

# Audit & Risk Committee Meeting

Agenda for Tuesday 30 October 2018



**city of  
kalamunda**

## NOTICE OF MEETING AUDIT & RISK COMMITTEE

Dear Councillors

Notice is hereby given that the next meeting of the Audit & Risk Committee will be held in the Council Chambers, Administration Centre, 2 Railway Road, Kalamunda on **Tuesday 30 October 2018 at 6:30pm.**

Rhonda Hardy  
**Chief Executive Officer**  
25 October 2018



### Core Values

- Service:** We deliver excellent service by actively engaging and listening to each other.
- Respect:** We trust and respect each other by valuing our differences, communicating openly and showing integrity in all we do.
- Diversity:** We challenge ourselves by keeping our minds open and looking for all possibilities and opportunities.
- Ethics:** We provide honest, open, equitable and responsive leadership by demonstrating high standards of ethical behaviour.

### Aspirational Values

- Creativity:** We create and innovate to improve all we do.
- Courage:** We make brave decisions and take calculated risks to lead us to a bold and bright future.
- Prosperity:** We will ensure our District has a robust economy through a mixture of industrial, commercial, service and home based enterprises
- Harmony:** We will retain our natural assets in balance with our built environment

Our simple guiding principle will be to ensure everything we do will make Kalamunda socially, environmentally and economically sustainable.

[www.kalamunda.wa.gov.au](http://www.kalamunda.wa.gov.au)

city of  
**kalamunda**

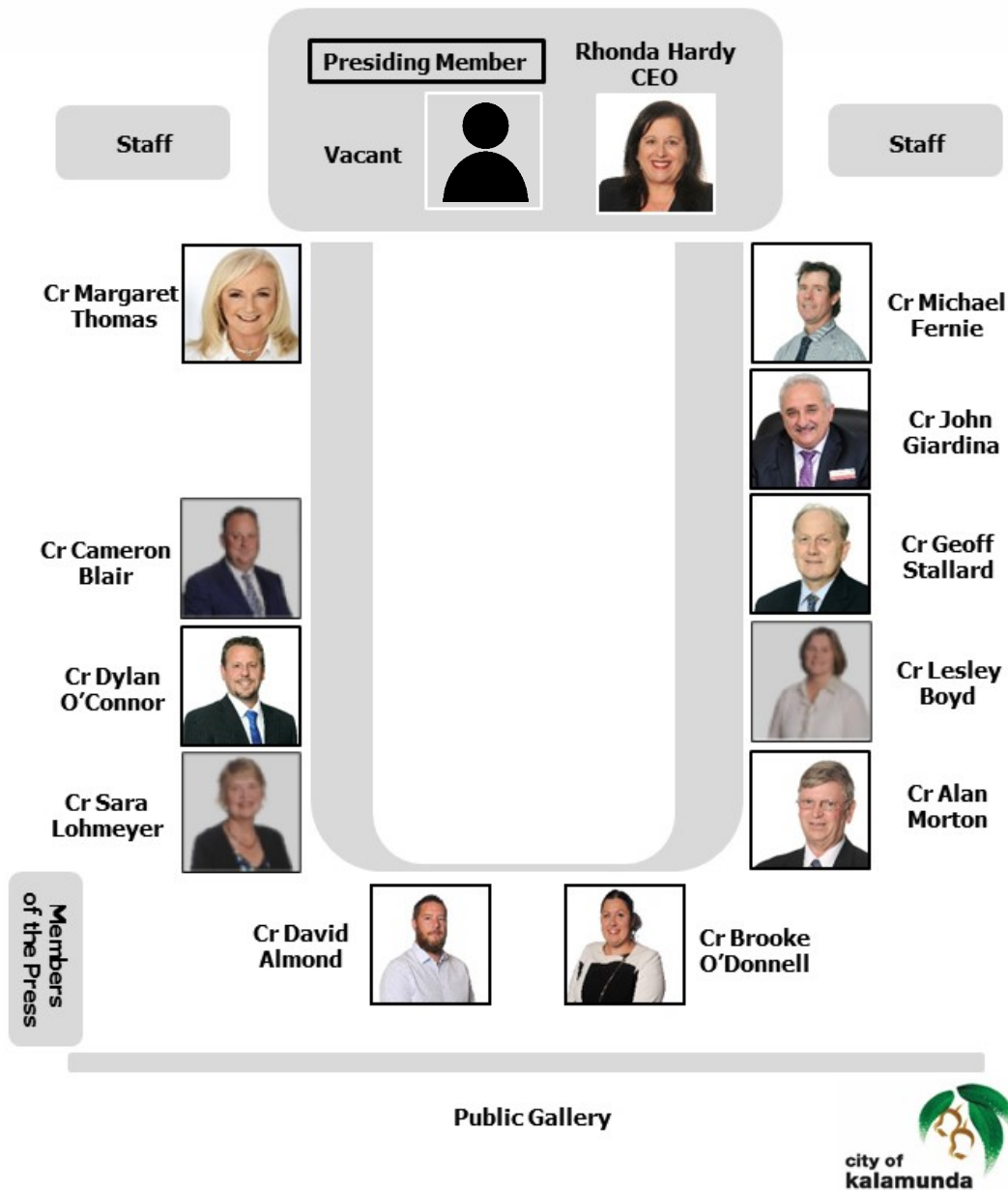


## INFORMATION FOR THE PUBLIC ATTENDING COUNCIL MEETINGS

Welcome to this evening's meeting. The following information is provided on the meeting and matters which may affect members of the public.

