



City of Cockburn
Audit & Strategic Finance Committee
Minutes

For Thursday, 21 March 2019

These Minutes are confirmed

Presiding Member's signature

Date: 18 July 2019

CITY OF COCKBURN

SUMMARY OF MINUTES OF THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 21 MARCH 2019 AT 6:00 PM

	Page
1. DECLARATION OF MEETING	4
2. APPOINTMENT OF PRESIDING MEMBER (IF REQUIRED).....	4
3. DISCLAIMER (TO BE READ ALOUD BY PRESIDING MEMBER)	5
4. ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN DECLARATIONS OF FINANCIAL INTERESTS AND CONFLICT OF INTEREST (BY PRESIDING MEMBER)	5
5. APOLOGIES & LEAVE OF ABSENCE	5
6. PUBLIC QUESTION TIME	5
7. CONFIRMATION OF MINUTES	5
7.1 (2019/MINUTE NO 0001) MINUTES OF THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING - 15/11/2018.....	5
8. DEPUTATIONS	6
9. BUSINESS LEFT OVER FROM PREVIOUS MEETING (IF ADJOURNED).....	6
10. DECLARATION BY MEMBERS WHO HAVE NOT GIVEN DUE CONSIDERATION TO MATTERS CONTAINED IN THE BUSINESS PAPER PRESENTED BEFORE THE MEETING	6
11. COUNCIL MATTERS	7
11.1 (2019/MINUTE NO 0002) LOCAL GOVERNMENT ACT COMPLIANCE AUDIT RETURN 2018.....	7
(2019/MINUTE NO 0003) SUSPENSION OF STANDING ORDERS TC	20
(2019/MINUTE NO 0004) RESUMPTION OF STANDING ORDERSTC.....	20
11.2 (2019/MINUTE NO 0005) RISK INFORMATION REPORT	21
12. PLANNING & DEVELOPMENT DIVISION ISSUES.....	31
13. FINANCE & CORPORATE SERVICES DIVISION ISSUES.....	32
13.1 (2019/MINUTE NO 0006) OFFICE OF AUDITOR GENERAL LOCAL GOVERNMENT FOCUS AUDIT: CONTROLS OVER CORPORATE CREDIT CARDS.....	32
14. ENGINEERING & WORKS DIVISION ISSUES	64
15. COMMUNITY SERVICES DIVISION ISSUES	64
16. EXECUTIVE DIVISION ISSUES.....	65
16.1 (2019/MINUTE NO 0007) FRAUD, MISCONDUCT CONTROL & RESILIENCE FRAMEWORK.....	65



17.	MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN	112
18.	NOTICES OF MOTION GIVEN AT THE MEETING FOR CONSIDERATION AT NEXT MEETING	112
19.	NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY MEMBERS OR OFFICERS	113
19.1	(2019/MINUTE NO 0008) APPOINTMENT OF INDEPENDENT MEMBER TO THE AUDIT AND STRATEGIC FINANCE COMMITTEE	113
19.2	(2019/MINUTE NO 0009) RESPONSE TO AUDIT RESULTS REPORT - ANNUAL 2017-2018 FINANCIAL AUDITS OF LOCAL GOVERNMENT ENTITIES BY THE AUDITOR GENERAL OF W.A.	124
20.	MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE	161
21.	CONFIDENTIAL BUSINESS	161
22.	CLOSURE OF MEETING	161



CITY OF COCKBURN

MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE HELD ON THURSDAY, 21 MARCH 2019 AT 6:00 PM

PRESENT:

ELECTED MEMBERS

Mr K Allen	-	Councillor (Presiding Member)
Ms L Smith	-	Deputy Mayor
Mr L Howlett	-	Mayor
Mrs C Reeve-Fowkes	-	Councillor
Mr M Separovich	-	Councillor (Arr 6.03pm)

IN ATTENDANCE

Mr S Downing	-	Director Finance & Corporate Services
Mr D Arndt	-	Director Planning & Development
Mr C Sullivan	-	Director Engineering & Works
Mr J Ngoroyemoto	-	Gov & Risk Advisor
Mrs G Bowman	-	Executive Manager, Strategy & Civic Support
Mr N Mauricio	-	Manager Financial Services
Mrs V Frankson	-	Executive Assistant to Directors - Fin. & Corp. Serv./Gov. & Comm. Serv.

1. DECLARATION OF MEETING

The Presiding Member declared the meeting open at 6.00pm.

“Kaya, Wanju Wadjuk Budjar” which means “Hello, Welcome to Wadjuk Land”

The Presiding Member acknowledged the Nyungar People who are the traditional custodians of the land on which the meeting is being held and pay respect to the Elders of the Nyungar Nation, both past and present and extend that respect to Indigenous Australians who are with us tonight.

2. APPOINTMENT OF PRESIDING MEMBER (IF REQUIRED)

Nil



3. DISCLAIMER (TO BE READ ALOUD BY PRESIDING MEMBER)

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

4. ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN DECLARATIONS OF FINANCIAL INTERESTS AND CONFLICT OF INTEREST (BY PRESIDING MEMBER)

Nil

5. APOLOGIES & LEAVE OF ABSENCE

Mr Don Green, Director Gov. & Comm. Serv	-	Leave of Absence
Mr Stephen Cain, CEO	-	Apology

6. PUBLIC QUESTION TIME

Nil

7. CONFIRMATION OF MINUTES**7.1 (2019/MINUTE NO 0001) MINUTES OF THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING - 15/11/2018****RECOMMENDATION**

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

COMMITTEE RECOMMENDATION

MOVED Cr C Reeve-Fowkes SECONDED Mayor L Howlett

That the recommendation be adopted.

CARRIED 4/0!

8. DEPUTATIONS

Nil

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

Nil

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

Nil

AT THIS POINT IN THE MEETING, THE TIME BEING 6:03 PM THE FOLLOWING ITEMS WERE CARRIED BY 'EN BLOC' RESOLUTION OF COMMITTEE

16.1

CR MICHAEL SEPAROVICH JOINED THE MEETING AT 6.03PM.



11. COUNCIL MATTERS

11.1 (2019/MINUTE NO 0002) LOCAL GOVERNMENT ACT COMPLIANCE AUDIT RETURN 2018

Author(s) J Ngoroyemoto

Attachments 1. Compliance Audit Return 2018 [↓](#)

RECOMMENDATION

That Council adopt the Local Government Compliance Audit Return for the period 1 January 2018 to 31 December 2018, as attached to the Agenda.

COMMITTEE RECOMMENDATION

MOVED Cr C Reeve-Fowkes SECONDED Cr M Separovich

That the recommendation be adopted.

CARRIED 5/0

Background

Since 2000, completion of the Local Government Compliance Audit Return has been mandatory for all local governments in this State in accordance with Regulations 14 and 15 of the Local Government (Audit) Regulations 1996.

Submission

N/A

Report

The Annual Compliance Audit Return is to be presented to, and reviewed by, a meeting of the Audit and Strategic Finance Committee in accordance with Regulation 14(3A) of the Local Government (Audit) Regulations 1996 and the result of that review be reported to a meeting of Council for adoption.

Following adoption by Council, a certified copy of the Return, signed by the Mayor and Chief Executive Officer, along with a copy of the relevant section of the Council Minutes, is submitted to the Director General, Department of Local Government, Sports and Cultural Industries in accordance with Regulations 14 and 15 of the Local Government

(Audit) Regulations 1996, by 31 March. The Return indicates a conformity rating of 100% for the year.

Strategic Plans/Policy Implications

Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

Budget/Financial Implications

N/A

Legal Implications

Regulations 14 and 15 of the Local Government (Audit) Regulations 1996 refer.

Community Consultation

N/A

Risk Management Implications

Failure to adopt the recommendation will result in non-compliance with meeting the deadlines for the Compliance Audit Return statutory reporting requirements to the Department of Local Government, Sports and Cultural Industries by 31 March 2019.

Advice to Proponent(s)/Submitters

N/A

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

Nil



Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

Cockburn - Compliance Audit Return 2018

Certified Copy of Return

Please submit a signed copy to the Director General of the Department of Local Government, Sport and Cultural Industries 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 2018.	N/A	No Major Tradings from a land perspective were undertaken	Daniel Arndt
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 2018.	N/A	No Major Tradings from a land perspective were undertaken	Daniel Arndt
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 2018.	N/A	No Major Tradings from a land perspective were undertaken	Daniel Arndt
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 2018.	N/A	No Major Tradings from a land perspective were undertaken	Daniel Arndt
5	s3.59(5)	Did the Council, during 2018, resolve to proceed with each major land transaction or trading undertaking by absolute majority.	N/A	No Major Tradings from a land perspective were undertaken	Daniel Arndt

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

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.	Yes		Don Green
2	s5.16, 5.17, 5.18	Were all delegations to committees in writing.	Yes		Don Green
3	s5.16, 5.17, 5.18	Were all delegations to committees within the limits specified in section 5.17.	Yes		Don Green
4	s5.16, 5.17, 5.18	Were all delegations to committees recorded in a register of delegations.	Yes		Don Green
5	s5.18	Has Council reviewed delegations to its committees in the 2017/2018 financial year.	Yes		Don Green
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		Don Green
7	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO resolved by an absolute majority.	Yes		Don Green
8	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO in writing.	Yes		Don Green
9	s5.44(2)	Were all delegations by the CEO to any employee in writing.	Yes		Don Green
10	s5.45(1)(b)	Were all decisions by the Council to amend or revoke a delegation made by absolute majority.	Yes		Don Green
11	s5.46(1)	Has the CEO kept a register of all delegations made under the Act to him and to other employees.	Yes		Don Green
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 2017/2018 financial year.	Yes		Don Green
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		Don Green

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		Don Green
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.	N/A		Don Green

2 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

No	Reference	Question	Response	Comments	Respondent
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		Don Green
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		Don Green
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.	Yes		Don Green
6	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all continuing elected members by 31 August 2018.	Yes		Don Green
7	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all designated employees by 31 August 2018.	Yes		Don Green
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		Don Green
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		Don Green
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		Don Green
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		Don Green
12	s5.88(4)	Have all returns lodged under section 5.75 or 5.76 and removed from the 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.	Yes		Don Green
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		Don Green
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.	N/A		Don Green

3 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

No	Reference	Question	Response	Comments	Respondent
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.	N/A		Don Green
16	s5.103(3) Admin Reg 34B	Has the CEO kept a register of all notifiable gifts received by Council members and employees.	Yes		Don Green

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		Daniel Arndt
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		Daniel Arndt

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	Ordinary Council Meeting dated 10 December 2015	Stuart Downing
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.	Yes		Stuart Downing
3	s7.3	Was the person(s) appointed by the local government to be its auditor, a registered company auditor.	Yes	By statute of the WA Parliament	Stuart Downing
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.	N/A	Auditor General of WA appointed by Local Government Act	Stuart Downing
5	Audit Reg 10	Was the Auditor's report for the financial year ended 30 June 2018 received by the local government within 30 days of completion of the audit.	Yes	The Audit report was signed 27 November 2018 Received by Ordinary Council Meeting on 13 December 2018	Stuart Downing
6	s7.9(1)	Was the Auditor's report for the financial year ended 30 June 2018 received by the local government by 31 December 2018.	Yes	Received by Ordinary Council Meeting on 13 December 2018	Stuart Downing

4 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

No	Reference	Question	Response	Comments	Respondent
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	There were no items in the OAG's report under s7.9(1)	Stuart Downing
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	There were no items in the OAG's report under s7.9(1)	Stuart Downing
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	There were no items in the OAG's report under s7.9(1)	Stuart Downing
10	Audit Reg 7	Did the agreement between the local government and its auditor include the objectives of the audit.	Yes	The objectives were presented to the Audit and Strategic Finance Committee dated 15 November 2018	Stuart Downing
11	Audit Reg 7	Did the agreement between the local government and its auditor include the scope of the audit.	Yes	The objectives were presented to the Audit and Strategic Finance Committee dated 15 November 2018	Stuart Downing
12	Audit Reg 7	Did the agreement between the local government and its auditor include a plan for the audit.	Yes	The objectives were presented to the Audit and Strategic Finance Committee dated 15 November 2018	Stuart Downing
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	The objectives were presented to the Audit and Strategic Finance Committee dated 15 November 2018	Stuart Downing
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	The objectives were presented to the Audit and Strategic Finance Committee dated 15 November 2018	Stuart Downing
15	Audit Reg 17	Has the CEO reviewed the appropriateness and effectiveness of the local government's systems and procedures in accordance with regulation 17 of the Local Government (Audit) Regulations 1996.	Yes	The objectives were presented to the Audit and Strategic Finance Committee dated 15 November 2018, then adopted by the Council on 13 December 2018	Stuart Downing
16	Audit Reg 17	If the CEO has not undertaken a review in accordance with regulation 17 of the Local Government (Audit) Regulations 1996, is a review proposed and when.	N/A		Stuart Downing

