/A | The Audit Committee has no delegated powers under Part 7 of the Act. | Paul Radalj |
| 3 | s7.3 | Was the person(s) appointed by the local government to be its auditor, a registered company auditor. | Yes | | Paul Radalj |
| 4 | s7.3, 7.6(3) | Was the person or persons appointed by the local government to be its auditor, appointed by an absolute majority decision of Council. | Yes | | Paul Radalj |
| 5 | Audit Reg 10 | Was the Auditor's report for the financial year ended 30 June 2015 received by the local government within 30 days of completion of the audit. | Yes | | Paul Radalj |
| 6 | s7.9(1) | Was the Auditor's report for 2014/2015 received by the local government by 31 December 2015. | Yes | | Paul Radalj |
| 7 | S7.12A(3) | Where the local government determined that matters raised in the auditor's report prepared under s7.9(1) of the Act required action to be taken by the local government, was that action undertaken. | N/A | No matters raised in the auditors report prepared under s7.9(1) of the Act required action to be taken. | Paul Radalj |
| 8 | S7.12A (4) | Where the local government determined that matters raised in the auditor's report (prepared under s7.9(1) of the Act) required action to be taken by the local government, was a report prepared on any actions undertaken. | N/A | | Paul Radalj |
| 9 | S7.12A (4) | Where the local government determined that matters raised in the auditor's report (prepared under s7.9(1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time. | N/A | | Paul Radalj |
| 10 | Audit Reg 7 | Did the agreement between the local government and its auditor include the objectives of the audit. | Yes | | Paul Radalj |
| 11 | Audit Reg 7 | Did the agreement between the local government and its auditor include the scope of the audit. | Yes | | Paul Radalj |



| | | | | |
|----|-------------|---|-----|-------------|
| 12 | Audit Reg 7 | Did the agreement between the local government and its auditor include a plan for the audit. | Yes | Paul Radalj |
| 13 | Audit Reg 7 | Did the agreement between the local government and its auditor include details of the remuneration and expenses to be paid to the auditor. | Yes | Paul Radalj |
| 14 | Audit Reg 7 | Did the agreement between the local government and its auditor include the method to be used by the local government to communicate with, and supply information to, the auditor. | Yes | Paul Radalj |

| Local Government Employees | | | | | |
|-----------------------------------|----------------------------------|---|-----------------|---|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | Admin Reg 18C | Did the local government approve the process to be used for the selection and appointment of the CEO before the position of CEO was advertised. | Yes | There was no appointment of a CEO in this return period | Jeff Graham |
| 2 | s5.36(4) s5.37(3), Admin Reg 18A | Were all vacancies for the position of CEO and other designated senior employees advertised and did the advertising comply with s.5.36(4), 5.37(3) and Admin Reg 18A. | Yes | | Jeff Graham |
| 3 | Admin Reg 18F | Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position of CEO under section 5.36(4). | Yes | | Jeff Graham |
| 4 | Admin Regs 18E | Did the local government ensure checks were carried out to confirm that the information in an application for employment was true (applicable to CEO only). | Yes | | Jeff Graham |
| 5 | s5.37(2) | Did the CEO inform council of each proposal to employ or dismiss a designated senior employee. | N/A | There are no designated employees | Jeff Graham |



| Official Conduct | | | | | |
|-------------------------|------------------|--|-----------------|------------------------------------|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | s5.120 | Where the CEO is not the complaints officer, has the local government designated a senior employee, as defined under s5.37, to be its complaints officer. | N/A | The CEO is the complaints officer. | Sheri Moulds |
| 2 | s5.121(1) | Has the complaints officer for the local government maintained a register of complaints which records all complaints that result in action under s5.110(6)(b) or (c). | Yes | No complaints received in 2015. | Sheri Moulds |
| 3 | s5.121(2)(a) | Does the complaints register maintained by the complaints officer include provision for recording of the name of the council member about whom the complaint is made. | Yes | | Sheri Moulds |
| 4 | s5.121(2)(b) | Does the complaints register maintained by the complaints officer include provision for recording the name of the person who makes the complaint. | Yes | | Sheri Moulds |
| 5 | s5.121(2)(c) | Does the complaints register maintained by the complaints officer include provision for recording a description of the minor breach that the standards panel finds has occurred. | Yes | | Sheri Moulds |
| 6 | s5.121(2)(d) | Does the complaints register maintained by the complaints officer include the provision to record details of the action taken under s5.110(6)(b) or (c). | Yes | | Sheri Moulds |



| Tenders for Providing Goods and Services | | | | | |
|---|------------------|--|-----------------|--|-------------------|
| No | Reference | Question | Response | Comments | Respondent |
| 1 | s3.57 F&G Reg 11 | Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)). | No | <p>There were 2 instances where public tenders were not sought.</p> <p>Construction of portion of Airport Car park. Works were undertaken utilising a City contract established by tender for wet and dry civil plant hire, however the scope of the works required for this project exceeded scope of the civil plant hire contract. An investigation into this matter was undertaken and the inadvertent non-compliance was formally reported to the DLGC in June 2015.</p> <p>Security Systems upgrade to Airport. The City appointed a contractor via the WALGA ICT panel for installation of security surveillance/CCTV system upgrades to the Airports ICT infrastructure. A significant portion of the work involved routing and installation of digital fibre cable to additional locations for CCTV cameras, then connection of cameras to the fibre. The contractor appointed whilst skilled and able to complete the works was not WALGA prequalified for the narrow category of CCTV works. Officers appointing the contractor reasonably regarded the nature of the work as ICT, for which the appointed contractor was prequalified by WALGA, unaware that CCTV work per se was outside scope of the WALGA ICT panel. The non-compliance was inadvertent.</p> <p>Implemented Control measures. The City has implemented controls to</p> | Bob Davis |



| | | | | | |
|----|---------------------|---|-----|--|--|
| | | | | | prevent such matters occurring again, including implementation of an electronic Quotes and Panel management system "Vendorpanel"; implemented WALGA and in-house procurement training, including E-Quotes, and undertaken a detailed review into City policy and procedures to strength procedural controls. The City has also established an internal procurement workgroup to review and promote effective procurement practices |
| 2 | F&G Reg 12 | Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract. | Yes | | Brodie Pearce |
| 3 | F&G Reg 14(1) & (3) | Did the local government invite tenders via Statewide public notice. | Yes | Western Australian and local publications utilised | Brodie Pearce |
| 4 | F&G Reg 14 & 15 | Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16. | Yes | | Brodie Pearce |
| 5 | F&G Reg 14(5) | If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer, notice of the variation. | Yes | All addenda managed via electronic tendering system Tenderlink which ensures all addenda are issued to all tenderers and recorded for future reference | Brodie Pearce |
| 6 | F&G Reg 16 | Did the local government's procedure for receiving and opening tenders comply with the requirements of F&G Reg 16. | Yes | | Brodie Pearce |
| 7 | F&G Reg 18(1) | Did the local government reject the tenders that were not submitted at the place, and within the time specified in the invitation to tender. | Yes | | Brodie Pearce |
| 8 | F&G Reg 18 (4) | In relation to the tenders that were not rejected, did the local government assess which tender to accept and which tender was most advantageous to the local government to accept, by means of written evaluation criteria. | Yes | | Brodie Pearce |
| 9 | F&G Reg 17 | Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17. | Yes | | Brodie Pearce |
| 10 | F&G Reg 19 | Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted. | Yes | | Brodie Pearce |



| | | | | | |
|----|------------------------|--|-----|---|---------------|
| 11 | F&G Reg 21 & 22 | Did the local governments' advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22. | Yes | | Brodie Pearce |
| 12 | F&G Reg 23(1) | Did the local government reject the expressions of interest that were not submitted at the place and within the time specified in the notice. | N/A | All respondents received compliant with submission requirements | Brodie Pearce |
| 13 | F&G Reg 23(4) | After the local government considered expressions of interest, did the CEO list each person considered capable of satisfactorily supplying goods or services. | Yes | | Brodie Pearce |
| 14 | F&G Reg 24 | Was each person who submitted an expression of interest, given a notice in writing in accordance with Functions & General Regulation 24. | Yes | | Brodie Pearce |
| 15 | F&G Reg 24AD(2) | Did the local government invite applicants for a panel of pre-qualified suppliers via Statewide public notice. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 16 | F&G Reg 24AD(4) & 24AE | Did the local government's advertising and panel documentation comply with F&G Regs 24AD(4) & 24AE. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 17 | F&G Reg 24AF | Did the local government's procedure for receiving and opening applications to join a panel of pre-qualified suppliers comply with the requirements of F&G Reg 16 as if the reference in that regulation to a tender were a reference to a panel application. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 18 | F&G Reg 24AD(6) | If the local government sought to vary the information supplied to the panel, was every reasonable step taken to give each person who sought detailed information about the proposed panel or each person who submitted an application, notice of the variation. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 19 | F&G Reg 24AH(1) | Did the local government reject the applications to join a panel of pre-qualified suppliers that were not submitted at the place, and within the time specified in the invitation for applications. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 20 | F&G Reg 24AH(3) | In relation to the applications that were not rejected, did the local government assess which application(s) to accept and which application(s) were most advantageous to the local government to accept, by means of written evaluation criteria. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 21 | F&G Reg 24AG | Did the information recorded in the local government's tender register about panels of pre-qualified suppliers, comply with the requirements of F&G Reg 24AG. | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |
| 22 | F&G Reg 24AI | Did the local government send each person who submitted an application, written notice advising if the person's | N/A | No Panels established during 01 Jan-31 Dec 2015 | Brodie Pearce |



| | | | | | |
|----|-------------|---|-----|--|---------------|
| | | application was accepted and they are to be part of a panel of pre-qualified suppliers, or, that the application was not accepted. | | | |
| 23 | F&G Reg 24E | Where the local government gave a regional price preference in relation to a tender process, did the local government comply with the requirements of F&G Reg 24E in relation to the preparation of a regional price preference policy (only if a policy had not been previously adopted by Council). | Yes | CP016 Regional Pricing Preference Policy | Brodie Pearce |
| 24 | F&G Reg 24F | Did the local government comply with the requirements of F&G Reg 24F in relation to an adopted regional price preference policy. | Yes | | Brodie Pearce |
| 25 | F&G Reg 11A | Does the local government have a current purchasing policy in relation to contracts for other persons to supply goods or services where the consideration under the contract is, or is expected to be, \$150,000 or less. | Yes | CP010 Procurement of Goods & Services | Brodie Pearce |