If you have any queries related to procedural matters, please contact a member of staff.

### Council Chambers – Seating Layout



### **Audit & Risk Committee Meeting Procedure**

1. Audit & Risk Committee has a membership of all Councillors.
2. The Committee makes recommendations only to Full Council (held on the fourth Tuesday of each month at 6.30pm)
3. All other arrangements are in general accordance with Council's Audit & Risk Committee Terms of Reference February 2013.

### **Acknowledgement of Traditional Owners**

We wish to acknowledge the traditional custodians of the land we are meeting on, the Whadjuk Noongar people. We wish to acknowledge their Elders' past, present and future and respect their continuing culture and the contribution they make to the life of this City and this Region.

## **Emergency Procedures**

**Please view the position of the Exits, Fire Extinguishers and Outdoor Assembly Area as displayed on the wall of Council Chambers.**

**In case of an emergency follow the instructions given by City Personnel.**

**We ask that you do not move your vehicle as this could potentially block access for emergency services vehicles.**

**Please remain at the assembly point until advised it is safe to leave.**

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**1. Official Opening**

**1.1 Election of New Presiding Member**

Due to the resignation of the Presiding Member, an election is required to be held for a replacement.

**2. Attendance, Apologies and Leave of Absence Previously Approved**

**3. Public Question Time**

**3.1 Questions Taken on Notice at Audit & Risk Meeting of 31 July 2018**

**3.1.1 Mr David Downing of 107 Milner Road, High Wycombe**

Item 9.1.4 – Review of Tender and Procurement Processes – Risk Management and Officer Comments

At the Audit & Risk Meeting of 31 July 2018, Mr Downing asked the following questions that were taken on notice.

Summary of questions:

- Q1. *Does the City consider the tender for the Ashby / Nardine Road link meets the policy of delivering value for money using best practice approach, bearing in mind the continuing cost blow out?*
- Q2. *Does this tender meet the risk profile in paragraph 34 or is the moderate consequence because it is not City of Kalamunda money at risk, but that of the landowners?*
- Q3. *Was this particular tender process robust, as referred to in paragraph 36?*

Summary of response from the Director Corporate Services:

- A1. *Yes, the Tender Assessment considered that the Tendered Price represented best value for money when the assessment was undertaken.*
- A2. *The City does not differentiate between the different funding sources for projects when undertaking the risk assessment.*
- A3. *The Independent Audit Report into the City's Tender and Procurement Processes made recommendations for improvement which the City is committed to implementing.*

3.2 **Questions from Meeting 30 October 2018**

*A period of not less than 15 minutes is provided to allow questions from the gallery on matters relating to the functions of Council. For the purposes of Minuting, these questions and answers will be summarised.*

4. **Petitions/Deputations**

5. **Confirmation of Minutes from Previous Meeting**

- 5.1 That the Minutes of the Audit & Risk Committee Meeting held on 31 July 2018, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved:

Seconded:

Vote:

**Statement by Presiding Member**

*"On the basis of the above Motion, I now sign the Minutes as a true and accurate record of the meeting of 31 July 2018."*

6. **Announcements by the Member Presiding Without Discussion**

7. **Matters for Which the Meeting may be Closed**

- 7.1 Item 9.1.1 - Internal Audit Report October 2018 - Confidential Attachments 1. Dogs and Cats Registration Audit Report, 2. Records Services Audit Report, 3. Planning Approval Audit Report, 4. Closed Circuit Television (CCTV) Audit Report and 5. Fraud Management Audit Report  
Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety".*
- 7.2 Item 9.2.1 - Adoption of Annual Financial Report 2017/2018 – Confidential Attachment 1. Adoption of Annual Financial Report 2017/2018  
Reason for Confidentiality: *Local Government Act 1995 S5.23 (2) (c) – "a contract entered into, or which may be entered into, by the local government which relates to a matter to be discussed at the meeting.*

- 7.3 Confidential Agenda Item 14.1.1 - Status Report - Nardine / Ashby Close Tender and Procurement Process  
Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (a) - "a matter affecting an employee or employees."*  
Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (c) - "a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting."*

- 7.4 Confidential Agenda Item 14.1.2 - Procurement Audit Status Report  
Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety"*

## **8. Disclosure of Interest**

### **8.1 Disclosure of Financial and Proximity Interests**

- a) Members must disclose the nature of their interest in matter to be discussed at the meeting. (Section 5.56 of the *Local Government Act 1995*.)
- b) Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Section 5.70 of the *Local Government Act 1995*.)

### **8.2 Disclosure of Interest Affecting Impartiality**

- a) Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee had given or will give advice.