5 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

Integrated Planning and Reporting					
No	Reference	Question	Response	Comments	Respondent
1	s5.56 Admin Reg 19DA (6)	Has the local government adopted a Corporate Business Plan. If Yes, please provide adoption date of the most recent Plan in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	9 June 2016	Margot Tobin
2	s5.56 Admin Reg 19DA (6)	Has the local government adopted a modification to the most recent Corporate Business Plan. If Yes, please provide adoption date in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	14 June 2018	Margot Tobin
3	s5.56 Admin Reg 19C (7)	Has the local government adopted a Strategic Community Plan. If Yes, please provide adoption date of the most recent Plan in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	9 June 2016	Margot Tobin
4	s5.56 Admin Reg 19C (7)	Has the local government adopted a modification to the most recent Strategic Community Plan. If Yes, please provide adoption date in Comments. This question is optional, answer N/A if you choose not to respond.	N/A		Margot Tobin
5	S5.56	Has the local government adopted an Asset Management Plan. If Yes, in Comments please provide date of the most recent Plan, plus if adopted or endorsed by Council the date of adoption or endorsement. This question is optional, answer N/A if you choose not to respond.	Yes	An Asset Management Strategy was adopted by Council on 8 February 2018. Asset Management Plans were initially adopted by Council with subsequent reviews approved by Executive	Margot Tobin
6	S5.56	Has the local government adopted a Long Term Financial Plan. If Yes, in Comments please provide date of the most recent Plan, plus if adopted or endorsed by Council the date of adoption or endorsement. This question is optional, answer N/A if you choose not to respond.	Yes	9 June 2016	Margot Tobin
7	S5.56	Has the local government adopted a Workforce Plan. If Yes, in Comments please provide date of the most recent Plan plus if adopted or endorsed by Council the date of adoption or endorsement. This question is optional, answer N/A if you choose not to respond.	Yes	9 June 2016	Margot Tobin

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

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.	N/A	There was no appointment of CEO in 2018	Cliff McKinley
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.	N/A	There was no appointment of CEO in 2018	Cliff McKinley
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).	N/A	There was no appointment of CEO in 2018	Cliff McKinley
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).	N/A	There was no appointment of CEO in 2018	Cliff McKinley
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss a designated senior employee.	N/A	No designated employees were dismissed in 2018	Cliff McKinley

7 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

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	CEO is the Complaints Officer	Don Green
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		Don Green
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		Don Green
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		Don Green
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		Don Green
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		Don Green

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)).	Yes		Antonio Natale
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		Antonio Natale
3	F&G Reg 14(1) & (3)	Did the local government invite tenders via Statewide public notice.	Yes		Antonio Natale
4	F&G Reg 14 & 15	Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16.	Yes		Antonio Natale

8 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

No	Reference	Question	Response	Comments	Respondent
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		Antonio Natale
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		Antonio Natale
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		Antonio Natale
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		Antonio Natale
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		Antonio Natale
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		Antonio Natale
11	F&G Reg 21 & 22	Did the local governments's advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22.	N/A	No expressions of interest were invited by the City.	Antonio Natale
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	No expressions of interest were invited by the City.	Antonio Natale
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.	N/A	No expressions of interest were invited by the City.	Antonio Natale
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		Antonio Natale
15	F&G Reg 24AD(2)	Did the local government invite applicants for a panel of pre-qualified suppliers via Statewide public notice.	Yes		Antonio Natale
16	F&G Reg 24AD(4) & 24AE	Did the local government's advertising and panel documentation comply with F&G Regs 24AD(4) & 24AE.	Yes		Antonio Natale

9 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

No	Reference	Question	Response	Comments	Respondent
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.	Yes		Antonio Natale
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.	Yes		Antonio Natale
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.	Yes		Antonio Natale
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.	Yes		Antonio Natale
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.	Yes		Antonio Natale
22	F&G Reg 24AI	Did the local government send each person who submitted an application, written notice advising if the person's application was accepted and they are to be part of a panel of pre-qualified suppliers, or, that the application was not accepted.	Yes		Antonio Natale
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).	N/A	No regional price preference available or accepted within the City Policy.	Antonio Natale
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.	N/A	No regional price preference available or accepted within the City Policy.	Antonio Natale
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		Antonio Natale

10 of 11

Department of Local Government, Sport and Cultural Industries - Compliance Audit Return



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

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

Signed Mayor / President, Cockburn

Signed CEO, Cockburn

(2019/MINUTE NO 0003) SUSPENSION OF STANDING ORDERS**COMMITTEE RECOMMENDATION**

MOVED Mayor L Howlett SECONDED Cr M Separovich

That pursuant to Clause 22 (1) Standing Orders be suspended, the time being 6.07pm, for the purposes of the presentation on the Business Continuity Plans Project.

CARRIED 5/0

A presentation on the Business Continuity Plans Project was presented by the Governance & Risk Advisor

(2019/MINUTE NO 0004) RESUMPTION OF STANDING ORDERS**COMMITTEE RECOMMENDATION**

MOVED Cr C Reeve-Fowkes SECONDED Mayor L Howlett

That Standing Orders be resumed, the time being 6.15pm.

CARRIED 5/0



11.2 (2019/MINUTE NO 0005) RISK INFORMATION REPORT**Author(s)** J Ngoroyemoto**Attachments** 1. High Risks Update Report [↓](#)**RECOMMENDATION**

That the Committee receives the Risk Information Update report for noting by Council

COMMITTEE RECOMMENDATION

MOVED Cr C Reeve-Fowkes SECONDED Cr M Separovich

That the recommendation be adopted.

CARRIED 5/0**Background**

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

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

Submission

N/A

Report

This Risk Report covers the months of December 2018 to March 2019 and outlines the risk and business continuity management activities undertaken during these months.

RISK MANAGEMENT PROGRAM**Update on High and Extreme Risks**

As at 1 March 2019, 25 Strategic Risks and 252 Operational risks currently sit on the City's Risk Registers.



<u>Risk</u>	<u>No of Risks</u>
Extreme	Nil
High	3
Substantial	18
Moderate	146
Low	120

These risks are monitored and reviewed in priority of the risk rating level as per the City of Cockburn risk treatment levels.

Identified High Risks

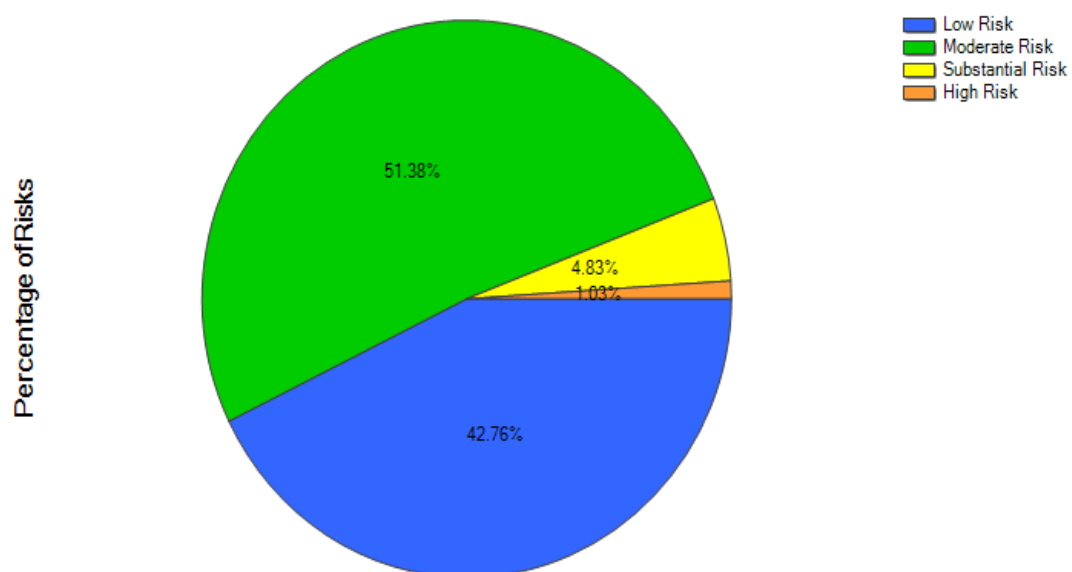
- Operational Risk – Community Services Major Projects;
- Strategic Risk – Project Management; and
- Strategic Risk – Water Availability.

Updates on all of the identified High risks are attached to the report.

Interim Risk Profile

All of the City's risk information is continuously reviewed by the risk owners in the Risk Management & Safety System (RMSS). The distribution of risk ratings for both strategic and operational risks throughout the organisation is shown in the following risk matrix and chart. The chart demonstrates the overall image of the City's risk categorised into Low, Moderate, Substantial, High and Extreme risks. The City is proactively managing its risks with no Extreme risks identified and only 1.03% rated High. The distribution of the risk ratings is likely to change as the City transitions through the risk maturity levels and continues to review all operational and strategic risks. The strategic risk register will be reviewed in the next quarter and presented at the July 2019 Audit and Strategic Finance Committee Meeting.



Figure 1: Distribution of risk ratings as at 1 March 2019.**Figure 2:** Risk Matrix - This matrix maps out the distribution of risks within the City's Risk Matrix.



Residual Risk Matrix

		Likelihood				
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
Consequence	Insignificant 1 - 1	7 Risk(s)	10 Risk(s)	1 Risk(s)	L	M
	Minor 2 - 2	6 Risk(s)	72 Risk(s)	15 Risk(s)	10 Risk(s)	S
	Major 3 - 3	23 Risk(s)	63 Risk(s)	20 Risk(s)	3 Risk(s)	1 Risk(s)
	Critical 4 - 4	5 Risk(s)	30 Risk(s)	8 Risk(s)	1 Risk(s)	E
	Catastrophic 5 - 5	10 Risk(s)	3 Risk(s)	1 Risk(s)	E	E

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

Generated On: Friday, 01 March 2019 17:29:07

THE CITY'S BUSINESS CONTINUITY MANAGEMENT PROGRAM

Risk west was engaged by the City of Cockburn to assist in the development and implementation of location-based Business Continuity Plans (BCPs) in accordance with the following program.



Tranche 1

- Facilitate Business Impact Analysis with key managers – **completed**
- Conduct follow-up workshops / interviews with Business / Service units located in the Administration Building and Cockburn ARC to identify recovery strategies and resource requirements for recovery - **completed**
- Prepare BCP documentation for the Administration Building and Cockburn ARC – **completed**
- Submit initial draft of the BCPs for review and sign-off by Executive– **completed**

Tranche 2

- Conduct follow-up workshops / interviews with Business / Services Units located in the Operations Centre and Henderson Waste Facility to identify recovery strategies and resource requirements for recovery – **completed**
- Prepare BCP documentation for the Operations Centre and Henderson Waste Facility – **completed**
- Submit initial draft of the BCPs for review and sign-off by Executive – **completed**

Tranche 3

- Conduct training and exercises to validate the completeness and accuracy of the plans – **currently in progress**



Insights and moving forward:

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

- I. **Risk Management Framework and Policy Review**
To address recommendations of the 'Road Map' from the risk maturity assessment review report.
- II. **Strategic Risks Review**
Strategic risk workshops with the key deliverable of a strategic risk register for the City, to identify high level key strategic risks associated with City of Cockburn's external environment, stakeholders, strategic direction and systemic organisational issues.
- III. **Fraud & Misconduct Control Plan**
Develop the Fraud & Misconduct Control Plan to address areas of high vulnerability to fraud and corrupt activity. This will support the Fraud, Misconduct Control & Resilience Framework and Policy.

Strategic Plans/Policy ImplicationsLeading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

Budget/Financial Implications

Nil

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

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



Advice to Proponent(s)/Submitters

N/A

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

Nil



HIGH RISKS QUARTERLY REPORT (DECEMBER 2018 – MARCH 2019)

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

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

Update:

The Project Management System – known as Portfolio Project Management rollout reached another stage in March 2019 with the first rollout. The Business Process Owners (BPO) signed off the User Acceptance Testing (UAT) as of 12 February 2019. The UAT phase was after the hands-on training and walkthrough of the system with the BPOs and the Pilot User Group, who then proceeded to use the system and perform testing. The PPM is now in the Go Live targeted phase1, launched on 8 March 2019.

HIGH RISKS QUARTERLY REPORT (DECEMBER 2018 – MARCH 2019)

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

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

Update: The Project Management System – known as Portfolio Project Management rollout reached another stage in March 2019 with the first rollout. The Business Process Owners (BPO) signed off the User Acceptance Testing (UAT) as of 12 February 2019. The UAT phase was after the hands-on training and walkthrough of the system with the BPOs and the Pilot User Group, who then proceeded to use the system and perform testing. The PPM is now in the Go Live targeted phase1, launched on 8 March.