I certify this Compliance Audit return has been adopted by Council at its meeting on _____

 Signed Mayor / President, Greater Geraldton

 Signed CEO, Greater Geraldton



AC042 AUDIT REVIEWS CITY OF GREATER GERALDTON**AC042 AUDIT REVIEW FOR CITY OF GREATER GERALDTON**

| | |
|-------------------------------|--|
| AGENDA REFERENCE: | D-16-11023 |
| AUTHOR: | A Van der Weij, Financial Accountant |
| EXECUTIVE: | B Davis, Director Corporate & Commercial Services |
| DATE OF REPORT: | 17th of February 2016 |
| FILE REFERENCE: | FM/3/0003 |
| APPLICANT / PROPONENT: | City of Greater Geraldton |
| ATTACHMENTS: | Yes x 3 |

EXECUTIVE SUMMARY:

The purpose of this report is to present to the Audit Committee the report from the auditor of the Financial Management System Review, Risk Review and Interim Audit.

EXECUTIVE RECOMMENDATION;

That the Audit Committee by Simple Majority pursuant to Section 7.1C of the Local Government Act RESOLVES to:

3. ADOPT the Financial Management System Review, Risk Review and Interim Audit report;
4. ENDORSE actions taken or proposed to be taken by staff to resolve any items identified in the reports;
5. REQUIRE progress reports on implementation of the proposed management actions, at the next Audit Committee Meeting.

PROponent:

The proponent is the City of Greater Geraldton.

BACKGROUND:

- a) In accordance with Regulation 5(2)(C) of the Local Government (Financial Management) Regulations 1996, Local Government CEO's are required to undertake a Financial Management System Review once every 4 years. The scope of the review incorporates an assessment of the appropriateness and effectiveness of Council's financial management systems and procedures.
- b) In accordance with Regulation 17 of the Local Government (Audit) Regulations 1996, Local Government CEO's are required to undertake a review of the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and legislative compliance once every 2 calendar years from the first review completion date (31st of December 2014).

From a point of efficiency Council invited our current auditors (AMD Chartered Accountants) to undertake the reviews at the same time of the 2015/2016 interim onsite audit visit.

AMD visited the City's premises from the 1st till the 4th of February 2016. The auditor reports of the reviews and interim audit with management comments are attached to this document.

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:

Economic:

There are no economic impacts.

Social:

There are no social impacts.

Environmental:

There are no environmental impacts.

Cultural & Heritage:

There are no cultural or heritage impacts.

RELEVANT PRECEDENTS:

There are no relevant precedents.

COMMUNITY/COUNCILLOR CONSULTATION:

There has been no community/councillor consultation.

LEGISLATIVE/POLICY IMPLICATIONS:

Regulation 5(2)(C) of the Local Government (Financial Management) Regulations 1996 and Regulation 17 of the Local Government (Audit) Regulations 1996.

FINANCIAL AND RESOURCE IMPLICATIONS:

There are no financial or resource implications.

INTEGRATED PLANNING LINKS:

| | |
|-------------------|--|
| Title: Governance | Planning and Policy |
| Strategy 5.2.7 | Ensuring efficient and effective delivery of service |

REGIONAL OUTCOMES:

There are no impacts to regional outcomes.

RISK MANAGEMENT

The attached reports through the auditor notes describe the various levels of risk exposure of the organisation with recommendations and management action mitigating those risk levels to an acceptable level.

ALTERNATIVE OPTIONS CONSIDERED

There were no alternative options considered.



AMD
CHARTERED ACCOUNTANTS

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Bunbury, WA 6230
PO Box 1306, Bunbury WA 6231

19 February 2016

Mr S Van Styn
Chairman
Audit Committee
City of Greater Geraldton
PO Box 101
GERALDTON WA 6531

Dear Shane

CITY OF GREATER GERALDTON
INTERIM MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2016

We provide our Interim Management Letter following completion of our recent City of Greater Geraldton ("CGG") 30 June 2016 interim audit site visit conducted 1st to 4th February 2016. We attach a list of matters raised with management during our exit meeting.

At the time of our on site visit our audit team also conducted a Financial Management System Review, pursuant to Regulation 5(1) of the Local Government (Financial Management) Regulations 1996, and a Regulation 17 Review, pursuant to Regulation 17 of the Local Government (Audit) Regulations 1996. As the completion of these reviews and subsequently reporting to Council is the responsibility of the CEO, we have issued our Financial Management Systems Review Report and Regulation 17 Review Report directly to the CEO.

1.0 OUR AUDIT APPROACH

Australian Auditing Standards require us to obtain an understanding of the internal control structure and accounting system relevant to CGG's financial reporting, as part of our annual audit process.

During our interim audit, we carried out audit procedures necessary for us to comply with the requirements of the auditing standards in respect to audit planning, risk assessment, assessment of fraud and assessment of the control environment.

The interim audit included preparation of our audit plan and completing our assessment of risks, in accordance with a risk based audit approach required under Australian Auditing Standards. A review of CGG's compliance with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 was also completed.

We reviewed, documented and tested key accounting systems and related internal controls in place at the CGG, including the following key areas:

- Revenue and Receipting;
- Purchasing and Payments;
- Payroll; and
- Reconciliation of key accounts and preparation of monthly financial reports - including bank reconciliations, sundry debtors and rates debtor's reconciliations, ratable value reconciliations, sundry creditor reconciliations and fixed asset reconciliations.

Please note our procedures were performed for audit purposes only, and therefore did not include a complete review of all controls and transactions. We will follow up on the status of our recommendation on our final visit later in the year to determine whether appropriate action has been taken.

This letter and the attached matters are provided for the purposes of general information only and are not part of our formal audit reporting process. Our audit and management reports will be formally issued at the conclusion of our audit in respect of the year ended 30 June 2016.

2.0 FAIR VALUE

As required by Local Government (Financial Management) Regulations 1996, section 17A, CGG's plant and equipment assets must be reassessed at fair value by 30 June 2016. Discussions with management indicate that plant and equipment assets and furniture and equipment assets will be reassessed prior to 30 June 2016, thereby ensuring compliance with stated requirements. Asset classes previously assessed at fair value by CGG, and the next due date for reassessment are as follows

| Asset Class | Last Fair Value assessment | Fair Value Re-assessment required |
|-------------------------|----------------------------|-----------------------------------|
| Plant and equipment | 30 June 2013 | 30 June 2016 |
| Furniture and equipment | 30 June 2013 | 30 June 2016 |
| Land | 30 June 2015 | 30 June 2018 |
| Buildings | 30 June 2015 | 30 June 2018 |
| Artwork | 30 June 2015 | 30 June 2018 |
| Roads | 30 June 2015 | 30 June 2018 |
| Recreation | 30 June 2015 | 30 June 2018 |
| Carparks | 30 June 2015 | 30 June 2018 |
| Meru landfill | 30 June 2015 | 30 June 2018 |
| Airport | 30 June 2015 | 30 June 2018 |
| Effluent scheme | 30 June 2015 | 30 June 2018 |

3.0 EXIT MEETING DISCUSSIONS

The following matters were discussed at our onsite exit meeting on 4th February 2016 attended by Auke Van Der Weij and Paul Radalj from CGG, Maria Cavallo and Emily McKelvie from AMD.

3.1 PROVISION FOR REHABILITATION EXPENDITURE

The CGG's statement of financial position at 30 June 2015 included a provision for rehabilitation of the Meru landfill totalling \$9,264,558. Bowman and Associates provided an estimate of total rehabilitation costs in their February 2014 valuation report including calculations extending to 2040. Discussions with management indicate a re-assessment of total rehabilitation costs and the timeframe for rehabilitation is required based on management's revised site projections.

Please ensure this re-assessment is completed prior to 30 June 2016, and a memorandum is prepared outlining management's methodology and assumptions used to recalculate the provision for rehabilitation at 30 June 2016.

3.2 LAND HELD FOR RE-SALE

The CGG's statement of financial position at 30 June 2015 included land held for re-sale totalling \$7,206,673. Through discussions with management we understand there have been no land sales to date or any interest expressed in land sales. Land held for re-sale is required to be recorded at the lower of cost or net realisable value. As a result we recommend an independent valuation of land held for re-sale be obtained to determine whether an impairment write down is required.

Our discussions with management also indicate land held for re-sale may need to be reclassified from the asset class "land held for resale" to "land" on the basis that, should this reclassification be required, independent valuation would still be required to ensure the land is required at fair value as required by Regulation 17A of the Local Government (Financial Management) Regulations 1996.

4.0 OTHER MATTERS

We would like to take this opportunity to thank Auke and the finance team for the assistance provided to us during our audit. As a result of internal controls being adequately designed and operating effectively throughout the period to date we have only one recommendation to raise, please refer to Appendix 1.

This result is a credit to the finance team on their diligence in maintaining internal controls to a high standard throughout the period.

Should you have any queries in respect to this report or any other matters relating to our audit, please do not hesitate to contact me.