## 9. Reports to Council

### 9.1 Corporate Services Reports

#### 9.1.1 Internal Audit Report October 2018

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

Previous Items	
Directorate	Corporate Services
Business Unit	Corporate Services
File Reference	
Applicant	N/A
Owner	N/A
Attachments	Nil

Confidential Attachments	<ol style="list-style-type: none"><li>1. Dogs and Cats Registration Audit Report</li><li>2. Records Services Audit Report</li><li>3. Planning Approval Audit Report</li><li>4. Closed Circuit Television (CCTV) Audit Report</li><li>5. Fraud Management Audit Report</li></ol>
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### EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the findings and recommendations arising from the recently completed Internal Audit Reviews.
2. The Internal Audit was completed in accordance with the provisions of the *Local Government Act 1995*, associated regulations, *Australian Accounting Standards*. The Internal Audit has identified a number of improvement opportunities which the City of Kalamunda (City) is committed to implementing.
3. It is recommended Council receives the Internal Audit Report.

### BACKGROUND

4. The Internal Audit program is delivered in line with the City's three year Strategic Audit Plan (Plan) which contains a mix of compliance, financial and performance / operational audits. During the inaugural year of the Plan, a total of nine engagements were completed.

5. The Internal Audit Program is focused on assisting the Audit and Risk Committee, Chief Executive Officer (CEO) and Executive to achieve objectives, improve business performance and manage risk through:
- a) providing an independent assessment of risks, controls and processes across the City;
  - b) promoting mechanisms that encourage a culture which is conscious of risk, control and process; and
  - c) assisting and supporting the City in its drive for process improvement and achievement of its objectives.

6. The completed internal audit reviews did not identify any material control weaknesses.

7. The Internal Audit Reviews undertaken during the past quarter have been focused on:

- a) Dogs and Cats Registration;
- b) Records Services;
- c) Planning Approvals;
- d) CCTV;
- e) Fraud Management.

8. **Dogs and Cats Registration**

The objectives and scope of the Audit was to review the effectiveness of the registration process. In accordance with the scope, the audit obtained an understanding of the internal policies, procedures and processes in respect of the cats and dogs registration processes, including:

- a) enforcement processes;
- b) the System used to register cats and dogs and the management of the database;
- c) operational responsibilities; and
- d) debt collection.

9. **Records Services Internal Audit**

The objective and scope of the Audit was to assess the systems and processes in relation to capturing, retrieval, retention and disposal of records. The scope of the internal audit included an assessment of:

- a) document control processes;
- b) procedures and practices in managing electronic and hard copy records, including meeting current requirements and long-term storage needs;
- c) processes for managing Data privacy;
- d) processes for restricting access to confidential and sensitive information including management of commercial and confidential files;

- e) resourcing in the responsible business area;
- f) staff training on recordkeeping and awareness; and
- g) monitoring and auditing.

10. **Planning Approvals**

The objective and scope of the Audit was to review and consider the effectiveness of systems and processes with regards to the City's Statutory Planning approval process (controls in place) for timeliness, compliance with customer service standards and integrity in decision making. The scope of the internal audit included, assessment of:

- a) policy, procedures and planning schemes;
- b) conflict of Interest management;
- c) discretionary decisions;
- d) delegated authority;
- e) Information Systems;
- f) archiving of information; and
- g) business continuity.

11. **CCTV Internal Audit**

The objective and scope of the Audit was to consider the effectiveness of systems and processes in place for CCTV in the City. The scope of the internal audit included:

- a) a review of the City's CCTV strategy, policies, procedures and guidelines;
- b) understanding of the cross-divisional responsibilities and governance;
- c) a review of the control framework in respect to access, storage and management of information collected, including the City's consideration of applicable legislation;
- d) a review of the performance measures established to assess the effectiveness of the CCTV's, and whether they are realising the benefits envisaged on installation;
- e) determining stakeholder access to information; and
- f) a review of the maintenance and control of the CCTV network.

12. **Fraud Management Internal Audit**

The objective and scope of the Audit was to review the adequacy of the City's fraud management practices and procedures in respect to the following key components of *AS 8001 – 2008*:

- a) Planning and Resourcing, including:
  - i. Prevention,
  - ii. Detection,
  - iii. Response,
  - iv. Fraud Control Program Health Check Survey.

## DETAILS

13. Cat and Dog registrations are a requirement under state legislation through the *Cat Act 2011* and the *Dog Act 1976*, in order to manage and control cats and dogs within the area administered by the City. Setting appropriate governance over cat and dog registration is paramount for the management of animal related issues such as public safety and environmental impact.
14. The results of the Dogs and Cats Registration Audit are detailed in Confidential Attachment 1.
15. The Records Management Audit focused on an assessment of the systems and processes in relation to the capture, retrieval, retention and disposal of records.
16. The results of the Records Management Audit are detailed in Confidential Attachment 2.
17. Local governments are involved in planning for local communities by ensuring appropriate planning controls exist for land use and development. They do this by, amongst other things, preparing and administering their local planning schemes and strategies. In line with the Annual Audit Plan, a high-level review was conducted of the Statutory Planning approval processes at the City.
18. The results of the Planning Approval Audit are detailed in Confidential Attachment 3.
19. CCTV is a function with the involvement of many stakeholders and a high-level of complexity for compliance with legislation, such as, but not limited to, the *Privacy Act 1988*, *Surveillance Devices Act 1998 (WA)*, *Records Management Act 2000*, and Standards [1] for best practice.  
  