HIGH RISKS QUARTERLY REPORT (DECEMBER 2018 – MARCH 2019)

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

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

Update: Water operating strategies are being implemented accordingly and the annual list of commitments met;

- Open space and streetscape landscape designs incorporate irrigation designs to minimise water use;
- Renewal of irrigation systems to meet a uniformity coefficient of >80% (measure of water uniformity);
- Continued roll out of the central control irrigation system to ensure an integrated water management system;
- Investigating software architecture that manages water allocations levels for each open space and streetscape area;
- Department of Water and Environmental Regulations issued a discussion paper in August 2018 on the potential cost recovery for allocating water licences and permits; this would have a significant financial impact on the City if it is implemented. No response has been issued by the Department as of 5 March 2019

12. PLANNING & DEVELOPMENT DIVISION ISSUES

Nil



13. FINANCE & CORPORATE SERVICES DIVISION ISSUES**13.1 (2019/MINUTE NO 0006) OFFICE OF AUDITOR GENERAL
LOCAL GOVERNMENT FOCUS AUDIT: CONTROLS OVER
CORPORATE CREDIT CARDS**

Author(s)	N Mauricio
Attachments	<ol style="list-style-type: none">1. WA Auditor General's Report - Control over Corporate Credit Cards ↓2. Administrative Policy - Corporate Credit Cards (NEW) ↓3. Corporate Credit Cards - PSFCS24 - Position Statement (TO BE DELETED) ↓4. Corporate Credit Cards Delegated Authority LGAFCS8 (TO BE DELETED) ↓

RECOMMENDATION

That Council:

1. receive the City's review and response to the findings and recommendations contained within the Auditor General's local government audit report into "Controls over Corporate Credit Cards", as detailed in this agenda report; and
2. refer the new "Corporate Credit Cards" Administrative Policy replacing Position Statement PSFCS24 "Corporate Credit Cards" and the associated Delegated Authority LGAFCS8 to the next DAPPS meeting, as attached to the agenda.

COMMITTEE RECOMMENDATION

MOVED Mayor L Howlett SECONDED Cr M Separovich

That Council:

1. receive the City's review and response to the findings and recommendations contained within the Auditor General's local government audit report into "Controls over Corporate Credit Cards", as detailed in this agenda report; and
2. refer the new "Corporate Credit Cards" Administrative Policy replacing Position Statement PSFCS24 "Corporate Credit Cards" and the associated Delegated Authority LGAFCS8 to the next DAPPS meeting, as attached to the agenda to include details of all credit card payments made by the CEO to each meeting of the Audit & Strategic Finance Committee for 'noting' purposes.



CARRIED 5/01**Reason for Decision**

The Office of the Auditor General's Report referenced in this Agenda Item stated in part; "that this process could be improved to increase transparency without introducing additional approval processes by periodically reporting the CEO's transactions to Council and clearly identifying them for noting." Regulation 13 of the Local Government Act (Financial Management) Regulations 1996 requires local governments to present details of all payments, including corporate credit payments to Council on a monthly basis ie

13. Payments from municipal fund or trust fund by CEO, CEO's duties as to etc.

- (1) If the local government has delegated to the CEO the exercise of its power to make payments from the municipal fund or the trust fund, a list of accounts paid by the CEO is to be prepared each month showing for each account paid since the last such list was prepared —
 - (a) the payee's name;
 - (b) the amount of the payment;
 - (c) the date of the payment; and
 - (d) sufficient information to identify the transaction.
- (2) A list of accounts for approval to be paid is to be prepared each month showing —
 - (a) for each account which requires council authorisation in that month —
 - (i) the payee's name;
 - (ii) the amount of the payment;
 - (iii) sufficient information to identify the transaction; and
 - (b) the date of the meeting of the council to which the list is to be presented.
- (3) A list prepared under sub regulation (1) or (2) is to be —
 - (a) presented to the council at the next ordinary meeting of the council after the list is prepared; and
 - (b) recorded in the minutes of that meeting.

[Regulation 13 inserted: Gazette 20 Jun 1997 p. 2838-9; amended: Gazette 31 Mar 2005 p. 1048.]

Background

Mayor Logan Howlett initiated the following notice of motion to the July 2018 meeting of the Audit & Strategic Finance Committee:

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

The reason for the motion was to address recommendations contained in the Auditor General's Report 7 to Parliament dated 9 May, 2018 – 'Controls over Corporate Credit Cards' as they related to local governments.

The report was unable to be presented to the November meeting due to various issues and delays by the Office of the Auditor General (OAG) in completing the audit of the City's 2017-2018 Annual Financial Statements.

Submission

N/A

Report

The first program of audit activity conducted by the OAG into local government was a 'focus audit' on corporate credit cards. Focus audits have a narrow scope and aim to assess how well controls and business practices are being performed for a specific function. The OAG aim to provide insight into what is good practice and identify opportunities for improvement, including for those local governments not audited.

This audit assessed whether the eight local governments chosen (comprising of large and small, regional and metropolitan councils) had effective controls over the use of corporate credit cards and if there was adequate independent review of credit card use (including that of CEOs).

In the report to Parliament, the Auditor General acknowledged that corporate credit cards offer significant benefits to local governments through reduced costs and streamlined business processes. However, that they are potentially subject to misuse if not properly managed.

The audit concluded that the sample local governments all had satisfactory controls in place, although each had shortcomings in their policies and practices of varying significance. Overall, the policies and administrative systems in place for managing corporate credit cards were appropriate and it is worth noting that the OAG did not find any inappropriate use of credit cards within the sample local governments.



However, the OAG did find that most local governments had opportunities for improvement around timelines, adequacy of documentation, the independence of reviews and the sharing of cards.

Another finding by the OAG was the inconsistent reporting to Council of credit card usage, although this was being regularly reviewed by management. Half of the local governments reported the total payment made for the outstanding card balance, whilst the others reported individual purchases made on credit card. In the City's case, it reports the total payment as management sees no value in presenting hundreds of individual transactions to Council each month. However, there is scope to provide more summarised information in the monthly payment list to Council in future.

It was also highlighted by the OAG in the report to Parliament that some local governments had recently completed internal audits on their use of corporate credit cards. Effectively, the City's monitoring and compliance checking by the Finance department is a form of internal audit and review. The City's auditors always look at the credit card practices and activities as part of their annual interim audit and have found no need to include findings or recommendations in their management letter to Council in the last three years.

The audit report contained five recommendations to local government and these have been individually reviewed and addressed against the City's current policy and procedures:

OAG Recommendation 1:

Ensure policies specify requirements for all key credit card processes

City of Cockburn review:

Position Statement PSFCS24 - "Corporate Credit Cards" and the associated guidelines contain specific and detailed requirements for both cardholders and Finance staff to follow. New cardholders are required to sign an agreement outlining cardholder duties and responsibilities (in accordance with PSFCS24) as part of the on boarding process before the card is issued to them.

The City's existing guidelines are consistent with and expand on Local Government Operational Guideline No. 11 "Use of Corporate Credit Cards" issued by the Department of Local Government. Whilst these were last updated in 2006, the guidance remains relevant in view of the OAG's findings. One important aspect highlighted by the OAG was having appropriate controls over the issuing of credit cards. The departmental guideline recommends that the CEO should approve the issue of credit cards to employees, but in the City's case this had also been sub-delegated to the Director, Finance & Corporate Services and Manager, Financial Services (under Delegated Authority LGAFCS8). The City's guidelines also outline appropriate card limits for individuals



based on their position and operational needs. These existing controls have proven effective for the City over time, but could be strengthened by also adding the applicant's line Director's approval to the process.

The OAG also identified the importance of having clearly defined timelines for acquitting and approving credit card transactions to ensure timely processing and the early identification of unauthorised transactions. The City's guidelines require cardholders to acquit their monthly transactions and have them approved by their manager within 1 month of statement issue. This meets the OAG's reasonable timeframe expectation (on a monthly basis).

Under the City's current Policies Review project, Position Statement PSFCS24 - "Corporate Credit Cards" was identified to change into an Administrative Policy, since corporate credit cards only apply to staff and this function falls under the CEO's responsibility. An administrative policy has now been prepared and is attached to this agenda item. This policy now requires the issue of new credit cards to be approved by the applicant's line Director, removing the need for a separate Council Delegated Authority for what is an administrative process. The City's existing credit card guidelines will be retained as internal procedures supporting the new administrative policy. Under the City's new Policy Framework, procedures supporting Council policy require Director approval for any changes.

Action:

A new administrative policy on corporate credit cards has been developed based on Position Statement PSFCS24, which reflects current practice and is aligned with the OAG's findings and recommendations. This will be referred to the next DAPPS meeting for Council adoption, together with the deletion of the old Position Statement PSFCS24 and associated Delegated Authority LGAFCS8.

OAG Recommendation 2:

Keep adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval

City of Cockburn review:

The City has recently implemented a paperless credit card acquittal system process within the Technology One ERP. This enables the electronic storage of all transaction receipts/ invoices, the timestamping and recording of transaction authorisations by cardholders and "next manager up" approvals. The system requires Finance department staff to perform compliance checking reviews in order to complete the process. All processing and approval steps are completely work-flowed within the system, ensuring a complete end to end and transparent system. Auditor feedback to date suggests this system currently represents good practice within local government.



Action:

Finance department to ensure cardholders enter sufficient descriptions explaining the nature of the expenditure and to develop summary reporting for senior management to review.

OAG Recommendation 3 - cancel redundant cards in a timely manner to avoid loss and/or misuse of cards

City of Cockburn review:

The City has effective termination checklist procedures, which ensure terminating cardholders return their corporate credit cards to Finance for cancellation. Credit card accounts are then cancelled promptly (within 3 business days of being returned) through the online banking system of the card provider (CBA). There is an improvement opportunity to review and assess card usage to identify dormant and unneeded cards.

Action:

Finance department to complete an annual review of all cards to identify level of usage in the preceding 12 months (every December). Cards not showing any or minimal usage will be followed up with senior management for cancellation.

OAG Recommendation 4 - regularly monitor outstanding transactions to identify and follow up on long outstanding un-acquitted transactions

City of Cockburn review:

The functionality of the City's credit card system makes it relatively easy to identify and follow up on outstanding transactions. The Finance department prepares a monthly credit card non-compliance report for management and uses this to bring cardholders back into compliance. If cardholders ignore or fail to resolve the non-compliance issue, the credit card limit is reduced to zero until the issue is resolved. Repeated non-compliant behaviour may result in temporary suspension/ or permanent cancellation of credit cards after consulting senior management. Since this new reporting regime, very rarely has there been a need to report non-compliance to senior management, demonstrating the overall effectiveness of the system.

Action:

Commence sharing the non-compliance report with senior managers of those staff listed on the report. Currently, it is only reviewed by the Manager Financial Services.

OAG Recommendation 5 - ensure senior management periodically reviews credit card use, to confirm compliance with policies and to identify any abnormal trends. The results of these reviews should be documented and retained.



City of Cockburn review:

As mentioned under Recommendation 4, the City now produces a non-compliance report for the Manager, Financial Services to review. More serious non-compliance is alerted to the Director, Finance & Corporate Services to determine any remedial action needed. The independent review and approval of all credit transactions by the cardholder's manager also provides the opportunity for review of use and this is documented by the system.

Action:

Expand the non-compliance report to not only show the status of outstanding card transactions, but also to include any instances of insufficient supporting documentation or inappropriate use of credit cards. Also provide more summarised information and statistics in the monthly payment list to Council.

Overall, this review of the City's credit card policies and procedures against the OAG audit shows a high level of operational efficiency and governance. The City has a credit card facility of \$250,000 (maximum) comprising of 72 credit cards and a total limit usage of \$239,000. Credit card spending averaged a total \$75,000 each month over the past year, with these statistics demonstrating the City taking great advantage of the reduced costs and streamlined business processes offered by this payment channel.

However, there is always room for improvement and the outcomes of this review will be shared with the City's auditors for 2018-19 (once appointed by the OAG). This will allow sufficient scrutiny and ensure the actions identified are carried out.

Strategic Plans/Policy ImplicationsEconomic, Social & Environmental Responsibility

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

Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

Budget/Financial Implications

Approximately \$900,000 is spent via credit cards annually with sufficient controls in place to ensure this is on budgeted expenditure. All



expenditure is appropriately authorised in accordance with the City's delegated financial authorities (DFA).

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

Audit activities are an important mitigation measure in addressing risk. It is important that any audit findings and recommendations are considered and addressed.