Yours sincerely

AMD Chartered Accountants



MARIA CAVALLO CA
Partner

cc Mr K Diehm
Chief Executive Officer
CGG
PO Box 101
GERALDTON WA 6531

APPENDIX 1
Audit Recommendations for the period ended 31 January 2016

GUIDANCE TO FINDINGS RATING / IMPLICATION

Findings identified during the final audit have been weighted in accordance with the following scale:

Non Compliance: Those findings where there is non compliance with Local Government Act or Regulations.

Significant: Those findings where there is potentially a significant risk to the entity should the finding not be addressed promptly.

Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.

Minor: Those findings that are not of primary concern however still warrant action being taken.

AUDIT FINDINGS

1. PAYROLL DOCUMENTATION

Finding Rating: Minor

We identified instances where leave taken (as recorded in CGG's financial reporting system Synergy) could not be agreed to authorised leave forms.

We also noted instances whereby payroll deductions could not be agreed to authorised deduction forms.

Implication

Risk of misstatement of employee leave balances and lack of supporting authorised documentation.

Recommendation

We recommend leave forms are completed by employees and authorised by management prior to leave being taken. Please also ensure authorised deduction forms are retained in employee files.

Management Comment

Council will continue to implement the recommendation. During the last year efforts have been undertaken to educate management and staff on the requirement to follow the proper process (at management meetings and by independently reconciling recorded working hours and submitted leave forms). Council notes that improvements have been made but acknowledges the need for further follow-up.

23 February 2016

Mr K Diehm
Chief Executive Officer
City of Greater Geraldton
PO Box 101
GERALDTON WA 6531

Dear Ken

2016 FINANCIAL MANAGEMENT SYSTEMS REVIEW

We are pleased to present our findings and recommendations resulting from AMD's Financial Management Systems Review ("FMSR").

1.0 APPROACH AND OBJECTIVES

The primary objective of our FMSR was to assess the adequacy and effectiveness of systems and controls in place within the City of Greater Geraldton; in accordance with Section 2.4 "Financial Management Systems Review" within our 2015/16 Assurance Services proposal and related terms of reference.

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Chief Executive Officer ("CEO"). The procedures were performed solely to assist the CEO in satisfying his duty under Section 6.10 of the Local Government Act 1995 and Regulation 5(1) of the Local Government (Financial Management) Regulations 1996.

Our findings included within this report are based on the site-work completed by us during the week commencing 1 February 2016. Findings are based on information provided and available to us following our requests during this site visit.

2.0 SUMMARY OF FINDINGS

The procedures performed and our findings on each of the FMSR areas are detailed in the attached appendices as follows:

- Appendix A - Collection of money;
- Appendix B - Custody and security of money;
- Appendix C - Maintenance and security of the financial records;
- Appendix D - Accounting for municipal or trust transactions;
- Appendix E - Authorisation for incurring liabilities and making payments;
- Appendix F - Maintenance of payroll, stock control and costing records; and
- Appendix G - Preparation of budgets, budget reviews, accounts and reports required by the Act or the regulations.

Guidance as to finding classifications utilised in completing our FMSR are detailed in Appendix H.

In addition to the review of processes, procedures and testing completed at the City of Greater Geraldton office, our FMSR included a visit to the following sites:

- Meru Landfill;
- Aquarena;
- Mullewa Administration Offices;
- Mullewa Swimming Pool;
- Library;
- Airport;
- Visitor Centre; and
- Parking metres.

During our on-site visit, management advised no cash was being collected or retained at the Family Day Care Centre, the Queens Park Theatre, the Animal Pound and the Art Gallery. As a result, site visits had not been completed for these locations.

Following the completion of our FMSR on those areas outlined within Appendix A to G, we are pleased to report that in context of Council's overall operations and size we consider operating procedures and systems in place are adequate, and have operated effectively from July 2015, to the date of our site visit, with the exception of the recommendations outlined within our report. Recommendations raised by us do not take into account materiality and are raised in accordance with Local Government best practice guidelines.

Findings reported by us are on an exceptions basis, and do not take into account the various internal controls tested during our FMSR which were determined to operate effectively.

Many of the findings raised by AMD are considered to be minor in nature, when taken in context of overall operations of the City.

3.0 OTHER MATTERS

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or distributed to any other party.

We would like to thank Auke and the City of Greater Geraldton team for the co-operation and assistance provided to us while conducting our FMSR.

Should you have any queries in respect to this report or any other matters relating to our FMSR, please do not hesitate to contact me.

Yours Sincerely

AMD Chartered Accountants



MARIA CAVALLO CA

Director

APPENDIX A

CITY OF GREATER GERALDTON

COLLECTION OF MONEY

SCOPE

For all locations operated by CGG including Geraldton Administration Office, Meru Landfill, Aquarena, Mullewa Administration Officer, Mullewa Swimming Pool, Library, Airport, Visitor Centre, parking meters and other internal charges as documented within the Fees and Charges Schedule, we:

- Document financial systems detailing controls, procedures and reconciliations in relation to all sources of income;
- Test collection, receipting, invoicing and posting procedures over cash receipts on a sample basis; and
- Review credit control procedures in respect to sundry debtors and rates debtors.

FINDINGS

Our review indicated key underlying policies and processes in relation to the proper collection of all money owing to the Local Government are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the proper collection of all money owing to the Local Government.

APPENDIX B

CITY OF GREATER GERALDTON

CUSTODY AND SECURITY OF MONEY

SCOPE

- Site visits to cash collection points to review the controls and procedures over the collection, receipting, recording and banking of cash collected offsite; and
- Review the security of cash and banking procedures to ensure the appropriate controls and procedures are in place.

FINDINGS

1. END OF DAY RECEIPTING PROCEDURES

Finding Rating: Medium

Our inquiries made during our site visits to the Aquarena, the Mullewa Administration Offices, the Library and the Visitor Centre indicate the Daily Taking Sheet and End of Day Cash Receipts Reconciliations for these sites are not subject to independent review.

In addition, we noted the Daily Taking Sheet and End of Day Cash Receipts Reconciliation is not signed by the individual preparing the reconciliation.

Implication

Risk that error of fraud may not be detected on a timely basis.

Recommendation

We recommend the Daily Taking Sheet and End of day Cash Receipts Reconciliation be reviewed by someone independent to the receipting function, and signed off as evidence of independent review.

In addition, we recommend the Daily Taking Sheet and End of Day Cash Receipts Reconciliation is signed by the individual preparing the reconciliation.

Management Comment

Management agrees with the recommendation. Implementation on each of the sites will be reviewed on a case to case basis taking into account available resources, volume of business and practicality.

Given the volume of transactions and amounts involved and the strong internal control in place at the largest cash collecting site (CGG office) council rates the risk as low.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

SCOPE

- Detailed review of information technology systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and
- Review of registers maintained (including key register, tender register etc.) and review of Council minutes.

Please note, our inquiries indicated no major IT projects have been completed at the time of our site visit therefore, our assessment to IT projects undertaken by the City of Greater Geraldton from the planning to contractor selection to inception phase, was limited.

FINDINGS

1. IT STRATEGIC PLAN

Finding Rating: Medium

Our inquiries indicated an IT strategic plan was initially developed and implemented in 2010, however the plan had not been reviewed and updated in recent years.

In addition, we noted no formal IT action plan is currently in place to identify current and future department IT needs.

Implication

Risk of strategic objectives recorded not meeting Council's current IT and communication requirements.

Risk that the IT strategic plan has not been updated to reflect IT developments and current best practices since 2010.

Recommendation

We recommend management review the current IT strategic plan in place and update the plan to include Council's current IT and communication objectives and requirements. The IT strategic plan should state the next review date.

In addition, we recommend a formal IT action plan be developed to identify current and future department IT needs.

Management Comment

The City is undertaking a joint study with WALGA Northern Zone Councils for potential move to a Shared ICT Services arrangement. Development of a new ICT Strategy will reflect the outcomes from the development of a Disaster Recovery and Business Continuity Plan and review of ICT delivery models. Further development of the strategy has been deferred pending completion of the Shared Services study, and deliberation on recommendation by the City and other Councils.

Anticipated completion date now 30 June 2016.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

2. ONGOING SECURITY AWARENESS PROGRAM

Finding Rating: Medium

Our inquiries indicated there is no security awareness program in respect to IT (i.e. a security awareness program encompassing both physical and electronic data to educate employees in respect to corporate policies and procedures for working with IT).

Implication

Risk of security breaches due to changing security environment.

Recommendation

A good security awareness program should educate employees about corporate policies and procedures for working with information technology. Employees should receive information about who to contact if they discover a security threat and be taught that data is a valuable corporate asset. Regular training is particularly necessary in organisations with high staff turnover. While assessing how well the awareness program is working can be difficult, the common metric looks for a downward trend in the number of incidents over time.

We recommend an ongoing security awareness program be developed to ensure security needs of the CGG is updated as required (for example due to IT infrastructure or application changes) and to prevent any security breaches from occurring. This could be incorporated as part of CGG's overall Risk Management Framework.

Management Comment

Agree with recommendation re security awareness program. Such a program could also be imbedded into induction process for new employees.

ICT has full control over system changes and infrastructure changes in the environment and all physical points of entry are locked with only IT having keyed access.

All changes are documented as part of our change management procedure. All changes require updates to documentation as part of any task or project.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

3. BUSINESS CONTINUITY PLAN

Finding Rating: Medium

At the time of our site visit we noted City of Greater Geraldton had no formal documented business continuity plan, incorporating a disaster recovery plan in place.

Implication

Risk of significant delays and business interruption in the event of unforeseen events. Risk of inappropriate preparation for those business interruption events identified.