The City is in the early stage of developing the governance processes for managing CCTV operations. The findings to follow therefore provide a baseline for the City to progress with formalising the strategy, and structure of CCTV operations going forward. The Internal Auditors acknowledge management's efforts towards establishing a framework for managing CCTV operations.
20. The results of the CCTV Audit are detailed in Confidential Attachment 4.
21. In line with the Annual Audit Plan, Crowe Horwath conducted a high-level review of the Fraud Management process at the City.  
  
Fraud control is a continuous process demanding awareness and proactive action from management to reduce the possibility and impact of losses through fraud.  
  
The engagement reviewed the fraud management practices in accordance with key components of the Australian Standard on Fraud and Corruption Control, AS 8001 – 2008 (AS 8001 – 2008).  
  
The Audit relates to fraud and corruption as defined in the AS 8001 – 2008.

22. The results of the Fraud Management are detailed in Confidential Attachment 5.

### **STATUTORY AND LEGAL CONSIDERATIONS**

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

### **POLICY CONSIDERATIONS**

24. Nil.

### **COMMUNITY ENGAGEMENT REQUIREMENTS**

#### **Internal Referrals**

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

#### **External Referrals**

26. Nil.

### **FINANCIAL CONSIDERATIONS**

27. The monitoring and review of internal controls within the Internal Audit program will reduce the risk and likely exposure of potential loss to the City.

### **STRATEGIC COMMUNITY PLAN**

#### **Strategic Planning Alignment**

28. *Kalamunda Advancing Strategic Community Plan to 2027*

#### **Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

### **SUSTAINABILITY**

#### **Social Implications**

29. Nil.

#### **Economic Implications**

30. Nil.

#### **Environmental Implications**

31. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

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

33.	<b>Risk:</b> Audit recommendations are not implemented in a timely fashion.		
	<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
	Unlikely	Moderate	Low
	<b>Action/Strategy</b>		
	Internal Audit Plan developed and reviewed annually. Monitoring and review of implementation of audit recommendations.		

**OFFICER COMMENT**

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

**Voting Requirements: Simple Majority**

**RECOMMENDATION**

That Council:

1. RECEIVES the Internal Audit Report.
2. NOTES that internal audit reports identifying recommendations and management responses will be brought back to the Audit & Risk Committee.

## 9.1.2 City of Kalamunda Risk Profile

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

Previous Items	OCM 46/2018, OCM 155/2018
Directorate	Corporate Services
Business Unit	Finance Services
File Reference	N/A
Applicant	N/A
Owner	N/A

Attachments	1. Risk Profile <b>[9.1.2.1]</b>
	2. Intergrated Risk Management Plan <b>[9.1.2.2]</b>
	3. City of Kalamunda Strategic Risk Register <b>[9.1.2.3]</b>

1. The purpose of this report is to provide Council with an update of the City of Kalamunda's (City) Risk Profile consisting of the top ten reported risks at 30 September 2018 (Attachment 1).
2. The City's Risk Profile has been prepared in accordance with the adopted Integrated Risk Management Plan (Plan) (Attachment 2). The Risk Profile outlines the top 10 ranked risks facing the organisation.
3. The Risk Profile was developed following a review of the City's Strategic Risk Register by the Administration and was presented to Council at the February Strategic Retreat on 11 and 12 February 2018 and considered at the March 2018 and July 2018 Audit and Risk Committee. The risk rating has been recently reviewed by the Administration.
4. It is recommended Council endorse the Risk Profile and note the Strategic Risk Register (Attachment 3).

### **BACKGROUND**

5. Risk management is a core component of corporate governance and an integral part of contemporary management practices. The Risk Profile has been adopted in accordance with the Risk Management Plan and is structured around *AS/NZS/ISO 31000:2009* and the requirements under the *Local Government (Audit) Regulations 1996*.
6. The management of risk is focused on:
  - a) maintaining high levels of integrity for services provided by the City;
  - b) protecting the City's physical, and non-physical assets including employees, elected members, financial and property;
  - c) achieving and maintaining legislative and regulatory compliance, including codes of conduct and professional standards;
  - d) creating an environment where all employees assume responsibility for the proactive management of risk; and

- e) demonstrating transparent and responsible risk management processes aligned to accepted best practice so as to address uncertainty and to deliver continuous improvement.
7. The Risk Profile captures those risks that are likely to:
- a) adversely impact the City's capacity to deliver current and future services;
  - b) have an organisational wide focus or impact;
  - c) have an adverse financial impact; and
  - d) result in significant reputational or political damage.