Advice to Proponent(s)/Submitters

N/A

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

Nil



Western Australian Auditor General's Report



Controls Over Corporate Credit Cards



Report 7: May 2018

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Controls Over Corporate Credit Cards

Report 7
May 2018





**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

CONTROLS OVER CORPORATE CREDIT CARDS

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

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

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

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

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

COLIN MURPHY
AUDITOR GENERAL
9 May 2018

Contents

Auditor General's overview	4
Controls over corporate credit cards	5
Background	5
Conclusion	5
Recommendations	5
What we did	6
Local governments included in our audit	6
What did we find?	7
Response from local governments	9

Auditor General's overview

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

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



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

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

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

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

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

Controls over corporate credit cards

Background

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

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

The LG Act and associated regulations require:

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

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

Conclusion

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

Recommendations

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

What we did

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

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

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

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

Local governments included in our audit

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

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

We included the following local governments in this audit:

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

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

What did we find?

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

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

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

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

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

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

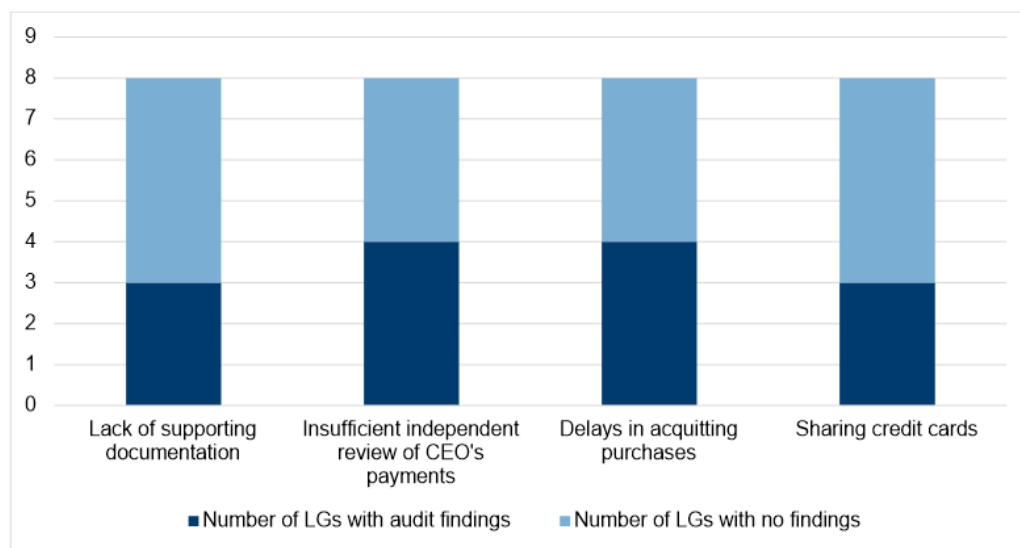


Figure 1: Audit findings by number of local governments (LGs)

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

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

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

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

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

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

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

Reporting to Council on credit card expenditure was inconsistent as:

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

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

Response from local governments

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

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

Auditor General's Reports

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



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Title	Corporate Credit Cards
Policy Number (Governance Purpose)	



Policy Type

Administrative Policy

Policy Purpose

To ensure that operational risks and administrative costs associated with the use of corporate credit cards are effectively managed. This includes establishing effective controls for their use and assigning responsibilities for approved cardholders.

Policy Statement

The use of corporate credit cards complements the City's procurement processes and provides a more streamlined and efficient method for making certain types of payment. Regulation 11(1)(a) of the Local Government Financial Management Regulations 1996 require a local government to develop procedures for the authorisation and payment of accounts, including for the effective security and authorised use of credit cards. The following rules and principles will apply to the issue and use of corporate credit cards by the City's officers:

1. The Chief Executive Officer, Directors, Senior Managers and any other staff approved by the relevant Director or Chief Executive Officer, may be issued with a corporate credit card. Individual credit limits will be determined based on the demonstrated business need and will form part of the approval process.
2. The City's Corporate Credit Cards are to be used strictly for work related purchases and under no circumstances are they to be used for personal or private purposes.
3. Cash withdrawals are strictly prohibited and all cards issued under the City's facility shall have this feature disabled.
4. A system register of all credit cards (both active and inactive) is to be maintained by Accounting Services. This shall include the name and position of the cardholder, card number, expiry date and credit limit. The system should also maintain history of all credit card transactions for reporting, audit and record keeping purposes.
5. The acquittal of credit card transactions needs to be completed within a reasonable timeframe, being no longer than one month after statement issue.
6. Transactions need to be adequately described (nature/purpose of expenditure) and supported by evidential documentation (receipts/tax invoices)
7. Transaction acquittals must be reviewed and approved by the actual cardholder with a second, independent approval provided by their line manager. Where the

[1]

Title	Corporate Credit Cards
Policy Number (Governance Purpose)	



- cardholder is a Director or the CEO, the second approval is to be provided by another Director or CEO.
8. Finance department staff shall perform a compliance review on approved credit card transactions, ensuring compliance with this policy and appropriate GST treatment of transactions.
 9. In-person transactions with corporate credit cards must only be made by the cardholder and they are not to share their PIN code under any circumstances.
 10. Cardholders must give their express permission and approval for the transaction before their corporate credit card is used by other staff for online or telephone transactions. Cardholders will be held accountable for these transactions and must ensure adequate information is obtained for acquittal purposes.
 11. Cardholders must report the loss, theft or unauthorised use of their corporate credit card to the issuing financial institution immediately and the Finance department when practicable. Any disputed transactions must be followed in a timely manner in order to ensure full cost recovery for the City.
 12. Cardholders (or their line manager) must return the corporate credit card to the Finance department as soon as practicable, where they have resigned their employment with the City or otherwise where they have been instructed to.
 13. Cardholders must comply with the requirements of Corporate Credit Card operational guidelines developed by the City and before being issued with a card, shall agree in writing to abide by cardholder duties and responsibilities consistent with this policy.
 14. The cardholder will be held personally liable for any unauthorised and non-compliant use and the City reserves the right to seek reimbursement of such monies from the cardholder.

Strategic Link:	Local Government (Financial Management) Regulations
Category	Financial Management
Lead Business Unit:	Financial Services
Public Consultation: (Yes or No)	No
Adoption Date: (Governance Purpose Only)	
Next Review Due: (Governance Purpose Only)	
ECM Doc Set ID: (Governance Purpose Only)	

[2]

Title	Corporate Credit Cards
Policy Number (Governance Purpose)	



[3]

POS	CORPORATE CREDIT CARDS	PSFCS24
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POSITION STATEMENT CODE:	PSFCS24
DIRECTORATE:	Finance & Corporate Services
BUSINESS UNIT:	Financial Services
SERVICE UNIT:	Accounting Services
RESPONSIBLE OFFICER:	Director, Finance & Corporate Services
FILE NO.:	182/002
DATE FIRST ADOPTED:	17 September 2002
DATE LAST REVIEWED:	8 December 2016
ATTACHMENTS:	Yes
VERSION NO.	6

Dates of Amendments / Reviews:		
DAPPS Meeting:	31 January 2013 27 November 2014 2 June 2015	27 August 2015 24 November 2016
OCM:	9 April 2009 14 February 2013 11 December 2014	2 June 2015 10 September 2015

BACKGROUND:

The use of corporate credit cards complements the City's procurement processes and provides a more streamlined and efficient method for making certain types of payment. Regulation 11(1)(a) of the Local Government Financial Management Regulations 1996 require a local government to develop procedures for the authorisation and payment of accounts, including for the effective security and authorised use of credit cards.

PURPOSE:

This position statement and the supporting guidelines serve to ensure that operational risks and administrative costs associated with the use of corporate credit cards are effectively managed. This includes establishing effective controls for their use and setting responsibilities for approved cardholders.

POSITION:

- (1) The Chief Executive Officer, Directors, SBG Managers and any other staff approved by the relevant Director or Chief Executive Officer, will be issued with a corporate credit card in accordance with the credit limits determined from time to time by Council as set out in the supporting guidelines.

[1]

POS	CORPORATE CREDIT CARDS	PSFCS24
-----	------------------------	---------

- (2) The City's Corporate Credit Cards are to be used only for work related purchases and under no circumstances whatsoever are they to be used for personal or private purposes.
- (3) Cash withdrawals are strictly prohibited and all cards issued under the City's facility shall have this feature disabled.
- (4) A register of all current credit cards is to be maintained by Accounting Services. This shall include the name and position of the cardholder, card number, expiry date and credit limit.
- (5) The acquittal of expenditure incurred on credit cards need to be reviewed and approved by the cardholder's line manager. Where the cardholder is a Director or the CEO, the review is to be performed by another Director or CEO.
- (6) Cards are to be used strictly in accordance with the requirements of the Corporate Credit Card Guidelines as appended. [\(Appendix I\)](#).

to be deleted

Corporate Credit Cards – Guidelines



CORPORATE CREDIT CARDS GUIDELINES

to be deleted

8 December 2015

[3]

Corporate Credit Cards – Guidelines

INTRODUCTION

The City has established a corporate credit card facility for the purpose of streamlining certain types of purchases and payments. This fosters improved administrative efficiency and more effective cash management. Some of the outcomes targeted include:

- Reducing paperwork for both the City and its suppliers.
- Improving productivity across the various departments.
- Reduce requirements for petty cash and reduce cash handling risks.
- Ability to take advantage of special offers and discounts available for immediate payment.
- Enabling online internet purchases and payment from anywhere in the world.

However, it is not intended that the card facility be used as a substitute for the current system of ordering goods and services by requisition through Procurement Services.

1. GOODS AND SERVICES FOR WHICH THE CORPORATE CREDIT CARDS CAN BE USED

Cards can be used to procure goods and services up to the value of financial limits approved with these guidelines.

Transaction types which Card may be used for:

- (a) Conference, seminar and training event registration fees;
- (b) Costs related to flights, accommodation and attendance at approved conferences, seminars and training events;
- (c) Subscriptions, memberships and publications payable by credit card;
- (d) Entertainment expenses (must note number of staff entertained on documentation for FBT purposes) CEO/Directors/SBG Managers only;
- (e) Other business purchases of less than \$1,000 in value for items over \$1,000 will need an official order raised).

Transaction types allowable on cards will be restricted on an individual basis in accordance with these guidelines and to suit cardholder needs (eg. Entertainment expenses, flights, car rentals etc).

2. ISSUE OF CORPORATE CREDIT CARDS

Accounting Services is responsible for arranging the issue of Corporate Credit Cards after approval is received from the relevant Director or CEO (as appropriate). All approved requests for cards must be forwarded to the Manager, Financial Services.

3. RESPONSIBILITIES

3.1 Accounting Services

Accounting Services are responsible for the following activities in relation to corporate credit cards:

- (a) arrange the issue of the Corporate/Business Card.
- (b) administer a system for cardholders to acquit their card purchases.
- (c) act as the liaison between the City and the financial institution.
- (d) ensure cardholder is advised of their responsibilities and that guidelines are issued to them.
- (e) ensure each cardholder signs a copy of the "Acknowledgement of Terms and Conditions of Use – Corporate Credit Card" form.

3.2 Cardholders

Following are the responsibilities of the individual cardholders:

- (a) Ensure monthly credit card acquittals are processed within 5 working days of the statements being uploaded into the financial system and forward the relevant paperwork to Accounting Services, after it has been reviewed and signed off by their Line Manager.
- (b) Adherence to the policies and procedures in relation to the card and ensure financial limits are not breached.
- (c) Cardholders must ensure that transaction acquittals include:
 - 1. A full and proper description of the goods purchased on the tax invoice (ie. Descriptions like "goods" are not acceptable).
 - 2. Allocate appropriate budget account details, relative to the nature of expenditure.
- (d) Cardholders must immediately return the card to Accounting Services if:
 - 1. They resign or their employment is terminated for whatever reason;
 - 2. They are instructed to relinquish the card.
- (e) If the cardholder disagrees with any transaction on the billing statement, the cardholder must advise Accounting Services in writing, as soon as possible once aware of the issue. The Manager Financial Services is to be informed on any disputes.
- (f) Cardholders will be required to sign for receiving the Card and acknowledge the conditions of use of the card.

- (g) If the cardholder loses a tax invoice or receipt, they should make reasonable attempts to obtain a copy from the supplier. Failing this, a memo signed by the cardholders Manager will need to be provided explaining the loss of the document and the details of the transaction.
- (h) To comply with banking laws, the cardholder must ensure the corporate credit card is not used by any other officer unless it is for an online or telephone transaction and the cardholder's permission has been pre-obtained (i.e. not able to be used by non-cardholders for in person transactions).
- (i) The cardholder must immediately report loss or theft of the corporate credit card to the issuing financial institution and Accounting Services.
- (j) The City, if it deems necessary, will hold the cardholder personally liable for any unauthorised and non-compliant use by the cardholder and may seek reimbursement of such monies from the cardholder.