Recommendation

We recommend a business continuity plan, incorporating a disaster recovery plan be developed, documented and presented to Council for adoption.

These plans should be developed in consultation with relevant staff and third party suppliers, communicated to all staff, implemented and monitored on a regular basis. We would expect the business continuity plan to include as a minimum:

- an impact analysis establishing various scenarios and their efficient resolution, including logistical as well as IT related issues;
- consideration and evaluation of temporary alternative sites from which significant operating functions can be conducted in the event of unforeseen events; and
- ensuring critical business functions can be completed whilst IT systems are unavailable.

We also recommend the business continuity plan be tested (annually) and results from the test be documented along with corrective action taken to eliminate weaknesses.

Procedures should be developed to identify when changes are required to the business continuity plan as a result of IT infrastructure upgrades or changes.

Management Comment

City has entered into a contract with Geraldton Data Centre under WALGA panel, for Disaster Recovery and Business Continuity services via a cloud-based solution. Testing scheduled for March 2016. Other components of business continuity plan to be completed by November 2016, subject to timing of completion of review of customer services delivery arrangements.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

4. MASTERFILE ACCURACY AND VALIDITY

Finding Rating: Medium

We noted City of Greater Geraldton does not conduct an independent review of all changes and adjustments made to master files, including changes to payroll, inventory, fixed assets, revenue and expenditure. In particular there is no review for timeliness of changes made, errors, or any unauthorised changes.

Implication

There is an increased risk that:

1. Required changes to the master-files are untimely;
2. Erroneous changes made to master-files have a low chance of being detected in a timely manner; and
3. Suspicious / fraudulent changes made to master-files have a low chance of being detected in a timely manner.

Recommendation

We recommend an independent review of all changes made to mater files be conducted periodically. The review should involve:

- A download of all changes (new / old / modify) made to each master-file;
- A representative sample then be tested and traced to originating / supporting documentation to assure validity and timeliness; and
- A review for suspicious master-file changes (e.g. changes to bank details, unusual variations to pay-rates and amendments to existing supplier bank account details) should be performed.

Management Comment

Although no independent review of master files is conducted on a regular base the high risk areas as identified in the recommendation are addressed by checking the creditor weekly pay run (e.g. spot checks on changes to bank details of selected creditors) and by generating and verifying the payroll report on differences in nett pay exceeding the threshold on a fortnightly basis (to detect unusual variation in pay). Council will endeavour to further strengthen internal controls. In view of the internal controls already in place council rates the risk as low.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

5. SYSTEM DEVELOPMENT LIFE CYCLE

Finding Rating: Medium

Our inquiries indicated no formal or structured system development life cycle is in place for the development of new IT systems.

Implication

Risk of outdated or inadequate IT infrastructure being utilised.

Recommendation

We recommend a formal or structured system development life cycle be developed and implemented to ensure the continued development of new IT systems.

Management Comment

Agree. This has linkage to the comments under “findings 1” of this report in that a system development life cycle on infrastructure requirements would not be developed until the ICT Strategy is developed and delivery models are finalised.

6. IT SECURITY LOGS

Finding Rating: Medium

Our inquiries indicated security logs are kept, however logs are not subject to review on a regular basis.

In addition, we noted inactive user ID's and system statistics are currently not being logged.

Implication

Risk of security breaches/errors and poor system performance not being identified on a timely basis.

Recommendation

We recommend security logs be reviewed on a regular basis to ensure security breaches/errors are identified on a timely basis and addressed accordingly.

In addition, we recommend system statistics and inactive user ID's are logged and reviewed to ensure poor system performance and user ID's which have been inactive for extended periods of time is identified on a timely basis.

Management Comment

Risk rating low.

The City's termination process ensures that staff are locked out at COB on their last day. Firewall reports abnormal behaviour – such as persistent denials to access through open ports. All system statistics are logged and will now be reviewed on regular cycle.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

7. IT DEPARTMENT KEY PERFORMANCE INDICATOR'S

Finding Rating: Medium

We noted Key Performance Indicators ("KPI") have not been developed and implemented to measure the performance of the IT department and to identify control problems and inefficiencies.

Implication

Risk of control problems and inefficiencies not being identified on a timely basis.

Recommendation

We recommend KPI's are developed and implemented to measure the performance of the IT department and to identify control problems and inefficiencies.

Management Comment

The City has recently entered a contract for ICT Infrastructure as a Service. Migration to the infrastructure environment is currently underway. The contract, via a WALGA panel arrangement, contains performance specifications – the equivalent of the KPIs to which the auditor refers.

8. PRIVACY AND INTELLECTUAL PROPERTY SECURITY

Finding Rating: Medium

Our inquiries indicated there is currently no formal management or documented communication to employees regarding security matters relating to personal file sharing accounts and the use of removable hard discs / USB devices.

Implication

Risk of unauthorised access to confidential information.

Recommendation

We recommend a formal documented policy is prepared and communicated to employees regarding restrictions for personal file sharing accounts and USB's / removable hard discs (perhaps this could be implemented though only allowing City approved devices which are password protected to be recognised by the IT system).

Management Comment

Agree with recommendation to ensure staff using removal hard drives/USB devices and file sharing services to store their data, do not breach the City's Record Keeping Plan and therefore the State Records Act.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

9. SERVER BACKUPS

Finding Rating: Low

We noted server backups are not tested on a regular basis to ensure recovery of data is achievable and to ensure no significant interruption to the extent a backup restoration is required.

Implication

Risk of backup procedures failing.

Recommendation

We recommend backups be tested on a regular basis to ensure recovery of data is achievable with no significant interruption to the operations of the City is experienced.

Management Comment

New Backup testing practices are now in the process of being developed and implemented.

10. USER TERMINAL LOGOUT

Finding Rating: Low

We noted not all individual user terminals automatically log users out after a period of inactivity (our inquiries indicated while some user terminals do automatically log off, this is not consistent for all terminals).

Implication

Risk of unauthorised personnel gaining access to City of Greater Geraldton information.

Recommendation

We recommend all computer terminals are set up to log out after a period of inactivity, for example ten minutes.

Management Comment

Agree with recommendation – automatic log outs to be set on all terminals after a period of inactivity.

APPENDIX C

CITY OF GREATER GERALDTON

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

11. IT PERFORMANCE REVIEWS

Finding Rating: Low

Our inquiries indicated no formal performance reviews are conducted against external IT service level agreements.

Implication

Risk of sub-standard or inadequate services being provided by external IT services engaged.

Recommendation

We recommend formal performance reviews are conducted against external IT service level agreements to ensure services provided are as agreed upon within the IT service level agreements.

Management Comment

Agree.

Currently, there are informal reviews, and vendors are brought to tasks on poor performance

APPENDIX D

CITY OF GREATER GERALDTON

ACCOUNTING FOR MUNICIPAL OR TRUST TRANSACTIONS

SCOPE

- Review the procedures for preparation of monthly accounts and general ledger account reconciliations;
- Review policies and procedures in respect to insurance, recording claims and insuring newly acquired assets; and
- Review processes in respect to BAS, FBT Return and other statutory returns preparation.

FINDINGS

Our review indicated key underlying policies and processes in relation to the proper accounting for municipal or trust revenue received or receivable, expenses paid or payable and assets and liabilities are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the proper accounting for municipal or trust revenue received or receivable, expenses paid or payable and assets and liabilities.

APPENDIX E

CITY OF GREATER GERALDTON

AUTHORISATION FOR INCURRING LIABILITIES AND MAKING PAYMENTS

SCOPE

- Review of controls and procedures over the authorisation of purchase orders and making of payments, with a sample of payments tested; and
- Review of credit card processes and procedures, and testing transactions on a sample basis.

FINDINGS

1. POST TENDER / SERVICE CONTRACT REVIEW

Finding Rating: Medium

We noted City of Greater Geraldton does not have a formal post completion performance evaluation process for contractors / suppliers.

Implication

Lack of documentation evidencing contractor performance assessment.

Recommendation

WALGA best practice guidelines recommend formal performance management assessments be conducted during and at the completion of a project / service contract to ensure contractors and suppliers are performing in accordance with state contract terms. We suggest this could be completed for projects or service contracts over a specified value or deemed to be medium to high risk.

This assessment may include key performance indicators to assist in comparing contractor / supplier performance. The process for monitoring performance and the key performance indicators used should be included in the project specification document and agreement provided to contractors and suppliers.

We also suggest it may be beneficial for a list of the post tender / service contract evaluation to be maintained for future records which can be reviewed when new tenders are being assessed and to ensure post contractor service history is maintained on file for future reference (in particular when staff turnover occurs).

Management Comment

The City's Internal Procurement working group is currently developing a process that aligns with the above recommendations.

APPENDIX E

CITY OF GREATER GERALDTON

AUTHORISATION FOR INCURRING LIABILITIES AND MAKING PAYMENTS

2. CREDIT CARD EXPENDITURE

Finding Rating: Medium

The credit card balance owed at the end of each month is paid via direct debit monthly. We note individual credit card transactions made during the month are not presented to Council as part of the monthly payments listing, rather, only the total value of the credit card direct debit is noted.

Implication

Risk of non-compliance with Regulation 13(1) of the Local Government (Financial Management) Regulations 1996 which states:

A list of accounts paid by the Chief Executive Officer is to be prepared each month showing for each account paid since the last list was prepared:

1. The payees name; and
2. The amount of the payment; and
3. The date of the payment; and
4. Sufficient information to identify the transaction.

Recommendation

We recommend management list the individual purchases made on the corporate credit cards by supplier within the payment schedule presented to Council, to ensure compliance with Regulation 13(1) of the Local Government (Financial Management) Regulations 1996.