## **DETAILS**

8. Risk management refers to the coordination of activities that direct and control the organisation with regard to risk. It is acknowledged that risk management involves both the management of potentially adverse impacts together with the realisation of opportunities. Risk management is a focal element of the City's strategy to promote accountability through good governance and robust business practices, contributing to maintaining a sustainable organisation focused on the effective management of resources and operations.
9. In recognising that risk management is integral to good business practices, Enterprise Risk Management is comprised of the following elements:
- a) the City of Kalamunda's Risk Management Framework;
  - b) Risk Management Policy and Management Procedures;
  - c) Senior Management Team commitment to leading and championing risk management practices and thinking;
  - d) management systems to establish and report on the profile and treatment of risks; and
  - e) broad based training and awareness raising to enhance risk management understanding.
10. The City's Risk Management Framework is based on 11 best practice principles contained in the (AS/NZS ISO 31000:2009). These principles are:
- a) creating and protecting value – contributing to the achievement of the City's objectives and improving performance;
  - b) an integral part of the organisational processes;
  - c) a key element of decision making;
  - d) explicitly addressing uncertainty;
  - e) systemic, structural and timely;
  - f) founded on the best available information;
  - g) tailored with the internal and external operating environments;
  - h) human and cultural factors – recognising that people capabilities and perceptions can aid or hinder the achievement of objectives;



- i) transparent and inclusive;
  - j) dynamic, interactive and responsive to change; and
  - k) focused on continual improvement.
11. The City's Administration recently undertook a workshop to review and update the Strategic Risk Register. From the workshop the Risk Profile was reviewed based on the top ten strategic risks likely to impact the City's ability to achieve its strategic objectives.
12. The City's Strategic Risk Register has been developed so as to:
- a) identify any new risk events;
  - b) highlight risk trends between the current and previous years; and
  - c) identify priority treatment actions planned for the next 12 months.

### **STATUTORY AND LEGAL CONSIDERATIONS**

13. Local Government (Audit) Regulations Amendment.

Amendments to the *Local Government (Audit) Regulations 1996* came into effect on 9 February 2013. Specifically, clause 17 which states:

*"17. CEO to review certain systems and procedures*

*(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –*

- (a) risk management; and*
- (b) internal control; and*
- (c) legislative compliance*

*(2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*

*(3) The CEO is to report to the audit committee the results of that review."*

In addition to the requirement for the CEO to prepare a report as outlined in clause 17, the Regulation also stipulates an additional responsibility for the Audit Committee as detailed in clause 16(c) which states the Audit Committee:

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

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

### **POLICY CONSIDERATIONS**

14. The City's Risk Profile has been developed in accordance with the Integrated Risk Management Plan and the City's Risk Management Policy (C-HR06).

## COMMUNITY ENGAGEMENT REQUIREMENTS

### Internal Referrals

15. The Risk Profile was developed following an assessment and review of the City's strategic risks. The Risk Profile was subsequently reviewed by the City's Administration.

### External Referrals

16. Nil.

## FINANCIAL CONSIDERATIONS

17. Nil.

## STRATEGIC COMMUNITY PLAN

### Strategic Planning Alignment

18. *Kalamunda Advancing Strategic Community Plan to 2027*

**Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

## SUSTAINABILITY

### Social Implications

19. Nil.

### Economic Implications

20. Nil.

### Environmental Implications

21. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

22.

<b>Risk:</b> Without an effective enterprise risk management system the City would not be fulfilling its obligations of duty of care and due diligence as prescribed by the <i>Local Government Act 1995</i> .		
<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
Possible	Moderate	Medium
<b>Action/Strategy</b>		
Ensure the City has an enterprise risk management system in place that complies with Australian standards and contains the following elements:		
a) Risk Appetite Statement;		
b) Risk Assessment based on the Risk Policy, Risk Management Plan, risk registers and established standard;		
c) Risk Profile reviewed quarterly by the Administration and Council.		

23.

<b>Risk:</b> The City fails to effectively manage risks impacting the delivery of objectives.		
<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
Possible	Moderate	Medium
<b>Action/Strategy</b>		
a) Ensure the City has an enterprise risk management system in place that complies with Australian standards.		
b) Undertake a review of the City’s Risk Profile by the Administration and Council on a quarterly basis.		

**OFFICER COMMENT**

24. Risk management is a core element of corporate governance and an integral component of contemporary management practices. The Risk Management Plan is structured around *AS/NZS/ISO 31000:2009* (and the requirements under the) *Local Government (Audit) Regulations 1996*.
25. The effective management of risk enables the City to promote accountability through good governance and robust business practices, contributing to maintaining a suitable organisation focused on the effective management of resources and operations.
26. The Risk Profile was reviewed by the Administration before being presented to Council at the Strategic Retreat. The Risk Profile has been through additional reviews by the City’s Administration.

<b>Voting Requirements: Simple Majority</b>
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**RECOMMENDATION**

That Council:

1. ENDORSE the Risk Profile (Attachment 1).
2. NOTES the Strategic Risk Register (Attachment 3).
3. NOTES that the Risk Profile will be brought to subsequent Audit & Risk Committee Meetings.