4. CARDHOLDER CLASSIFICATIONS

Position	Monthly Credit Limit \$
Chief Executive Officer	15,000
Directors	10,000
Strategic Procurement Manager	8,000*
Strategic Business Group Managers	4,000*
Other Staff (as determined by SBC Manager & Director)	2,000*

* The Director, Finance and Corporate Services may approve certain staff to be given an increased limit of up to \$10,000 where the business requirement is satisfactorily demonstrated.

DA	CORPORATE CREDIT CARDS	LGAFC8
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DELEGATED AUTHORITY CODE:	LGAFC8
DIRECTORATE:	Finance & Corporate Services
BUSINESS UNIT:	Financial Services
SERVICE UNIT:	Accounting Services
RESPONSIBLE OFFICER:	Director, Finance & Corporate Services
FILE NO.:	086/003
DATE FIRST ADOPTED:	1997
DATE LAST REVIEWED:	14 June 2018
ATTACHMENTS:	N/A
VERSION NO.	8

Dates of Amendments / Reviews:		
DAPPS Meeting:	24 May 2012	26 May 2016
	23 May 2013	18 May 2017
	22 May 2014	24 May 2018
	2 June 2015	
OCM:	9 June 2011	11 June 2015
	14 June 2012	9 June 2016
	13 June 2013	8 June 2017
	12 June 2014	

FUNCTION DELEGATED:

The authority to approve the issue of Corporate Credit Cards to appropriate Council Officers and to set individual value limits and transaction type restrictions in accordance with Council Position Statement PSFCS24.

CONDITIONS/GUIDELINES:

- (1) The Director, Finance & Corporate Services or Manager, Financial Services will approve the issue of a Corporate Credit Card to Officers who have Delegated Financial Authority (DFA) to purchase goods and services.
- (2) Officers who have been given authority to use a Council Credit Card acknowledge that they must comply with the General Instructions which are attached to the Position Statement PSAFCS24.
- (3) All transactions utilising this delegation are to be recorded in the system register for Credit Cards issued and the Recording of Delegated Decisions Register by the officer responsible for initiating the action taken, or by another officer under the direction of the initiating officer.

AUTONOMY OF DISCRETION:

As provided in Council Position Statement PSFCS24.

[1]

DA	CORPORATE CREDIT CARDS	LGAFCS8
----	------------------------	---------

LEGISLATIVE REQUIREMENTS/COUNCIL POLICY:

Local Government Act 1995, Section 6.10(d)

Local Government Act (Financial Management) Regulations 11(1)(a) refers.

Position Statement PSFCS24 "Corporate Credit Cards" refers.

DELEGATE:

Chief Executive Officer

Note: The Chief Executive Officer will sub-delegate this authority to:-

SUB-DELEGATE/S:

Director, Finance & Corporate Services

Manager, Financial Services

to be deleted

[2]

14. ENGINEERING & WORKS DIVISION ISSUES

Nil

15. COMMUNITY SERVICES DIVISION ISSUES

Nil



16. EXECUTIVE DIVISION ISSUES

16.1 (2019/MINUTE NO 0007) FRAUD, MISCONDUCT CONTROL & RESILIENCE FRAMEWORK

Author(s) J Ngoroyemoto

Attachments 1. Fraud, Misconduct Control and Resilience Framework [↓](#)

RECOMMENDATION

That Council

- (1) adopts the proposed Fraud, Misconduct Control and Resilience Framework, as attached to the Agenda

COMMITTEE RECOMMENDATION

MOVED Cr C Reeve-Fowkes SECONDED Mayor L Howlett

That the recommendation be adopted.

CARRIED 5/0

Background

The Fraud and Misconduct Control and Resilience Policy was presented at the November 2018 DAPPS Committee meeting, and subsequently adopted at the December 2018 Ordinary Council Meeting. A commitment was made to review the Fraud, Misconduct Control and Resilience Framework, and to be presented at a future Audit and Strategic Finance meeting.

The review has been completed, and the Fraud, Misconduct Control and Resilience Framework is submitted for consideration, as shown in the attachment to the report.

Submission

N/A

Report

All public sector entities need to deal with the threat of fraud. This can be difficult as fraud is deceitful and can be hard to detect. Australian Standard 8001-2008: Fraud and Corruption Control sets out a best practice framework for State and local government entities when developing their approaches to this issue.

The City is committed to a strong culture and sound governance that will safeguard public funds and property. The City considers fraud, corruption and misconduct to be serious matters to which the City adopts a zero tolerance approach.

The Fraud, Misconduct Control and Resilience Framework will provide an environment for implementation to:

- minimise opportunities for fraud, misconduct, bribery and corruption (whether committed by internal or external parties);
- protect public monies, property, information and organisational / individual rights; and
- maintain the effectiveness of the City's operations.

Implementation of this Framework will ensure that the City's workforce acts legally, ethically and in the public interest. This Framework is based upon five best-practice fraud and misconduct control and resilience resources:-

- Standards Australia – AS 8001-2008 Fraud and Corruption Control (the Australian Standard);
- Western Australian Corruption and Crime Commission – Misconduct Resistance Guidelines (CCC Guidelines);
- Western Australian Corruption and Crime Commission and Public Sector Commission (Joint) – Notification of Misconduct in Western Australia Guidelines (Notification Guidelines);
- The Australian Minister for Home Affairs and Minister for Justice – Commonwealth Fraud Control Guidelines (Commonwealth Guidelines); and
- Australian National Audit Office – Fraud Control in Australian Government Entities Better Practice Guide (ANAO Better Practice Guide).

The framework is supported by the City's organisational values and culture, governance and risk management frameworks, which work together to prevent, detect and respond to potential or actual fraudulent and corrupt conduct. A detailed Fraud Control Plan will also be developed by the Risk Review Group to provide assurance on areas of high vulnerability to fraudulent and corrupt activities.

Strategic Plans/Policy Implications

Leading & Listening



Deliver sustainable governance through transparent and robust policy and processes.

Budget/Financial Implications

Fraud and Misconduct training will be covered in the Human Resources training budget

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

The City of Cockburn is exposed to high risks of fraud and corruption because of the large volume of goods and services it procures, often from local suppliers and because of the high degree of devolved decision making vested in local governments.

For this reason, the City is responsible for preventing, detecting and reporting fraud in order to protect revenue, expenditure and property. It is imperative that the City identify and monitor fraud risk and implement rigour and controls around its identified risk through an active fraud and corruption framework. By explicitly defining actions that constitute fraud, this will ensure that all employees and third parties are aware of what is and is not acceptable.

Adoption of the recommendation will ensure a cost effective way of demonstrating the City's commitment to combating fraud and corruption wherever it is found. The development of an anti - fraud culture is a crucial part of the City's position against fraud.

Advice to Proponent(s)/Submitters

N/A

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

Nil





FRAUD, MISCONDUCT CONTROL AND RESILIENCE FRAMEWORK



Document Control

Document Record			
Document title	Fraud, Misconduct Control and Resilience Framework		
ECM document name	City of Cockburn – Fraud, Misconduct Control and Resilience Framework		
ECM document set ID	TBA		
ECMSubject Code	TBA		
Review and approval			
Maintained by	Governance & Risk Advisor		
Version number	2	Version date	September 2018
Reviewed by	Risk Review Group	Date reviewed	October 2018
	Executive Team		March 2019
Approved by	Chief Executive Officer	Date approved	13 March 2019
	Audit & Strategic Finance Committee		March 2019
	Council		April 2019
Frequency of review	Every Three Years	Next review date	April 2022
NOTE: The City of Cockburn will review this framework every three years, but will also make incremental changes, modifications, and adjustments as conditions warrant. This framework document goes through continuous ongoing changes based on the fraud maturity level of the City of Cockburn.			
Record of changes / issues			
Version	Date	Comments / reasons for change	Made by
1	October 2018	Roles & responsibilities ammended	Risk Review Group
Distribution			
Name		Position	
Executive and Management Team		Directors & Senior Managers	
Elected Members		Audit & Strategic Finance Committee Members	

Table of Contents

Statement From The Chief Executive Officer	1
1. Introduction	3
1.1 Purpose	3
1.2 Risk Management Approach.....	3
1.3 Structure	4
1.4 Goals and Objectives.....	4
2. What is fraud and misconduct	5
2.1 Fraud	5
2.2 Corruption	5
2.3 Misconduct.....	6
2.4 Minor Misconduct.....	6
2.5. Serious Misconduct	7
2.6 Corrupt Conduct	7
2.7 Corrupt Conduct	8
3. Policy statement.....	9
4. Fraud and Misconduct Control Strategies	10
4.1 ANAO Conditions.....	10
4.2 Ten Principle Model.....	10
4.3 Fraud, Misconduct and Corruption Control Model	11
4.4 ANAO Conditions in Practice	12
4.4.1 Ethical leadership and culture	12
4.4.2 Leadership and Governance.....	12
4.4.3 ANAO control strategies	13
4.5 Roles and Responsibilities.....	15
4.6 Fraud, Misconduct Control and Resilience Strategies	19
5. Ten principles in practice	21
5.1 Principle 1 – City Wide Policy	21
5.2 Principle 2 – Risk Assessment.....	21
5.2.1 Risk assessment responsibility	21
5.2.2 Fraud, misconduct and corruption risk assessment.....	21
5.2.3 Risk areas for fraud and corruption.....	22
5.3 Principle 3 – Internal Controls.....	24



5.4	Principle 4 – Internal Reporting.....	26
5.4.1	Characteristics of internal reporting	26
5.4.2	Internal reporting arrangements.....	27
5.4.3	Fraud and corruption reporting guidelines	27
5.4.4	Fraud, misconduct and corruption reporting management PROCESS.....	28
5.5	Principle 5 – External Reporting	28
5.6	Principle 6 – Public Disclosure.....	29
5.7	Principle 7 – Investigations	31
5.7.1	City's fraud misconduct and corruption practices.....	31
5.7.2	Education and awareness.....	32
5.7.3	Policies and procedures.....	32
5.8	Principle 8 – Code of Conduct	33
5.9	Principle 9 – Employee Education and Awareness.....	34
5.9.1	Mandatory training	34
5.9.2	City education and awareness strategies	35
5.10	Principle 10 – Client and Community Awareness	36
6.	Monitoring, review and Continuous Improvement	37
	Appendix 1 – Legislation and other Instruments	38
	Appendix 2 – Definitions	39



STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

This framework sets out the standards for accountability that I expect of all Employees of the City of Cockburn (City). It aims to minimise opportunities for fraudulent and/or corrupt activities in line with the City's zero tolerance policy to fraud, corruption, bribery and misconduct.

A proactive approach enables the City to manage fraud and misconduct risk at an acceptable level considering the environment in which the local government sector operates is becoming increasingly complex.

The complexities inherent in our work increase opportunities for fraud, corruption, bribery and misconduct because of the:-

- ever changing environment in which we operate
- growing convergence of the public and private sectors, and
- increase in cooperative and or strategic partnerships.

All City employees must demonstrate a commitment to preventing and detecting fraud, misconduct, bribery and corruption. Effective governance arrangements, ethical leadership and decision making, accountability and performance improvement underpin our controls.

This framework will help us to prevent, detect and respond to misconduct and fraudulent / corrupt behaviour. This will ensure our stakeholders and the community can be confident in the integrity and good governance of the City and the quality of our services to the community.

Stephen Cain
Chief Executive Officer

Date_____



1. INTRODUCTION

1.1 Purpose

The City Risk Management Policy documents the commitment and objectives regarding managing uncertainty that may impact the City's strategies, goals and objectives.

The purpose of this Fraud, Misconduct Control and Resilience Framework is to:

- minimise opportunities for fraud, misconduct, bribery and corruption (whether committed by internal or external parties);
- protect public monies, property, information and organisational or individual rights; and
- maintain the effectiveness of the City's operations.

Implementation of this Framework will ensure that the City's workforce acts legally, ethically and in the public interest. This Framework is based upon five best-practice fraud, misconduct control and resilience resources:-

- Western Australian Corruption and Crime Commission – Misconduct Resistance Guidelines (CCC Guidelines);
- Western Australian Corruption and Crime Commission and Public Sector Commission (Joint) – Notification of Misconduct in Western Australia Guidelines (Notification Guidelines);
- The Australian Minister for Home Affairs and Minister for Justice – Commonwealth Fraud Control Guidelines (Commonwealth Guidelines);
- Australian National Audit Office – Fraud Control in Australian Government Entities Better Practice Guide (ANAO Better Practice Guide); and
- Standards Australia – AS 8001-2008 Fraud and Corruption Control (the Australian Standard)

1.2 Risk Management Approach

This Framework includes proactive measures designed to enhance system integrity (prevention measures) and reactive responses (reporting, detecting and investigative activities) that aligns with the City's Enterprise Risk Management Framework.