Management Comment

Council is of the opinion that the information provided is sufficient based on the fact that it rarely receives queries from the intended users of the report with regard to the details of the transactions listed.

Council rates the risk as low to very low.

APPENDIX E

CITY OF GREATER GERALDTON

AUTHORISATION FOR INCURRING LIABILITIES AND MAKING PAYMENTS

3. FUEL USAGE ANALYSIS BY VEHICLE

Finding Rating: Low

Our inquiries indicated fuel usage analysis by individual motor vehicle on a per vehicle basis (i.e. consumption per 100kms vs book consumption) is not currently prepared on a periodic and or rotational basis and subject to independent review.

Implication

Risk that misallocation or misappropriation of fuel to motor vehicle may not be identified.

Recommendation

We recommend consideration be given to analysing fuel consumption per vehicle on a periodic basis where not currently prepared, and that the analysis be subject to independent review.

Management Comment

All records of fuel consumption per vehicle are held on our system and can be verified on request. Due to resource limitations no periodic analysis or maintenance of fuel consumption is practised however once a fully automated system is in place the capability for better data analysis on consumption and usage will be in place.

4. CREDIT CARD AUTHORITIES

Finding Rating: Low

We note Council policy 'OP037 Corporate Credit Cards' clause 1.6 states "the cardholder must read and sign the Corporate Credit Card Agreement upon the receipt of their card".

We were unable to locate the Corporate Credit Card Agreements for ten of the credit card holders. Through discussions with management we understand new Corporate Credit Card Agreement's will be signed when the card holder's current credit card expires.

Implication

Non-compliance with stated policy.

Recommendation

We recommend all current credit card holders sign a Corporate Credit Card Agreement as required by Council policy.

Management Comment

Council agrees with the recommendation however, when this was raised at a previous visit it was agreed that signed agreements would be obtained from both new cardholders and existing cardholders whose card were to be renewed. Council has acted accordingly.

APPENDIX E

CITY OF GREATER GERALDTON

AUTHORISATION FOR INCURRING LIABILITIES AND MAKING PAYMENTS

5. MINIMUM QUOTATIONS

Finding Rating: Low

During our sample testing of purchases we noted the minimum number of quotations as specified in Council Policy 'CP010 Procurement of Goods and Services' were not always obtained. Examples can be supplied upon request.

Implication

Risk of non-compliance with stated policy.

Recommendation

To ensure compliance with Council's stated policy, we recommend the minimum number of quotes are obtained prior to the purchase of goods or services.

We also suggest that information pertaining to any payment, such as quotes obtained (whether verbal or written), advertising and other significant notes should be attached or noted on payment advices. We recommend the use of a formal quotation form be used whereby details of verbal quotes obtained are noted and written quotes obtained a summarised.

Management Comment

Council procurement/ purchasing policy CP010 is currently under review. Within the scope of the review is an evaluation of the number and amount of individual purchase thresholds and the requirements with regard to obtaining quotations.

APPENDIX E

CITY OF GREATER GERALDTON

AUTHORISATION FOR INCURRING LIABILITIES AND MAKING PAYMENTS

6. TENDER NOTIFICATION LETTERS

Finding Rating: Low

We noted confirmation letters sent to tenderers do not include the total value of the consideration of the winning offer as required by the Procurement of Goods and Services (CP010) policy.

Implication

Non-compliance with council's stated Procurement of Goods and Services (CP010) policy paragraph 2.15 - Notification of Outcome.

Recommendation

We recommend compliance with stated Council policy, alternatively if compensating controls are in place it may be appropriate to amend Council's policy.

Management Comment

The City has scheduled for the Procurement Policy to go before council in March 2016 which updates the policy to ensure alignment to recent legislation amendments and removes this provision which has proven difficult to comply with in regards to schedule of rates contracts i.e. there is not a single price but can have a full catalogue of prices.

The City records the winning offer into the tender register and for Council determined tenders the minutes as required by Legislation. All tenderers and members of the public have access to this information.

APPENDIX F

CITY OF GREATER GERALDTON

MAINTENANCE OF PAYROLL, STOCK CONTROL AND COSTING

SCOPE

- Site visit to the depot on Gordon Garrett Drive and Stock Street in Mullewa to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks)
- Review of payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure these controls were operating effectively
- Detailed analysis and testing to review the allocation of overheads and administration costs

FINDINGS

1. CONFLICTS OF INTEREST

Finding Rating: Medium

Through discussions with the Human Resources Department we noted members of the interview panel (for new employee interviews) are not required to complete a formal conflict of interest declaration confirming whether they know any of the applicants or have any conflicting interests.

Implication

Lack of evidence in respect of conflicts of interest being considered.

Recommendation

We recommend when a job advertisement period closes that the interview panel reviews the list of applicants and complete a documented conflict of interest declaration.

Management Comment

In the current process, interview panel members need only declare a conflict of interest where there is one, rather than declare there is not one. For example, if they are listed as a referee, they must complete a written reference which is sealed and not reviewed unless required, after the recruitment process. Where there is a conflict of interest which does not require removing the interview member from the panel, their opinion on the suitability of applicants is the last opinion sought to ensure no bias occurs in the process. We will review the suggestion of a formal conflict of interest declaration becoming part of the normal process whilst we review the entire recruitment process, as training is scheduled for all panel members this year.

APPENDIX F

CITY OF GREATER GERALDTON

MAINTENANCE OF PAYROLL, STOCK CONTROL AND COSTING

2. STOCK TAKES

Finding Rating: Medium

Our inquiries indicated stock counts at the various locations holding stock, range from being completed annually to monthly depending on the location.

Implication

Risk of stock being misstated throughout the year.

Recommendation

We recommend stock by location be counted and reconciled on a predetermined basis which is documented.

In addition, we recommend spot checks be completed on a regular basis, whereby random items are selected from the stock listing and physically verified. Stock count sheets should be signed by the individual performing the count and should be subject to independent review and sign off.

It may be appropriate for the regularity of stocktakes to vary from location to location depending on the nature of goods held at each location.

Management Comment

Taking into account current stock levels Council is satisfied with the frequency and nature of internal controls in place. Although Council acknowledges the risk of possible misstatement it would be immaterial given the total value on record. Council therefore rates the risk at low to very low.

APPENDIX G

CITY OF GREATER GERALDTON

PREPARATION OF BUDGETS, BUDGET REVIEWS, ACCOUNTS AND REPORTS REQUIRED BY THE ACT OR THE REGULATIONS

SCOPE

- Review the procedures for preparation of the annual Financial Statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process; and
- Review the budget review to ensure compliance with Regulation 33A of the Local Government (Financial Management) Regulations 1996 and assessment of budgetary expenditure controls in place.

FINDINGS

Our review indicated key underlying policies and processes in relation to the preparation of budgets, budget reviews, accounts and reports required by the act or the regulations are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the preparation of budgets, budget reviews, accounts and reports required by the act or the regulations.

APPENDIX H
CITY OF GREATER GERALDTON
RISK ASSESSMENT

GUIDANCE AS TO RISK CLASSIFICATION

Risk is uncertainty about an outcome. It is the threat that an event, action or non-action could affect an organisation’s ability to achieve its business objectives and execute its strategies successfully. Risk is an inherent component of all service activities and includes positive as well as negative impacts. As a result not pursuing an opportunity can also be risky. Risk types take many forms – business, economic, regulatory, investment, market, and social, just to name a few.

Risk management involves the identification, assessment, treatment and ongoing monitoring of the risks and controls impacting the organisation. The purpose of risk management is not to avoid or eliminate all risks. It is about making informed decisions regarding risks and having processes in place to effectively manage and respond to risks in pursuit of an organisation’s objectives by maximising opportunities and minimising adverse effects.

Risk guidelines are stated within Risk Management – Principles and Guidelines Standard AS / NZS ISO 31000-2009.

Our guidance to risk classification in completing our internal audit review is as follows:

- Consequence is the severity of the impact that would result if the event were to occur.
- Likelihood is the chance that the event may occur given knowledge of Council and its environment.

Finding Rating for each audit issue was based on the following table:

| Likelihood | Consequence | | |
|------------|---------------|-------------|--------------------|
| | Insignificant | Significant | Highly Significant |
| Low | L | M | M |
| Medium | L | M | H |
| High | L | H | H |

23 February 2016

Mr K Diehm
Chief Executive Officer
City of Greater Geraldton
PO Box 101
GERALDTON WA 6531

Dear Ken

**AGREED UPON PROCEDURE – LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996
REGULATION 17 REVIEW**

Pursuant to our proposal and related terms of reference we have performed the procedures agreed with you to report factual findings for the purpose of assisting you in complying with the Local Government (Audit) Regulations 1996 Regulation 17 Review.

The CGG (“CGG”) is responsible for the adequacy or otherwise of procedures agreed to be performed by us. The CGG is responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the review.

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with the Standard on related services ASRS 4400 Agreed Upon Procedure Engagements to Report Factual Findings. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements.

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with AUASB standards, we do not express any conclusion and provide no assurance on the City’s compliance with Local Government (Audit) Regulations 1996 Regulation as part of this review.

Information acquired by us in the course of our engagement is subject to strict ethical and confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent.

1.0 SCOPE OF REVIEW

In accordance with our proposal and related terms of reference, we performed the following procedures and report the factual findings resulting from our review, incorporating the following:

1.1 Terms of Reference – Risk Management

Our procedures in respect to risk management included but were not limited to the following:

- Reviewed whether the Local Government has an effective risk management system and that material operating risks to the Local Government are appropriately considered.