### **9.1.3 Audit & Risk Committee - Appointment of External Member**

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

Previous Items	OCM 170/2017, OCM 242/2017, OCM 46/2018, OCM 155/2018
Directorate	Corporate Services
Business Unit	Corporate Services
File Reference	
Applicant	N/A
Owner	N/A
Attachments	Nil

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to consider the results of the request for nominations for an external member to join the City of Kalamunda's (City's) Audit and Risk Committee.
2. The City called for nominations from suitably qualified and experienced community members to join the Audit and Risk Committee. Following the closure of the advertising period, the City did not receive any nominations to fill the role.
3. It is recommended that Council notes that there were no nominations from external community members to join the City's Audit and Risk Committee.

#### **BACKGROUND**

4. At the Audit & Risk Committee (Committee) meeting of 20 March 2018, the Chief Executive Officer was requested to prepare a report to Council outlining the selection criteria and process for appointing an external community member to the Audit & Risk Committee with expertise in auditing (OCM 46/2018).
5. At the Committee meeting of 31 July 2018, Council requested the Chief Executive Officer to advertise for the appointment of an external member to join the Audit and Risk Committee.
6. The City advertised on the Engage Portal and the local newspaper for a period of two weeks concluding on the 28 September 2018.
7. The City did not receive any nominations from external community members to join the City's Audit & Risk Committee.

## **DETAILS**

8. It is a requirement under the *Local Government Act 1995* (WA) (Act) the Committee be appointed by Council and contains a minimum of three Councillors as members whilst allowing for the appointment of independent members, provided that Councillors form the majority of the Committee. The election of members is to be by absolute majority.
9. The appointment of external members to the Committee may bring different perspectives and skills to the Committee.
10. The Chief Executive Officer Instruction provides for the advertisement of external membership through the media and the City's website. Following public advertising, the Chief Executive Officer will appoint a panel of five staff members to undertake an assessment of applicants against the multi-criteria selection matrix.
11. The appointment of external membership to the Committee was to be assessed against the following multi-criteria selection matrix:
  - a) knowledge and experience in audit and risk management;
  - b) previous experience in participation on audit and risk committees;
  - c) the ability to allocate the necessary time to attend meetings and read documentation prior to the meeting;
  - d) how the application addresses a knowledge or skills gap on the Audit & Risk Committee, with consideration given to the balance of the Committee; and
  - e) tertiary qualifications commensurate with understanding audit, risk, Policy and financial reports and information.
12. Following the assessment by staff, the member with the highest aggregate score will be recommended to the Committee for consideration and subsequent recommendation to Council.

## **STATUTORY AND LEGAL CONSIDERATIONS**

13. Section 7.1 of the Act requires a local government to establish an Audit Committee of three or more persons to exercise and discharge the duties conferred on it.
14. Section 7.2 of the Act requires the accounts and annual financial report of a local government to be audited by an auditor appointed by the local government.
15. The appointment of the auditor by Council under section 7.3 (1) of the Act is to be by recommendation of the Audit Committee. The person appointed as external auditor is required to comply with section 7.9 of the Act and the *Local Government (Audit) Regulations 1996*.

16. Regulation 5 (1) and 5 (2) of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to establish efficient systems and procedures for the general financial management under section 6.10 of the Act and undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of a local government at least once in every four years.
17. Part 5, Division 2 of the *Local Government Act 1995* governs the operation of local government committees, including the process for appointing committee members.

## **POLICY CONSIDERATIONS**

18. Nil.

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

### **Internal Referrals**

19. Nil.

### **External Referrals**

20. Nominations were called for the appointment of an external member to the Audit & Risk Committee with no nominations received.

## **FINANCIAL CONSIDERATIONS**

21. Part 5, Division 8, section 5.100 of *The Local Government Act 1995* states that:  
*"A person who is a committee member but who is not a council member or an employee is not to be paid a fee for attending any committee meeting".*  
However, committee members are entitled to claim reasonable reimbursement of costs.
22. In the event that Council decides to appoint an external member to the Committee, additional costs will be incurred. The actual cost of appointing an external member would, as a minimum, represent reimbursement of costs.

## **STRATEGIC COMMUNITY PLAN**

### **Strategic Planning Alignment**

23. *Kalamunda Advancing Strategic Community Plan to 2027*

#### **Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

**SUSTAINABILITY**

**Social Implications**

24. Nil.

**Economic Implications**

25. Nil.

**Environmental Implications**

26. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

27.	<b>Risk:</b> Inadequate oversight over Audit and Risk functions.		
	<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
	Possible	Moderate	Medium
	<b>Action/Strategy</b>		
	Internal Audit Plan reviewed regularly. Internal Audit provides briefing to Audit & Risk Committee. City activities subject to external Audit review.		

**OFFICER COMMENT**

- 28. The City advertised on the Engage Portal and the local newspaper for a period of two weeks concluding on 28 September 2018.
- 29. The City did not receive any nominations from external community members to join the City’s Audit & Risk Committee.
- 30. The process of advertising demonstrated there is limited/no interest in community members with the suitable qualifications to join the Audit and Risk Committee. Given this request from Council has now been tested, and resources expended, it is recommended that further action be suspended.