1.3 Structure

The Framework consists of a suite of tools and resources including the City's:

- Fraud and Misconduct Control and Resilience Policy (Policy).
- Fraud and Misconduct Risk Assessment (Risk Assessment).
- Reporting Serious and Minor Misconduct Management Procedure (Reporting Procedure).
- Conducting Investigations into Allegations of Serious Misconduct (Management Procedure).
- Public Interest Disclosure Procedure
- Code of Conduct, Statement of Business Ethics and Training Modules.

In addition, the City will develop a Fraud, Misconduct Control and Resilience intranet webpage, which will complement the Framework and make available all the City's fraud, misconduct control and resilience resources. This Framework should be read in conjunction with the City's:

- Corporate Governance Framework; and
- Enterprise Risk Management Framework.

1.4 Goals and Objectives

Through the Policy, the Framework aims to clearly articulate:

- the City's commitment to a zero-tolerance attitude towards fraud and misconduct;
- the City's approach to building resilience to, and control of, fraud and misconduct;
- the embedding of a strong and proactive fraud and misconduct control ethos within the City;
- the City's roles and responsibilities for building resilience to, and the control of, fraud and misconduct;
- strategies implemented within the City to prevent, detect and respond to fraud and misconduct;
- a summary of:
 - the fraud risks (internal and external) associated with the City's functions
 - the controls in place to minimise the opportunity for fraud, misconduct and corruption
 - their implementation details; and
- protocols for the reporting of suspected fraud or misconduct within and against the City.

13 March 2019



2. WHAT IS FRAUD AND MISCONDUCT

Fraud and misconduct can take many forms. Fraud and misconduct by public officials may fall within the category of 'misconduct' in accordance with the Corruption, Crime and Misconduct Act 2003 (CCM Act). In addition, many forms of fraud and corruption are offences under the Criminal Code Compilation Act 1913 (Criminal Code). These include false claims, stealing and misappropriation of property, false pretence, forgery and receipt or solicitation of secret commissions. The following definitions of "fraud", "corruption" and "misconduct" are used throughout this Framework.

2.1 Fraud

Fraud is dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity and where deception is used at the time, immediately before or immediately following the activity. This also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal purpose or the improper use of information or position for personal financial benefit.

Any deliberate deceitful conduct or omission designed to gain an advantage to which a person or entity is not entitled. It is the intentional use of false representations or deception to avoid an obligation, gain unjust advantage or, in the context of public administration, commonly referred to as 'rorting the system'.

2.2 Corruption

Corruption is dishonest activity in which an employee, or contractor, of an entity acts contrary to the interests of the entity and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or entity.

Corruption may also constitute any behaviour that may involve fraud, theft, the misuse of position or authority or other acts which are unacceptable to an organisation, its clients or the general community. It may also include other elements such as breaches of trust and confidentiality.

2.3 Misconduct

Section 4 of the CCM Act defines misconduct.

Notwithstanding the specific definition of misconduct set out in the CCM Act, misconduct generally occurs when a public officer abuses their authority for personal gain, causes detriment to another person, or acts contrary to the public interest. Misconduct also constitutes inappropriate or improper conduct by a public officer that reflects seriously and adversely on the public service.

The CCM Act characterises misconduct to either be serious or minor misconduct with serious misconduct dealt with by the Corruption and Crime Commission (CCC) and minor misconduct dealt with by the Public Sector Commission (PSC).

2.4 Minor Misconduct

Section 4(d) of the CCM Act defines minor misconduct for public officers other than WA Police officers.

Minor misconduct is misconduct that is significant enough that it could possibly lead to termination of a public officer's employment if proved. Minor misconduct occurs when a public officer engages in conduct that:

- adversely affects the honest or impartial performance of the functions of a public authority or public officer, whether or not the public officer was acting in their public officer capacity at the time of engaging in the conduct;
- involves the performance of functions in a manner that is not honest or impartial;
- involves a breach of the trust placed in the public officer; or
- involves the misuse of information or material that is in connection with their functions as a public officer, whether the misuse is for the benefit of the public officer or the benefit or detriment of another person; and
- constitutes, or could constitute, a disciplinary offence providing reasonable grounds for termination of a person's office or employment.

Where the Principal Officer (in the case of the City, the CEO) has a reasonable suspicion that an instance of minor misconduct has occurred, the Principal Officer must report to the PSC as soon as practicable



2.5. Serious Misconduct

Serious misconduct refers only to corrupt or criminal conduct as described in sections 4(a), (b) and (c) of the CCM Act.

Serious misconduct is misconduct that involves corrupt intent and/or criminal conduct and occurs when a public officer:

- acts corruptly or corruptly fails to act in the course of their duties; or
- corruptly takes advantage of their position for the benefit or detriment of any person; or
- commits an offence which carries a penalty of two or more years imprisonment.

2.6 Corrupt Conduct

Corrupt conduct is demonstrated by a deliberate intent or an improper purpose and motivation and may involve conduct such as:

- undertaking, soliciting or accepting the provision of something of value (a bribe) for the purpose of influencing the action or decision of an official in the discharge of their public or legal duties;
- deliberate failure to perform the functions of office properly;
- the exercise of a power or duty for an improper purpose;
- involves a breach of the trust placed in the person as a public officer, either knowingly or recklessly;
- involves a misuse of official information or material; or
- performance of functions or the exercise of powers for the purpose of providing a benefit either to the person or another person or causing a detriment to another person.

Anyone who tries to corrupt a public sector officer can also be guilty of corrupt conduct if the matter involves a criminal offence.

2.7 Corrupt Conduct

Set out in the table below are common examples of fraud, misconduct and corruption:

Internal	External	Collusion
<p>Corporate card misuse, such as payment for personal expenses including fictitious names on the payroll system.</p> <p>Delayed terminations.</p> <p>Abuse of position and power, including accepting or offering bribes or gifts.</p> <p>Nepotism.</p> <p>Submitting false travel claims.</p> <p>Consistently recording incorrect hours of work on timesheets.</p> <p>Unauthorised use of City vehicles.</p> <p>Theft or unauthorised use of public funds or physical resources, such as office supplies and stationery.</p>	<p>Customers deliberately claiming benefits for which they are ineligible.</p> <p>External providers making claims for services that were not provided.</p> <p>The provision of false or misleading information</p> <p>Failure to provide information when obliged to do so.</p> <p>Inappropriate influence over grants and funding applications.</p> <p>Manipulation of a procurement process.</p>	<p>Inappropriate involvement with suppliers, including unlawful or unauthorised release of information.</p> <p>Knowingly making or using forged or falsified documentation.</p> <p>Failing to declare and appropriately manage conflicts of interest.</p>



3. POLICY STATEMENT

The City has adopted the Fraud and Misconduct Control and Resilience Policy.

The Policy states that the City is committed to excellence in service performance and in meeting its statutory obligations. This includes maintaining a strong culture and sound governance that provides not only for the protection of public funds and property but also promotes the prevention of fraud and misconduct. The City adopts a zero-tolerance attitude towards fraud, misconduct and corruption.

The City provides all employees with education and training in ethics and fraud awareness to ensure that all employees understand their responsibilities and obligations.

The City's organisational values and culture, governance and risk management frameworks and controls all work together to prevent, detect and respond to potential or actual fraudulent and corrupt conduct.

The City will deal appropriately with all allegations and suspected instances of fraud, misconduct, bribery and corruption. All employees are obliged to report suspected fraudulent and/or corrupt activities to their Team Leader and immediate Supervisor who will escalate accordingly.

The City will notify, report and refer any instances of misconduct (whether minor or serious) to the PSC and CCC and/or the Western Australia Police, as appropriate, for investigation and possible prosecution.



4. FRAUD AND MISCONDUCT CONTROL STRATEGIES

The City's Fraud and Corruption Control strategies are based on the Australian National Audit Office (ANAO) conditions that are essential for a sound fraud, corruption and misconduct control environment and the Ten Principle model for fraud and misconduct control.

4.1 ANAO Conditions

The ANAO's three conditions for a sound control environment are:

- Ethical leadership and culture – strong ethical values and high standards of ethical behaviour;
- Legislation and governance – legislation and policies that promote accountability, are transparent and incorporate robust governance structures; and
- Control strategies – actions to prevent, detect and respond to fraud, misconduct and corruption, which are reviewed and continuously improved.

4.2 Ten Principle Model

The Ten Principle Model is an integrated control model that comprises ten key principles and is consistent with Australian and overseas best practice. The principles are interrelated, with each one playing an important role.

The ten Principles are set out below:

- Principle 1 – City Wide Policy.
- Principle 2 – Risk Assessment.
- Principle 3 – Internal Controls.
- Principle 4 – Internal Reporting.
- Principle 5 – External Reporting.
- Principle 6 – Public Interest Disclosure.
- Principle 7 – Investigations.
- Principle 8 – Code of Conduct.
- Principle 9 – Employee Training and Awareness.
- Principle 10 – Customer and Community Awareness.

The City's approach to fraud, misconduct and corruption control also aligns with the Australian Standard.



4.3 Fraud, Misconduct and Corruption Control Model

The City's Fraud, Misconduct and Corruption Control Model (Figure 1) demonstrates the way in which the City integrates the ANAO's Conditions and the Ten Principles with its fraud, misconduct and corruption control prevention, detection and response strategies.



Figure 1: Fraud, Misconduct and Corruption Control Model

4.4 ANAO Conditions in Practice

4.4.1 ETHICAL LEADERSHIP AND CULTURE

Executive and Senior Managers must lead by example and behave in a way consistent with the City's Code of Conduct and the City's five corporate values of:

- Customer Service - we are committed to giving the best possible customer service
- Accountability - we are honest and accountable for our actions and decisions
- Excellence - we strive for excellence
- Safety - safety is an integral part of all that we do
- Sustainability - we consider the natural, financial and social implication of our decisions

The Code of Conduct and the City's corporate values provide all employees with ethics, principles, values and standards of conduct to guide behaviour in the workplace. They are important fraud, misconduct and corruption resistance tools to promote ethical behaviour and, in conjunction with this Framework and the best practice principles outlined in the City's Enterprise Risk Management Framework, support the effective and efficient management of fraud, misconduct and corruption risks across the City.

4.4.2 LEADERSHIP AND GOVERNANCE

This Framework is underpinned by legislation, Australian Standards and best practice guidelines, including:

- Local Government Act 1995 and relevant Regulations .
- Corruption and Crime Commission Act 2003.
- Corruption, Crime and Misconduct Act 2003.
- Criminal Code Compilation Act 1913.
- Public Interest Disclosure Act 2003.
- State Records Act 2000.
- CCC Guidelines.
- Notification Guidelines.
- Commonwealth Guidelines.
- ANAO Better Practice Guide.
- the Australian Standard.



4.4.3 ANAO CONTROL STRATEGIES

The ANAO's control strategies are referenced in conjunction with the Ten Principles for fraud, misconduct and corruption control in section 4 "Control Strategies".

Appendix 1 includes a full list of the applicable legislation and other instruments, while the City's Policy and Procedure Register sets out all procedure specific legislation and governance instruments.

The City's rigorous governance structure ensures legislative requirements are addressed effectively, transparently and with accountability.

Strategic

- Council sets the strategic direction and policy position for the City after consideration of advice from the CEO and Executive Team.
- Audit and Strategic Finance Committee provides Council with independent audit and risk management advice.
- The Executive Team sets and reviews each Directorate's strategic direction, priorities and performance objectives.
- Governance Business Unit reports to CEO and notifies the Executive Team, CEO and Audit and Strategic Finance Committee of fraud, misconduct and corruption matters to be escalated.

Corporate and Operational

- The CEO is responsible for the corporate, operational and administrative arm of the City.
- Corporate and operational management structures provide for clear lines of reporting, accountability and responsibility to support appropriate, open and transparent decision making.

As illustrated in *Figure 2*, consistent with the Enterprise Risk Management Framework, the City’s governance structures support fraud, misconduct and corruption control at the strategic, corporate and operational levels.