- Reviewed whether the Local Government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessed 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; and
 - 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;
- Ensured the Audit Committee obtained 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;
- Assessed the adequacy of Local Government processes to manage insurable risks and ensure the adequacy of insurance cover, and is applicable, the level of self insurance;
- Reviewed the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessed 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;
- Assessed 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;
- Assessed Audit Committee meeting practices ensuring periodically meeting with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and
- Ascertained whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented communicated, monitored and these is regular reporting and ongoing management of fraud and misconduct risks.

1.2 Terms of Reference – Internal Controls

Our procedures in respect to internal controls included but were not limited to the following:

- Reviewed of segregation of roles and functions, processing and authorisation controls;
- Reviewed of documented policies and procedures;
- Assessed approval of documents, letters and financial records;
- Assessed management internal reviews undertaken in respect to comparison of internal data with external sources of information;
- Assessed security controls in respect to physical access to assets and records;
- Assessed security controls in respect to computer applications and information systems (general and application IT controls);
- Assessed access limits placed on data files and systems;
- Assessed whether the maintained and review of financial control accounts and trial balances is regular and appropriate;
- Assessed key management internal reviews undertaken in respect to comparison and analysis of financial results with budgeted amounts;
- Assessed key management internal reviews undertaken in respect to the arithmetical accuracy and content of records;
- Assessed controls in respect to purchasing and payment of accounts;
- Assessed reporting, review and approval of financial payment and reconciliations; and Assessed physical cash and inventory count records when compared to accounting records

1.3 Terms of Reference – Legislative Compliance

Our procedures in respect to legislative compliance included but were not limited to the following:

- Assessed internal monitoring of compliance with legislation and regulations;
- Assessed the local government's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;
- Assessed communications between key management and the Audit Committee to ensure the Audit Committee is informed in respect to the effectiveness of the local government's compliance and recommendations for changes as required;
- Reviewed the local government's procedures in respect to receiving, retaining and handling compliances, including confidential and anonymous employee complaints;
- Reviewed key managements internal review processes in respect to the identification of adverse trends and management plans to address these;
- Reviewed management disclosures in financial reports of the effect of significant compliances issues (if any);
- Ensured the internal and / or external audit contracts include an assessment of compliance and ethics risks in the development of the audit plan and in the conduct of audit projects, and report compliance and ethical issues to the Audit Committee;
- Reviewed of the Audit Committee's processes and procedures in respect to compliance with legislative and regulatory compliance ensuring no misuse of position through adequate disclosure of conflicts of interest.

Our assessment and review of the areas above were undertaken on a sample basis. As the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance opinion on the areas outlined above. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

2.0 FINDINGS AND RECOMMENDATIONS ARISING FROM REVIEW

Our findings on each of the three areas are detailed in the attached appendices as follows:

- Appendix A – Risk Management;
- Appendix B – Internal Controls; and
- Appendix C – Legislative Compliance.

Findings reported by us are on an exceptions basis, and do not take into account various areas where we confirmed compliance, and various appropriate internal controls tested during our review which were determined to operate effectively.

3.0 OTHER MATTERS

We would like to express our appreciation to Auke and the CGG team for the assistance provided to us in completing our review.

Should there be any matters outlined within the appendix of our report requiring clarification we would be pleased to discuss further. We would be pleased to hold a video conference with the Audit Committee should we be requested to.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or distributed to any other party.

This report relates only to procedures and items specified above and do not extend to any financial report of CGG, taken as a whole.

Yours sincerely
AMD Chartered Accountants

A handwritten signature in black ink, appearing to read 'M Cavallo', with a stylized flourish at the end.

MARIA CAVALLO CA
Partner

APPENDIX A

CITY OF GREATER GERALDTON

RISK MANAGEMENT

- Reviewed whether the Local Government has an effective risk management system and that material operating risks to the Local Government are appropriately considered.
- Reviewed whether the Local Government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessed 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; and
 - 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;
- Ensured the Audit Committee obtained 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;
- Assessed the adequacy of Local Government processes to manage insurable risks and ensure the adequacy of insurance cover, and is applicable, the level of self insurance;
- Reviewed the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessed 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;
- Assessed 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;
- Assessed Audit Committee meeting practices ensuring periodically meeting with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and
- Ascertained whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented communicated, monitored and these is regular reporting and ongoing management of fraud and misconduct risks.

APPENDIX A

CITY OF GREATER GERALDTON

RISK MANAGEMENT

FINDINGS:

| | Finding | Implication | Recommendation | Management Comment |
|---|---|--|--|---|
| 1 | <p>We noted the CGG Risk Framework, including risk register and accompanying risk management policies were not reviewed in accordance with stated next review date (some policies dating back as late as February 2012) and are not being reviewed on an ongoing basis.</p> <p>Out of date Risk Management policies include:</p> <ul style="list-style-type: none"> • CP006 Risk Management • CP008 Occupational Safety and Health • CP036 Risk Tolerance & Appetite • OP005 CGG Risk Management Framework <p><i>We note these policies and procedures are currently under review, including assessment of migration to an electronic risk management software system.</i></p> <p>In addition, we noted the CGG's risk policies and procedures do not include:</p> <ul style="list-style-type: none"> (a) litigation/claims policy; and (b) media policy. | <p>Possibility of risks identified not being dealt with in accordance with council's applicable risk management framework and risk appetite.</p> <p>Risks may not be identified in a timely manner to ensure risks are appropriately managed and or mitigated.</p> <p>Previously identified risks may evolve and/or controls may become ineffective.</p> <p>Lack of documentation evidencing litigation /claims and media risk procedures.</p> | <p>We recommend CGG Risk Management Framework, including risk register and accompanying risk management policies, be reviewed on an ongoing basis.</p> <p>We suggest the Risk Management Framework includes a litigation/claims policy and media policy.</p> | <p>Recommendation accepted.</p> <p>Due to resource constraints there has not been a dedicated Risk coordination officer in the City since late 2014.</p> <p>The City appointed a Governance Officer (Risk) who started on 4 Feb 2016. This officer has commenced reviewing City risk documentation and has finalised a review of CP 006 Risk management Policy which is scheduled to go before Council in March 2016 at which time CP 036 Risk Tolerance & Appetite policy will be retired as it is now covered in the Council's Risk Management Framework.</p> <p>OP 005 Risk Management Framework is obsolete and will be removed from the Policy List, retired when Council Risk Management Framework was endorsed in Feb 2016</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| | | | | <p>The on-going review and validation of all risk registers slowed after Sept 2014 as the City undertook planning and selection of a risk management software package, with selection of Promapp confirmed in late 2015, to commence implementation in March – April 2016.</p> <p>The City will review requirements for litigation/claims procedures. These matters are generally managed by the City’s solicitors in conjunction with insurers.</p> <p>The City is not committed to framing further media risk handling procedures, with tight controls over media management exercised by the CEO in conjunction with the Mayor, on a day to day basis.</p> |
| 2 | <p>We noted there is no ongoing assessment of key operational risks completed by management, in particular those risks identified as high within the City’s Risk Register.</p> | <p>Lack of effective ongoing review of operational risks including ensuring adequate controls are maintained to manage risks and ongoing assessment of risk tolerance levels in accordance with stated risk appetite policies.</p> | <p>We recommend management (EMT) complete an ongoing assessment of key operational risks on a regular basis which includes:</p> <ul style="list-style-type: none"> • Ongoing review of risks assessed as high including design, implementation and monitoring of mitigating controls; • Identification of organisational structure and operational changes which may cause risk assessment changes; and | <p>Recommendation accepted.</p> <p>Due to resource constraints, risk management process implementation across the City slowed after 2014, pending implementation of a risk management software package which was confirmed in late 2015 (Promapp) and which will commence roll out in March – April 2016. The City was assisted in the key initial stages of development of risk registers by LGIS.</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| | | | <ul style="list-style-type: none"> Preparation and presentation of risk reports to the Audit Committee / Council on a regular basis to enable informed decisions to be made (refer recommendation number 3 below for further details regarding risk reports). | <p>Introduction of periodic reporting for risk monitoring, to EMT, the Audit Committee and Council was deferred , with reporting on the City's risk profile dependent on Promapp implementation.</p> <p>Regular reporting will be supported by this software system.</p> |
| 3 | <p>Our inquiries indicated risk reports are not provided to the Audit Committee / Council on a regular basis.</p> <p>We noted the CGG Risk Management Framework (version 3 dated 28 April 2015) states:</p> <ul style="list-style-type: none"> The Risk management Committee will provide a quarterly report to the Council Audit Committee on the status of risk management across the City; The Risk Management Committee shall provide an annual report to Council (through EMT) on the overall status of risk management across the City; and The Risk Management Committee shall provide a biannual report to the Audit Committee (through EMT) on the overall status of risk management across the City. <p>Risk reports are not being prepared and presented in accordance with stated policy.</p> | <p>Lack of communication with those charged with governance.</p> <p>Non-compliance with stated Council Risk Management Framework.</p> | <p>As best practice and in accordance with Council Risk Management Framework, we recommend regular risk reports be provided to the Audit Committee / Council which identify key risks, the status and effectiveness of the risk management systems in place at the CGG, risk monitoring, new risks identified and how risks have been mitigated / treated.</p> <p>We recommend a standing agenda item be added to the Audit Committee meeting agenda for risk reports to be tabled.</p> | <p>Recommendation accepted.</p> <p>See response to items 1 and 2 above.</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| 4 | CGG does not currently have an organisational Business Continuity Plan. | Risk of significant delays and business interruption in the event of unforeseen circumstances. | We recommend a Business Continuity Plan be developed incorporating a Disaster Recovery Plan. This Plan should be developed in consultation with relevant staff and third part suppliers, communicated to all staff, implemented and monitored on a regular basis including testing the plan to ensure that in the event of a disaster, appropriate actions can be taken. | <p>Recommendation accepted.</p> <p>An overarching BCM document was developed to draft stage in late 2014.</p> <p>Associated procedural work was deferred pending selection and implementation of a BC/DR solution for ICT, round which robust procedures should then be developed, and a new central process management and documentation tool – with Promapp selected in late 2015.</p> <p>During 2015, City focus was on definition and planning for an ICT solution to meet Business Continuity and Disaster Recovery requirements. Mission critical data and applications required for recovery and continuity were defined and, assisted by contracted ICT consultants, substantial work was undertaken with primary software vendors to establish a workable Cloud-based BC/DR solution. The solution has been installed, and as at February 2016 is undergoing testing.</p> |
| 5 | <p>From our review of CGG’s CP 034 Fraud Control Policy (last reviewed August 2015 with next review date states as 2017) and subsequent inquiries of management, we noted the following:</p> <ul style="list-style-type: none"> • A fraud control plan has not been developed as required by section 5 of the policy; • A fraud register has not been developed or maintained by the Coordinator of Governance as | <p>Non-compliance with stated council policy resulting in increased risk of fraud.</p> <p>Lack of consideration in respect to employee, contractor, volunteer and councillor anonymity.</p> | We recommend the fraud policy be complied with including implementation of a fraud control plan, biennial fraud training and maintained of a fraud register. | <p>The policy states that the Fraud Control Plan is to be developed by August 2017.</p> <p>Please refer to Operating Policy OP047 Investigations and Misconduct for the process followed in relation to serious complaints and allegations of all types of misconduct.</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| | <p>required by section 7.9 of the policy; and</p> <ul style="list-style-type: none"> • Biennial training of all staff in respect to the principles of fraud, the reporting of fraud and process involved in investigating suspected fraud is not being undertaken as required by section 8 of the policy. <p>Furthermore, the fraud control policy did not have a process for reporting suspected or known fraud to an external party to allow employees, contractors, volunteers and councillors to remain anonymous.</p> | | <p>As best practice we also suggest Council consider the use of an external party for reporting suspected or known fraud.</p> | <p>Currently, all investigated and reported fraud or misconduct cases are registered and for confidentiality purposes all relevant information/documentation recorded on employee's personal files.</p> <p>Fraud training is conducted on a regular basis. Last training course conducted by Civic Legal 27th November 2015 – "Identifying and Preventing Fraud, Misconduct and Corruption".</p> |
| 6 | <p>Our inquiries indicated no formal contract manager role has been identified and assigned (i.e. there is no one responsible for overall contract management). As a result projects are managed within each directorate and we understand the process with which each directorate manages projects is different.</p> <p>Furthermore, our inquiries indicated contract compliance checklists are not uniformly utilised in managing project contracts across all directorates.</p> | <p>Risk of non-compliance with project contracts.</p> | <p>We recommend a policy and procedure is designed and documented to ensure project contracts are uniformly managed appropriately and in accordance with stated policy.</p> <p>In addition, we recommend compliance checklists be utilised to ensure compliance is met on all project contracts.</p> | <p>Under current review of organisational structure a Contract officer role has been identified as a high priority.</p> |
| 7 | <p>Our inquiries indicated there is no signature specimen in place outlining all payment/purchase order authorities and the corresponding signature for that employee ensuring sign off is being complete on appropriate levels of expenditure by the correct employees.</p> | <p>Lack of documentation in regards to authority over payments.</p> | <p>As best practice, we recommend a specimen signature is maintained listing all authorities and their signature to ensure up to date.</p> | <p>Agree with recommendation – signature listing to be compiled and provided to relevant procurement and payment officers.</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| 8 | <p>Our inquiries indicated that an employee is required to be identified and assigned overall responsibility regarding ensuring lessee compliance with terms of Council Leased properties.</p> <p>We also noted that although Council leases state that the lessee must supply insurance documentation to the CGG when requested, however a regular request (on a sample basis) is not currently made by the CGG to ensure compliance with lessee insurance terms is met.</p> | <p>Risk the City is exposed to risks due to lessee non-compliance with lease terms</p> | <p>We recommend that roles and responsibilities with respect to ensuring lessee compliance with council lease terms be clarified and communicated to appropriate personnel.</p> <p>We also recommend a sample lessee compliance check be completed to ensure lessees are complying with stated lease terms, including obtaining documentation to support adequate insurance is maintained by the lessee. This could be completed on a rolling basis over several years to ensure all lessees are contacted at least once within the lease term.</p> | <p>This used to be a function of the now abolished insurance officer's position.</p> <p>The supply and compliance on lessee's insurance obligations is now monitored and managed by Land & Leasing section.</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| 9 | We noted that no formal action plan was implemented resulting from the 2014 Customer Satisfaction Survey. | Risk that an overall assessment of actions required (if any) have not been made following community consultation and / or overall conclusion reached regarding outcomes. | <p>We recommend a documented action plan be implemented following future Customer Satisfaction Surveys, to ensure actions are implemented and monitored.</p> <p>If no actions arise from the Customer Satisfaction Survey, then this assessment should be documented and the conclusion minuted at the time the assessment is presented to Council.</p> | <p>An action plan is only ever required if actions are required to be planned and undertaken. No significant actions arose from the 2014 survey.</p> <p>Customer satisfaction surveys are commissioned as part of KPI reporting to Council. Monitoring at that level focuses on survey movement.</p> <p>The Executive Management Team reviews all survey results, and any action requirements are recorded in EMT Minutes, and the associated rolling action monitoring program, via which all outstanding actions are monitored through to completion. No separate formal action plan is seen as necessary, as the process in place is demonstrably robust.</p> |

APPENDIX B

CITY OF GREATER GERALDTON

INTERNAL CONTROLS

- Reviewed of segregation of roles and functions, processing and authorisation controls;
- Reviewed of documented policies and procedures;
- Assessed approval of documents, letters and financial records;
- Assessed management internal reviews undertaken in respect to comparison of internal data with external sources of information;
- Assessed security controls in respect to physical access to assets and records;
- Assessed security controls in respect to computer applications and information systems (general and application IT controls);
- Assessed access limits placed on data files and systems;
- Assessed whether the maintained and review of financial control accounts and trial balances is regular and appropriate;
- Assessed key management internal reviews undertaken in respect to comparison and analysis of financial results with budgeted amounts;
- Assessed key management internal reviews undertaken in respect to the arithmetical accuracy and content of records;
- Assessed controls in respect to purchasing and payment of accounts;
- Assessed reporting, review and approval of financial payment and reconciliations; and
Assessed physical cash and inventory count records when compared to accounting records

APPENDIX B

CITY OF GREATER GERALDTON

INTERNAL CONTROLS

FINDINGS:

| | Finding | Implication | Recommendation | Management Comment |
|---|--|--|---|--|
| 1 | <p>Our inquiries indicate there is no Grant Funding Summary Plan in place for the CGG specifying:</p> <ul style="list-style-type: none"> • current grant funding contracts; • funding received to date; • project description; • person responsible; • key milestone dates; • reporting dates. <p>We also noted that operational policy for Grant Funding (OP031) is out of date (last adopted 1 July 2011 with next stated review date of 1 July 2012).</p> | <p>Risk of non-compliance with conditions of executed funding agreements and deliverables.</p> | <p>We recommend a CGG key staff member be assigned overall responsibility of managing grant funding contracts. We recommend this role would include the development and preparation of a Grant Funding Summary Plan specifying grant funding contracts relevant for the current financial year, project description, amount, key milestone dates and reporting dates, and other relevant information.</p> | <p>The City a number of years ago developed “in house” electronic grants registers (internal and external) that are incorporated in the City’s accounting software.</p> <p>All grants applications were recorded even if unsuccessful and included all information as specified under the audit finding. The register also had reporting capabilities which were used to inform on financial data, milestones dates, reporting dates and completion dates.</p> <p>Previously, this was maintained by a dedicated officer but due to restructures and cost savings initiatives this position has effectively been vacant for a period of 12 months (maternity leave). Position now active again and these registers are currently being updated.</p> <p>The City continues to meet all obligations in relation to all progress, milestone and final reports and acquittals. Policy OP031 is currently being reviewed and updated.</p> |

| | Finding | Implication | Recommendation | Management Comment |
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| 2 | <p>We noted numerous outdated policies and procedures which were not reviewed in accordance with stated next review date (<i>although our inquiries indicate many are currently being reviewed</i>), as follows:</p> <p>Out of date Council policies (the oldest policy dates back to December 2011) include:</p> <ul style="list-style-type: none"> • CP001 Elected Members Rights to Access Council Records • CP002 Confidential Information • CP003 Positive Lasting Legacy Principle • CP004 Asset Management • CP005 Integrated Strategic Planning Framework • CP006 Risk Management • CP007 Legal Representation on Costs Indemnification • CP008 Occupational Safety and Health • CP009 Significant Accounting Policy • CP010 Procurement of Goods and Services • CP012 Equal Employment Opportunity (EEO) • CP016 Regional Price Preference Policy • CP021 Payments to Employees in addition to Contract/awards • CP022 Youth • CP024 Establishing International Relations • CP025 Disability Access and Inclusion Policy • CP026 Memorial Plaques • CP027 Councillor's Professional Development Policy • CP029 Climate Change • CP030 Towards Sustainable Policy Framework • CP032 Establishment and Operation of Committees • CP036 Risk Tolerance & Appetite | <p>Risk of policy being out of date and non-compliance with stated policy.</p> | <p>We recommend policies and procedures included in Council's Manual are updated to reflect the last review date and the date the next review will be conducted.</p> <p>Policies should clearly document the last review date and the next review date.</p> | <ol style="list-style-type: none"> 1. Council and Operational Policies include the date signed and the date for the next review. 2. Council Policies include the Council item number and date of the Council Meeting. 3. Current documented Policies do not reflect their formal re-adoption by Council following 2-yearly Elections. That is, <i>the policies have actually been reviewed and re-adopted</i>, but the reviewed and next review due dates, have not been amended on the published editions. That oversight will be corrected in future. 4. Corporate services staff members have recently received WALGA training in policy development and procedure writing and will provide assistance and training to staff. 5. A number of the policies listed are currently either being reviewed or have been sent to managers for consultation. They will be presented to Council in the coming months for approval of either updates or cancellation (policies which are no longer relevant). |