**Voting Requirements: Simple Majority**

**RECOMMENDATION**

That Council:

- 1. NOTES that there were no nominations received for the appointment of an external member to the City’s Audit & Risk Committee.
- 2. SUSPENDS any action to appoint a community representative to the Audit and Risk Committee.



## 9.2 Chief Executive Officer Reports

### 9.2.1 Adoption of Annual Financial Report 2017/2018

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

Previous Items	Nil
Directorate	Chief Executive Officer
Business Unit	Office of the Chief Executive Officer
File Reference	
Applicant	N/A
Owner	N/A
Attachment	1. 2017/2018 Annual Financial Report <b>[9.2.1.1]</b>
Confidential Attachment	1. Audit Findings Report <i>Reason for Confidentiality: Local Government Act 1995 S5.23 (2) (c) – "a contract entered into, or which may be entered into, by the local government which relates to a matter to be discussed at the meeting".</i>

#### EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the Audited Financial Report for the 2017/2018 Financial Year (The Report - Attachment 1) together with the issues raised by the Auditor in the Audit Findings Report (Confidential Attachment 1).
2. The Audit of the Financial Report was undertaken by Grant Thornton (GT) who completed an audit of the report for the financial year ending 30 June 2018. The Audit did not identify any material adverse findings affecting the City of Kalamunda's (the City) operations. This is a significant outcome for the City.
3. In accordance with legislation, it is a requirement for the City to provide a copy of the Annual Financial Report to the Department of Local Government, Sport and Cultural Industries within 30 days of the receipt of the Auditors report. The report was submitted to the Department on 19 October 2018.
4. It is recommended that Council accepts the 2017/2018 Annual Financial Report. (Attachment 1).

#### BACKGROUND

5. *Section 6.4 (1)* of the *Local Government Act 1995* (The Act) requires a local government to prepare an Annual Financial Report for each financial year and details what the Annual Financial Report is to contain.
6. *Section 6.4 (2)* of the Act requires a local government to submit by 30 September following each financial year, or as such time as the Minister allows, to its auditor –

- a) The accounts of the local government, balanced up to the last day of the preceding financial year; and
  - b) The annual financial report of the local government for the proceeding financial year.
7. *Section 7.12A (3)* of the Act requires the local government to examine the report of the auditor, under section 7.9 (1) and any other report prepared under section 7.9 (3) forwarded to it, and is to –
- a) Determine if any matters raised by the report or reports require action to be taken by the local government; and
- Ensure that appropriate action is taken in respect of those matters.
8. *Section 7.12A (4)* of the Act requires the City to –
- a) Prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
  - b) 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 under section 7.9 is received by the local government, whichever is the latest time.
9. The City continues to strengthen its financial position with a surplus of \$5.5 million for the year prior to non-cash adjustments flowing from the revaluation of certain non-current assets. The overall surplus as reported in the Rate Setting Statement amounted to \$4.1 million. The net assets of the City increased significantly by \$204 million to \$564 million mainly due to the revaluation surplus from the infrastructure assets revaluation.

## **DETAILS**

10. The 2017/18 Annual Financial Report is presented for Council's acceptance and compared with the results of 2016/17.

### **Comprehensive Income Statement**

- a) In comparison with 2016/17, revenue decreased by 4.3% or \$2.5 million:
  - i. Rates rose by \$0.9 million with an increase of the rate in the dollar and rates on new properties.
  - ii. Contributions and reimbursements decreased by \$0.7 million mainly due to the reduced operational expenditure reimbursements from the CELL9 Trust account.
  - iii. Operating grants decreased by \$4.1 million mainly due to the discontinuation of grants received from Department of Health upon divestment of Home and Community Care Services in 2016/2017.
  - iv. Fees and Charges increased by \$1.4 million primarily due to recovery of incorrect skip bin charges incurred in 2016/2017.

- b) Operating expenditure decreased by 8.2% or \$5.2 million compared to 2016/2017
  - i. Employment costs were decreased by \$1.9 million, mainly as a result of City's withdrawal from providing HACC services as of 30 June 2017.
  - ii. Materials and contracts decreased by \$3.1 million due mainly to the reduced level of land acquisitions for infrastructure projects by Forrestfield Industrial Area Scheme stage 1.
- c) Non-operating grants were increased by \$0.3 million mainly as a result of donation of an Emergency Services Fire truck by the Department of Fire and Emergency Services (DFES).
- d) Developer contributions at \$1.3 million reduced by \$1.6 million as a result of reduced amount of developer contributions received from Forrestfield Industrial Area Scheme Stage1.
- e) The revaluation of infrastructure assets has resulted a \$198 million increase in revaluation surplus in other comprehensive income.

#### **Statement of Financial Position**

- a) Cash decreased by \$3.6 million due mainly to increased level of capital expenditure and higher level of receivables.
- b) The value of the investment in the EMRC increased by \$1.6 million.
- c) Capital Work in Progress of \$3.7 million was shown as a separate asset class this year and comprises construction works on Cell 9 and Forrestfield Industrial Area Scheme stage 1.
- d) The value of the Property, Plant & Equipment and Infrastructure increased by \$201 million mainly due to a \$198 million increase from asset revaluation in infrastructure assets.
- e) Current leave provisions decreased by \$0.1 million due to a reduction in annual leave.
- f) Borrowings did not change significantly.
- g) In Equity the retained surplus increased with the net result for the year of \$5.5 million plus the revaluation surplus of \$198 million.