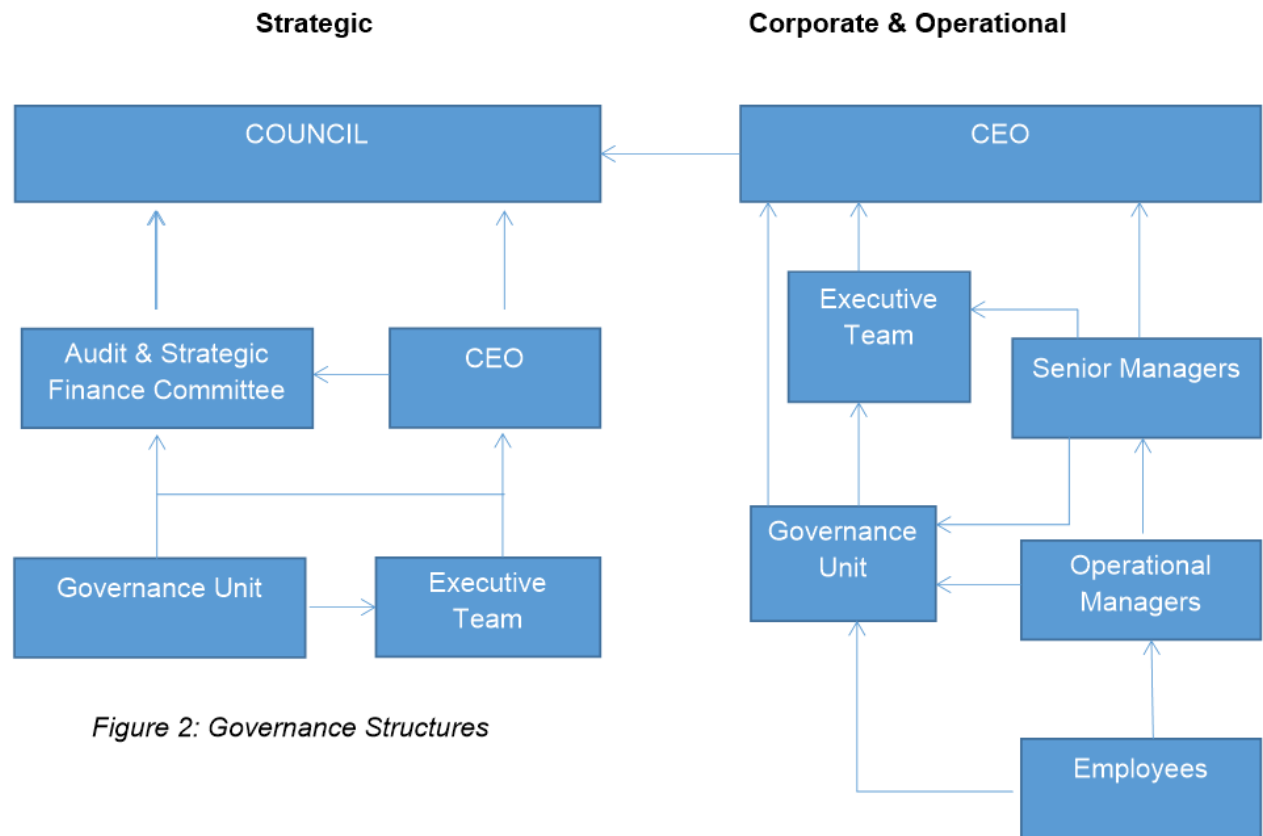


Figure 2: Governance Structures



4.5 Roles and Responsibilities

While fraud, misconduct and corruption control is the responsibility of every employee, the table below details specific roles and responsibilities:

Role	Responsibility
Audit and Strategic Finance Committee	<p>Oversight of risk management, including fraud, misconduct and corruption control.</p> <p>Review governance processes to ensure all matters relating to alleged fraud, misconduct and corruption or unethical conduct are dealt with appropriately.</p> <p>Review the City's Enterprise Risk Management Framework for identifying, monitoring and managing business risk, including risks associated with fraud, misconduct and corruption.</p> <p>Review the Strategic Internal Audit Plan annually to ensure it covers fraud, misconduct and corruption risks.</p>
Chief Executive Officer	<p>Legislated responsibility to exercise authority on behalf of the City.</p> <p>Overall accountability for prevention and detection of fraud and corruption within the City.</p> <p>Ensure integrity and accountability in the performance of the City's functions.</p> <p>Manage the City's operations and resources ensuring service delivery is effective and efficient.</p> <p>Promote continual evaluation and improvement of the City's management practices.</p> <p>As Principal Officer, report suspected corrupt conduct, criminal and other matters to the appropriate external agency i.e.:</p> <ul style="list-style-type: none"> • Crime and Corruption Commission • Public Sector Commission • Western Australian Police Service • Western Australian Ombudsman

Role	Responsibility
Directors and SeniorManagers	<p>Encourage and maintain a culture and working environment that fosters personal responsibility, integrity and accountability.</p> <p>Display ethical leadership and high personal standards of behaviour consistent with the Code of Conduct.</p> <p>Contribute to effective risk management strategies in accordance with the City's enterprise risk management framework and ensure risk management practices are adhered to throughout their area of control.</p> <p>Develop and maintain best practice for the prevention and detection of fraud, misconduct and corruption and ensuring due consideration is given to confidentiality, natural justice and procedural fairness pertaining to any reported incidents.</p> <p>Ensure all employees are made aware of and attend appropriate education, training and awareness sessions to allow for a skilled and knowledgeable workforce, including public sector ethics education, training and awareness, internal controls and financial or procurement training.</p> <p>Ensure effective employee communication about the process for identifying and reporting on potential fraudulent and corrupt activities and misconduct.</p> <p>Ensure where a public interest disclosure is made, the procedure for making and managing a public interest disclosure is adhered to.</p> <p>Follow the mandatory internal or external reporting requirements for reporting suspected corrupt conduct, including fraud, misconduct or corruption.</p>
Governance Unit	<p>Oversee the development, implementation and continued management of the fraud, misconduct and corruption control plan with the support of the Risk Review Group, and other service units.</p> <p>Provide accurate and timely advice to the CEO, Executive Team and Audit and Strategic Finance Committee on fraud, misconduct and corruption matters.</p> <p>Promote the implementation of effective risk management practices, in relation to fraud, misconduct and corruption.</p> <p>Ensure training and awareness programs are comprehensive and designed to assist employees, contractors and stakeholders to identify, prevent and detect fraud, misconduct and corruption, including methods of reporting.</p> <p>Implement, maintain and review the Framework.</p> <p>Ensure the Framework undergoes a triennial review, or more frequently as required.</p> <p>Coordinate, monitor and review the fraud, misconduct and corruption risk assessment process.</p> <p>Manage and coordinate all public interest disclosures made to the City and ensure adequate support and certain protections are afforded to the discloser in accordance with Public Interest Disclosure Act 2003.</p> <p>Provide advice and direction to employees on the correct protocol for reporting matters to external agencies.</p>



Role	Responsibility
Manager Financial Services	<p>Systematically review the operation and effectiveness of all financial internal control systems to assure they adequately prevent, deter and detect major frauds</p> <p>Record and collate fraud, misconduct and corruption incident reports.</p> <p>Coordinate and/or conduct investigations into allegations of fraud, serious misconduct and corruption.</p> <p>Ensure accounts payable systems have effective preventative and/or compensating controls that adequately mitigate the risk of fraudulent purchases and/or payments</p> <p>Maintain accurate and up-to-date asset registers that are regularly reviewed to mitigate the misuse and/or misappropriation of assets</p> <p>Provide independent appraisals, examination and evaluation of the City's activities and assist management with the detection of suspected fraud and corrupt activities.</p> <p>Undertake scheduled audits, which include examining established controls, to determine if these are robust enough to reduce the risks of fraud, misconduct and corruption, including the identification of work practices that may lead to fraudulent and corrupt activities and misconduct.</p> <p>Undertake targeted audit activities to specifically identify any indication that fraud, misconduct or corrupt behaviour may have occurred and be alert to opportunities that could allow fraudulent activities.</p> <p>Report in writing any suspected activities of fraudulent or corrupt practices identified during an internal audit function to the CEO and possible investigation or referral to the appropriate external agency.</p>
Manager Human Resources	<p>As directed by the CEO, coordinate and/or conduct investigations into allegations of minor misconduct by an employee.</p> <p>Coordinate the City's corporate training calendar, including mandatory training for all employees in respect of fraud and misconduct awareness.</p> <p>Establish effective pre-employment screening processes that provide sufficient assurance over the integrity, identity and credentials of all council staff</p>

13 March 2019

Role	Responsibility
All Employees	<p>Contribute to the development of improved systems, policies and procedures to enhance the City's resistance to fraud and corruption including:</p> <ul style="list-style-type: none"> • safeguarding assets and other resources under their control; • having a clear understanding of their obligations regarding any losses, deficiencies and / or shortages that may be identified while at work; and • ensuring all personal claims are accurate with no deliberate omissions and recording accurate hours of work on timesheets. <p>-----</p> <p>Actively seek education and training to learn and maintain knowledge and skills required to undertake their duties.</p> <p>Gain an understanding of the policies, procedures and guidelines that relate to their role and work within the requirements of these</p> <p>-----</p> <p>Follow the requirements for internal reporting of suspected fraud, misconduct and corruption.</p> <p>-----</p> <p>Understand responsibilities associated with performing their official duties and commit to acting ethically and with integrity in accordance with the City's Code of Conduct and other relevant policies and procedures.</p> <p>-----</p> <p>Report all suspected or actual incidents of fraud, misconduct and corruption that they may be aware of to an appropriate officer being:</p> <ul style="list-style-type: none"> • Manager/Supervisor • Manager Human Resources • Governance & Risk Advisor • Director • CEO



4.6 Fraud, Misconduct Control and Resilience Strategies

The Ten Principle model of fraud, misconduct and corruption control, which the City has adopted as the basis of its fraud, misconduct and corruption control and resilience strategy, falls into three key categories of control:

- **Prevent** – as the first line of defence, to reduce the risk of fraud, misconduct and corruption occurring;
- **Detect** – discover and investigate fraud, misconduct and corruption when it occurs; and
- **Respond** – take corrective action and remedy the harm caused by fraudulent and corrupt behaviour.

The strategy sets out the actions to be undertaken in respect of reporting, processing, resolving and responding to when:

- a person suspects fraud, misconduct or corruption is occurring within the City; and/or
- the suspected fraud and corruption constitutes misconduct on the part of an employee.

The Principles are categorised below, followed by a discussion of each Principle, and its alignment with the ANAO Conditions for best practice fraud, misconduct and corruption control.



Table 1: Key Fraud, Misconduct and Corruption Control Strategies

Key Control Principle	Categories			Purpose	
	Prev.	Det.	Resp.		
1. City-wide policy	√			Demonstrate the City's resolve to combat fraud and corruption	Communicate Intent
2. Code of Conduct	√			Set out expectations and standards of ethical behaviour within the City	
3. Employee education and awareness	√		√	Ensure a well-informed workforce with the capacity to recognise and respond to the risks of fraud, misconduct and corruption	
4. Client/community awareness	√			Maintain public trust and forestall potentially unacceptable practices from external parties	
5. Risk assessment	√		√	Provide a comprehensive understanding of the City's internal and external vulnerabilities	Limit Opportunities
6. Internal controls	√	√	√	Mechanisms to eliminate or minimise risks	
7. Internal reporting		√	√	Mechanism for employees to report potential fraudulent or corrupt activities and other alleged wrongdoing	Reinforce Zero Tolerance
8. Public Interest Disclosures		√		Responsibility for managing all allegations of wrongdoing received under <i>Public Interest Disclosure Act 2003</i>	
9. Investigations		√	√	Ensure allegations of fraud, misconduct and corruption are actioned appropriately and investigated competently	
10. External reporting			√	Mechanism for the CEO to report any suspected misconduct, fraudulent or corrupt activity to the appropriate external agency	



5. TEN PRINCIPLES IN PRACTICE

5.1 Principle 1 – City Wide Policy

ANAO condition: Ethical leadership and culture

The City is committed to excellence in fulfilling public expectations of service performance and in meeting its statutory obligations. The Framework provides overarching direction and sets out the policies and procedures designed to achieve this, provides guidance to employees and forms the foundation for fraud, misconduct and corruption prevention. A list of related instruments is found at *Appendix 1*.

5.2 Principle 2 – Risk Assessment

ANAO condition: Legislation and governance, control strategies

Fraud, misconduct and corruption risk assessment is an integral part of the City's overall risk management framework and provides the City with an understanding of its fraud, misconduct and corruption vulnerabilities and possible strategies to eliminate or minimize those risks.

5.2.1 RISK ASSESSMENT RESPONSIBILITY

The CEO is the accountable officer in accordance with the Local Government Act and Regulations and has ultimate legislative responsibility and accountability for establishing and maintaining suitable systems of internal control and risk management. Council, through the Audit and Strategic Finance Committee, provides oversight of strategic risks. The Executive Management Team provides oversight of corporate risks. Individual Directors and Managers provide oversight of operational risks. All employees are required to comply with the City's Enterprise Risk Management policy and apply risk management processes within their business and service units.

5.2.2 FRAUD, MISCONDUCT AND CORRUPTION RISK ASSESSMENT

Fraud and corruption risk assessments are carried out in accordance with the City's Enterprise Risk Management Framework.

The City's enterprise risk management procedure and process, risk assessment criteria, guidelines and tools to support the completion of the fraud, misconduct and corruption risk assessments are located on the City's Intranet.