| Finding | Implication | Recommendation | Management Comment |
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| <ul style="list-style-type: none"> • CP038 Appointing an Acting CEO • CP040 Property Management Leases • CP041 Honorary Freeman of the CGG • CP042 Community Engagement • CP043 Organisational Structure • CP044 Weeds of National Significance • CP048 Sporting Futures • CP050 Ground Management Committees • CP052 People Plan • CP054 Australia Day Active Citizenship Awards Selection • CP056 Geraldton Digital First Policy • CP057 Smarter City Policy • CP059 Self-Supporting Loans to Community/Sporting Groups • CP060 Creative Community Policy <p>Out of date Operational policies (the oldest policy dates back to July 2011) include:</p> <ul style="list-style-type: none"> • OP001 Councillor Help Desk • OP003 Employee Reward & Recognition Program • OP004 Tendering, Contacts & Contract Management • OP005 CGG Risk Management Framework • OP008 Learning and Development • OP009 Light Vehicle Use • OP010 Infection Control for Influenza Outbreaks • OP012 Employee Recruitment and Selection • OP014 Employee Health and Wellbeing • OP016 Provision of Prescription Safety Glasses • OP017 Drugs and Alcohol Use • OP020 Reducing Heat Stress • OP021 Performance Review Appeal | | | <p>6. An initiative to address the currency and relevance of Council and Operational policies has been the recent development of policy review teams within Corporate Services. This practice will be rolled out across the organisation.</p> <p>7. Three policies are not due for review until 2017. The Significant Accounting policy is approved annually by Council within the Budget Item and requires only an update to the review dates.</p> |

| Finding | Implication | Recommendation | Management Comment |
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| <ul style="list-style-type: none"> • OP022 Injury Management and Workers Compensation • OP023 Petty Cash • OP024 Healthy Catering • OP026 Driving Licenses • OP027 Corporate Firearms • OP028 Dog Pound Responsibilities • OP031 External and Internal Grant Funding • OP032 Excessive Noise Management • OP033 Social Media and Online Communications • OP034 Relationship Reconciliation in the Workplace • OP035 Maternity Leave • OP037 Corporate Credit Cards • OP042 Working at Home • OP044 Negotiated Contract Remuneration • OP045 Organisational Engagement • OP047 Investigations and Misconduct • OP048 Employee Based Training | | | |

APPENDIX C

CITY OF GREATER GERALDTON

LEGISLATIVE COMPLIANCE

- Assessed internal monitoring of compliance with legislation and regulations;
- Assessed the local government's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;
- Assessed communications between key management and the Audit Committee to ensure the Audit Committee is informed in respect to the effectiveness of the local government's compliance and recommendations for changes as required;
- Reviewed the local government's procedures in respect to receiving, retaining and handling compliances, including confidential and anonymous employee complaints;
- Reviewed key managements internal review processes in respect to the identification of adverse trends and management plans to address these;
- Reviewed management disclosures in financial reports of the effect of significant compliances issues (if any);
- Ensured the internal and / or external audit contracts include an assessment of compliance and ethics risks in the development of the audit plan and in the conduct of audit projects, and report compliance and ethical issues to the Audit Committee;
- Reviewed of the Audit Committee's processes and procedures in respect to compliance with legislative and regulatory compliance ensuring no misuse of position through adequate disclosure of conflicts of interest.

APPENDIX C

CITY OF GREATER GERALDTON

LEGISLATIVE COMPLIANCE

FINDINGS:

| | Finding | Implication | Recommendation | Management Comment |
|---|---|--|--|--|
| 1 | <p>Our inquiries indicated CGG does not have a documented legislative compliance manual which is linked to each business unit risk management assessment.</p> <p>Alternatively a central manual listing of Acts/Regulations with a catalogue of documented business processes / procedures could be developed in lieu of the abovementioned compliance manual.</p> <p><i>While we understand each directorate within the CGG are allocated responsibility for meeting compliance and there are various policies and procedures in place, there does not appear to be an overall compliance manual which identifies the legislation (as the first step) and follows the process through from this initial point, right through to risk management.</i></p> | <p>Risk of non-compliance with all legislative requirements.</p> | <p>We recommend a compliance manual linked to each business unit risk management assessment is implemented.</p> <p>We would expect the manual to be divided into each business unit section (as identified within the organisation structure) and to:</p> <ul style="list-style-type: none"> • identify relevant legislation to that business unit (for example the Health Act 1911 or the Planning and Development Act 2005 or the Dog Act 1976); • identify key relevant sections within each legislation and note within the compliance manual; • who is responsible for ensuring controls in place to ensure compliance with each identified legislation section; • the mechanism in place to ensure compliance, for example a policy or | <p>1. The City does not necessarily agree that a single central 'compliance manual' per se will automatically add significant value to compliance processes or oversight. In entities with relatively limited scope of statutory compliance, such manuals may be useful, but in a Local Government entity with widely diverse obligations or delivery duties under literally hundreds of prescriptions in Acts and Regulations, the maintenance of a single central manual by subject matter specialists scattered across the entity proves impracticable, and it serves little purpose other than to demonstrate that there is a single, central manual – rather than serving as a useful management tool. As well, the nature of 'compliance' varies considerably across statutes, some requiring governance monitoring internally, some monitored by external</p> |

| Finding | Implication | Recommendation | Management Comment |
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| | | <p>procedure (this component of the compliance manual would link each relevant section of legislation to a policy, procedure, person or other control).</p> <ul style="list-style-type: none"> • regular testing of compliance, for example if the mechanism for compliance is a policy, regular review and spot checking (internal audit) of that policy; any • key milestone / reporting dates applicable to that legislative section and how compliance is met. <p>In addition, we recommend an overall compliance calendar be documented, implemented and communicated to all staff.</p> | <p>agencies quite separate from the Council governance framework, actually focused on the obligations of others under legislation administered by Councils.</p> <ol style="list-style-type: none"> 2. Of their nature, compliance monitoring procedure manuals tend to have to capture most of the text of the source statute or regulation, as well as text from standards or guides issued by State or Federal agencies. This is wasteful effort, imposes significant maintenance efforts as regulations frequently change. The best references for this material are the source documents themselves. A relatively simple central manual listing the Acts/Regulations is more appropriate – with a catalogue of documented business processes/ procedures developed as necessary within the responsible business units, with the accountable managers (identified via delegations) responsible for essential monitoring and reporting. The ‘compliance manual’ thus becomes a catalogue index to associated processes/procedures, rather than containing them. 3. While an all-inclusive ‘compliance ‘manual’ per se may not exist, a compliance list is prepared from |

| Finding | Implication | Recommendation | Management Comment |
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| | | | <p>time to time by WALGA and/or DLG&C, and that serves the useful purpose of initiating review of compliance –related procedures by Managers.</p> <ol style="list-style-type: none"> 4. It is expected that, with revitalisation of Risk Management activities, and implementation of Promapp, a risk-based approach to management and monitoring of compliance obligations will be developed. 5. The City’s Corporate Calendar currently captures the compliance dates for key LGA compliance and reporting e.g. Council meetings, Budget, Elections, Annual Report, and Annual Electors meeting. 6. Corporate Services maintain a calendar of annual Compliance reporting dates for example the Compliance Audit Return, Review of Delegations Register Lodgement of Annual Returns. 7. Legislative compliance requirements are captured in the Registers of Delegations from Council to CEO and Delegations, Authorisations- CEO to employees |

| | Finding | Implication | Recommendation | Management Comment |
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| 2 | We note the Audit Committee agenda does not include a standing item assessing the effectiveness of compliance (for example, assessing the progress of matters raised by Regulation 17 Review). | Risk the Local Government Act and Regulations are not being regularly assessed. | We recommend a standing agenda item be added to the Audit Committee meeting agenda to assess the effectiveness of compliance. | The annual compliance return to DLG&C is listed every year for Audit Committee consideration. As noted above, revitalisation of Risk Management activities and implementation of Promapp in March/April 2016 are expected to drive a risk-based approach to monitoring and management of compliance obligations. |
| 3 | We noted only one Audit Committee meeting was held during the year to date. In addition section 4.1 of the Audit Committee Charter states the Committee shall meet at least quarterly. | Risk of governance and oversight responsibilities not being met. Non-compliance with Audit Committee Charter. | Local Government Operational Guideline Number 09 – Audit in Local Government outlines it is best practice for the Audit Committee to meet on at least on a quarterly basis. This is also stipulated in the CGG Audit Committee Charter. | Bi-annual half-Council and four-yearly Mayoral elections interrupted meeting schedules. A second Audit Committee meeting for this financial year is scheduled for 1 March 2016. A third meeting is expected prior to 30 June. At this meeting the newly conveyed Audit Committee will review the Charter agreed by the previous committee (dissolved October 2015 pursuant to the Local Government Ordinary Elections). The Audit Committee will make such recommendations as it sees fit, to Council, for any desired changes to the charter. Note: The Department of Local Government and Communities guideline 09 recommends a model charter for Audit Committees. The clause requiring a committee to meet at least quarterly however is not compulsory. |

MEETING CLOSURE