#### **Statement of Cash Flows**

- a) Operating Activities produced \$7.3 million as compared to \$6.9 million in 2017.
- b) A total of \$11.6 million was invested during the year, \$3.6 million above the amount invested in 2016/2017 mainly due to construction of infrastructure.
- c) Developer contributions of \$1.3 million continued to fund expenditure in the Forrestfield Industrial Area Scheme Stage1 and Cell 9.

11. The Auditors (Grant Thornton), conducted the field work in April and August 2018 and issued their report in October 2018. The audit certificate is provided on pages 56/57 of the Annual Financial Report. As noted by the auditors, there were no indications of significant adverse trends in the financial position or the financial management practices of the City.
12. In accordance with standard practice, the Auditors also issued an Audit Findings Report (Confidential Attachment 1), with no material deficiencies identified in the report.
13. The Financial Ratios (Local Government Operational Guidelines) are satisfactory overall. A summary of the key financial indicators is given below.

Financial Ratios	2018	2017	Standard
Current ratio	1.71	1.79	1.00
Asset consumption ratio	0.99	0.95	0.50
Asset renewal funding ratio	0.83	1.00	0.75
Asset sustainability ratio	0.51	0.54	0.90
Debt service cover ratio	11.53	9.06	2.00
Operating surplus ratio	0.04	(0.03)	0.01
Own source revenue coverage ratio	0.94	0.84	0.60

The depreciation rates for infrastructure assets were adjusted to reflect the revaluation of assets to fair value impacting the Asset Sustainability Ratio.

14. Reserves have decreased by \$0.5 million over the year. This reduction is mainly attributable to the fall of \$0.7 million in the Forrestfield Industrial Scheme Stage 1 Reserve, as capital works are expended in this development.
15. The City's reserves will continue to be closely monitored to ensure the long term financial sustainability of the City.

### **STATUTORY AND LEGAL CONSIDERATIONS**

16. Sections 6.4, 7.9, 7.12A of the *Local Government Act 1995*.
17. Regulation 51 of the Local Government (*Financial Management*) *Regulations 1996*.

### **POLICY CONSIDERATIONS**

18. There are no policy implications.

### **COMMUNITY ENGAGEMENT REQUIREMENTS**

#### **Internal Referrals**

19. The Administration Team worked closely with Auditors and Executive were briefed on the findings associated with the Annual Financial Report 2017/2018.

**External Referrals**

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

**FINANCIAL CONSIDERATIONS**

21. The 2017/2018 Budget includes provision for the cost of having the accounts and the Annual Financial Report audited by an externally appointed registered auditor.

**STRATEGIC COMMUNITY PLAN**

**Strategic Planning Alignment**

22. *Kalamunda Advancing Strategic Community Plan to 2027*

**Priority 4: Kalamunda Leads**

**Objective 4.1** - To provide leadership through transparent governance.

**Strategy 4.1.1** - Provide good governance.

**SUSTAINABILITY**

**Social Implications**

23. Nil.

**Economic Implications**

24. Nil.

**Environmental Implications**

25. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

26.	<b>Risk:</b> Audit Certificate is qualified by the external auditor		
	<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
	Unlikely	Moderate	Low
	<b>Action/Strategy</b>		
	Employ qualified suitably skilled staff. Maintain controls and compliance with policy. Ensure an effective internal audit program.		

27.

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

**OFFICER COMMENT**

28.

The 2017/2018 Annual Financial Report includes:

- a) Statement by the Chief Executive Officer;
- b) Statement of Comprehensive Income by Nature and Type;
- c) Statement of Comprehensive Income by Program;
- d) Statement on Financial Position;
- e) Statement of Changes in Equity;
- f) Statement of Cash Flows;
- g) Rate Setting Statement;
- h) Notes to and forming part of the Financial Report; and
- i) Independent Auditor's Report.

29.

A significant outcome is that the Audit Report did not identify any matters of a material nature affecting the City's operations.

30.

Regulation 51 of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to provide a copy of the Annual Financial Report to the Department of Local Government, Sport and Cultural Industries within 30 days of the receipt by the auditor's report on that financial report. The report signed on 12 October 2018 was provided to the Department on 19 October 2018.

**Voting Requirements: Absolute Majority**

**RECOMMENDATION**

That Council:

ACCEPTS the 2017/2018 Annual Financial Report (Attachment 1) according to Section 6.4 of the *Local Government Act 1995*.

- 10. Motions of Which Previous Notice has been Given**
- 11. Questions by Members Without Notice**
- 12. Questions by Members of Which Due Notice has been Given**
- 13. Urgent Business Approved by the Presiding Member or by Decision**
- 14. Meeting Closed to the Public**
- 15. Closure**