Fraud, misconduct and corruption risk assessments are to be conducted for each Directorate on their specific functions/processes at least biennially. Potential fraud, misconduct and corruption risks are identified as risks to the City's functions/processes and as such are classified under the Enterprise Risk Management Framework as operational risks and recorded accordingly in the City's risk register.

Key risks and associated control activities were identified through a City-wide fraud, misconduct and corruption risk assessment in December 2017. The fraud, misconduct and corruption risk assessment will be undertaken at least triennially.

Fraud, misconduct and corruption risk identification and the development and assessment of related control activities form part of the City's continual process of risk review, which also considers changing circumstances and operating environments, both internal and external to the City.

5.2.3 RISK AREAS FOR FRAUD AND CORRUPTION

The City has identified a number of functions / processes considered to be areas of high vulnerability to fraudulent and corrupt activity. As a minimum, fraud, misconduct and corruption risks are to be identified and assessed for the following areas:

- Accounts payable and receivable
- Payroll
- Asset management
- Procurement
- Regulatory
- Timesheets
- Contract management
- Corporate credit cards
- Information management
- Recruitment
- Purchasing (including corporate credit cards and other purchasing cards)
- Funds and grants management
- Sponsorship/Donations
- Leasing



Also as a minimum, the following specific matters should be considered:

- enforcement of existing financial management standards, policies and practices governing contracts and the supply of goods and services;
- proper recording of assets and provisions for known or expected losses;
- the collection, storage, management, handling and dissemination of information;
- segregation of functions, especially in regulatory, financial and cash handling areas, work activities which have little supervision or are open to collusion or manipulation and / or dual reporting structures;
- work practices associated with compliance and enforcement activities ;
- work practices and ethical standards for accredited agents and certifiers;
- formal or structured reviews of accounting and administrative control, effectiveness of measures for reporting suspected fraud, misconduct and corruption and other forms of corrupt conduct;
- compliance of employee training with requirements;
- workplace grievance practices and their relationship with other OH&S issues; and
- measures to ensure quick and decisive action on all suspected fraud, misconduct and corruption situations.

In addition to the assessment of risk, suitable operational practices to detect fraudulent or corrupt activity are to be implemented including:

- establishing effective accounting and management controls;
- routine and random auditing of decisions and operational records identifying variations from normal accounting procedures or work practices;
- recognising deviations or exceptions in outcomes from expectations; and
- monitoring key indicators (red flags) of potential fraud, misconduct and/or corruption.

Responsible employees will develop fraud, misconduct and corruption resistant work practices and subsidiary control plans as necessary. The City's Enterprise Risk Management Framework should be used to ensure consistency across the risk evaluation process.



5.3 Principle 3 – Internal Controls

ANAO condition: Legislation and governance, control strategies

Controls are used to manage risks identified through the risk assessment process. The City's internal control system consists of structures, policies, procedures, processes, information systems and other tangible and intangible activities that record and manage risks.

The City's internal control structure ensures that accountable employees establish and implement a cost-effective internal control structure, including:

- a strong emphasis on accountability and best practice management of City resources;
- an organisational structure and delegations which support the objectives and operations of the City;
- employment of qualified and competent officers;
- training and performance assessment of officers;
- efficient, effective and economic operations of the internal audit function;
- compliance with all financial legislative requirements;
- appropriate separation of duties; and
- preserving the integrity, accuracy and reliability of the City's Information Communication and Technology (ICT) systems

It also aligns with best practice requirements that internal control procedures should include:

- transparent operations, such as well-defined and publicised service standards, performance indicators and targets, referring to the City's Annual Report, Corporate Business Plan and Strategic Community Plan;
- easily accessible information;
- client opportunity to provide feedback;
- transparent decision-making to highlight potential nepotism, favouritism or conflict of interest;
- agency appropriate procedures through identification of fraud and corruption risks and matching control measures; and
- separation of functions through physical access controls, division of duties or different security access levels for information.



The City's internal control procedures include basic checks and balances which are undertaken to ensure:

- completeness, relevance and accuracy;
- timeliness of the City's accounting and other transactions and records;
- safeguarding of assets; and
- compliance with any prescribed statutory requirements.

The City's internal controls specifically address identified fraud risk and are regularly reviewed, with internal policies and procedures documented and promoted to relevant employees. They also include all the elements of internal control identified in the Australian Standard.

All employees must be continually alert to early warning signs of fraud, misconduct, corruption or corrupt conduct. Common red flags for possible fraud, misconduct or corruption include:

- overly familiar relationships between employees, proponents, suppliers and / or contractors;
- disregard of internal controls;
- Employees demonstrating a reluctance to take leave, particularly where they have cash control or debt collection responsibilities;
- Employees remaining later at work than other employees, or accessing work premises unnecessarily after other employees have left;
- unreconciled accounting records, including corporate card transactions and / or poor follow-up of outstanding accounts; and
- lack of supporting documentation for purchases.

The integration of internal controls into management practices requires the inclusion of accountability in annual and long term planning, position descriptions and performance reviews of executive management, managers and supervisors, reflecting their responsibility for identifying system deficiencies that facilitate fraud, misconduct and corruption.

Investigations into cases of fraud, misconduct and corruption show strong links between the incidence of fraud and corruption and poor internal control systems. As a result, the assessment of internal control effectiveness is a crucial step in the fraud, misconduct and corruption risk assessment process.

The City's internal auditor (outsourced) supports the City's efforts to establish and maintain systems integrity through an established audit program. The audit program includes periodic risk based assessments of the City's business units using best practice methodologies to assess levels of compliance with existing internal controls.

5.4 Principle 4 – Internal Reporting

ANAO condition: Legislation and governance, control strategies

Reporting suspected wrongdoing is vital to the City's integrity and that it has been shown that employees provide the most compelling source in detecting fraud and corruption. The Code of Conduct requires all employees to report suspicious actions or potential wrongdoing. Anyone, including customers, contractors or members of the public can also make a complaint about fraud, misconduct and corruption, anonymously if they wish. Matters relating to corrupt conduct will be referred for investigation as a priority.

Complaints may be lodged by telephone, hard copy correspondence, or through the City's Electronic Form available on the City's website.

The following City procedures explain how to report suspected wrongdoing, including fraud misconduct and corruption:

- Compliments, Feedback and Complaints Policy and Management Procedure;
- Reporting Serious and Minor Misconduct Management Procedure;
- Conducting Investigations into Allegations of Serious Misconduct Management Procedure;
- Public Interest Disclosure Policy; and
- Public Interest Disclosure Management Procedure

5.4.1 CHARACTERISTICS OF INTERNAL REPORTING

The City's internal reporting system provides for:

- receiving information about identified risks and suggestions for system improvements ;
- receiving information about suspected acts of fraud, misconduct and/or corruption
- maintaining, as far as possible, the confidentiality of the parties involved;

13 March 2019



- conveying information to the relevant employee (supervisor or manager);
- ensuring appropriate assessment and investigation;
- ensuring compliance with additional external reporting requirements; and
- providing feedback to the discloser, demonstrating that the information was taken seriously and acted upon.

5.4.2 INTERNAL REPORTING ARRANGEMENTS

The City's internal reporting system considers the organisation's size, structure, function and geographic reach. Reporting to immediate supervisors or managers is encouraged, with supervisory employee responsible for reporting to more senior management.

The City has a dedicated Service Unit responsible for accepting and investigating reports of alleged fraud, serious misconduct and corruption, being the Governance Unit. The Governance and Risk Advisor has an unrestricted line of access to the CEO, enabling the CEO to fulfil the legislative reporting responsibility to external bodies.

5.4.3 FRAUD AND CORRUPTION REPORTING GUIDELINES

- Employees should report suspected wrongdoing to their immediate supervisor or manager, in the first instance.
- Should an employee be reluctant to report any concerns immediately or feel appropriate action has not been taken by the supervisor or manager who received the complaint, alternative reporting options include reporting to:-
 - A more senior manager.
 - Governance and Risk Advisor.
 - CEO.
 - The City's reporting fraud, misconduct and corruption Electronic Form available on the City's website (which can be done anonymously).
 - Directly to the PSC.
 - Directly to the CCC.
- Supervisors and managers are required to report information regarding suspected fraud, misconduct and/or corruption incidents immediately to the Governance Unit.
- A climate of trust and accountability should be developed so employees are aware that all efforts will be made to maintain confidentiality and appropriate action will be taken.
- Identifying a senior and qualified employee to receive

13 March 2019

reports (such as the Governance & Risk Advisor) who will provide for objectivity (or at least the perception of objectivity).

5.4.4 FRAUD, MISCONDUCT AND CORRUPTION REPORTING MANAGEMENT PROCESS

The City will maintain a complaints management process, managed by the Governance Unit, which captures, reports, analyses and escalates all detected fraud, misconduct and corruption incidents. This complaints management process is different and distinct from the City's Customer Complaints Management system.

The process also provides a fraud, misconduct and corruption register and Case Status Reports – Fraud, Misconduct and Corruption (Case Status Reports) - which will be reported to the Executive (and on an annual basis to the Audit and Strategic Finance Committee) for ongoing monitoring and analysis. Serious cases of fraud and misconduct will be immediately reported to the Audit & Strategic Finance Committee members. Data may also be used to provide the City with information for other reporting purposes and facilitate continuous improvement of its fraud, misconduct and corruption resistance capacity.

As set out in the Australian Standard, the Case Status Reports include the following information regarding each incident reported:

- Date and time of report.
- Date and time that incident was detected.
- How the incident came to the attention of management.
- The nature of the incident.
- Value of loss.
- Action taken following discovery of the incident.

5.5 Principle 5 – External Reporting

ANAO conditions: Governance, legislation, control strategies

The Western Australian public sector integrity framework includes independent statutory bodies which promote accountability, integrity and good governance, being:

- Public Sector Commission (PSC)

13 March 2019



- Crime and Corruption Commission (CCC)

Their integrity-building activities are supplemented by the law enforcement role of the Western Australia Police Service.

The integrity agencies offer a range of external reporting channels and advice, depending on the nature and scope of the alleged misconduct. In addition, the City has an external reporting responsibility to the PSC for minor misconduct and the CCC for serious misconduct in accordance with the CCM Act.

The Governance & Risk Advisor should be contacted prior to matters being reported to an external agency, for advice on correct reporting protocols.

5.6 Principle 6 – Public Disclosure

ANAO conditions: Legislation and governance, control strategies

The Public Interest Disclosure Act 2003 facilitates the disclosure of public interest information, enabling anyone to make disclosures about improper or unlawful conduct within the State Public Sector, local government and public universities without fear of reprisal. The Public Interest Disclosure Act 2003 also provides protection for those who are the subject of a disclosure.

A public interest disclosure (PID) is a disclosure of information of public interest, involving wrongdoing within the public sector, made to a proper authority. In accordance with the Public Interest Disclosure Act 2003 (PID Act), a proper authority is defined as a public sector entity or a member of the Legislative Assembly. The City strongly supports the principles embodied in the PID Act, which provide for certain protection from reprisal for persons making a PID, with the intent of the PID Act to ensure that persons making a complaint of wrongdoing can do so without fear of retribution.

From the perspective of fraud, misconduct and corruption control, a public service officer may make a PID if they report information about another employee that may relate to:-

- unlawful, corrupt, negligent or improper conduct that could amount to corrupt conduct;
- maladministration that adversely affects anyone's interests in a substantial and specific way; and/or

13 March 2019

- negligent or improper management by a public officer public sector entity or a government contractor resulting, or likely to result, in a substantial waste of public funds.

The City is committed to promoting the public interest by facilitating disclosures of wrongdoing and ensuring that PIDs are managed thoroughly, impartially, in a timely manner and in accordance with the PID Act.

The management of a PIDs includes initial evaluation, including a risk assessment and the determination of appropriate action, which may include investigation. If an investigation is conducted the discloser will be kept informed of its progress and outcome and will be provided with protection from reprisal action.

In accordance with the requirements of the PID Act, the City has a stand-alone PID internal management procedure which covers:

- the context in which a PID is appropriate;
- how, when and where to make a disclosure;
- who can make a disclosure;
- to whom a disclosure may be made;
- assessment and investigation of disclosure allegations;
- available support and protection mechanisms;
- the investigation process;
- PID-related roles and responsibilities; and
- Confidentiality.

The City also has a program to actively encourage an ethical work climate and an atmosphere of transparency and responsible reporting, which includes compulsory Code of Conduct and internal controls training, employees trained to receive and manage PIDs and to offer support and protection for disclosers.

As with all internal reporting of suspected wrongdoing, the City:

- exercises due process and natural justice in managing PIDs;
- makes all attempts to preserve confidentiality;
- provides appropriate protection to the person who made the PID;
- maintains all necessary records securely; and reports appropriately.



5.7 Principle 7 – Investigations

ANAO conditions: Legislation and governance, control strategies

All reports, information, complaints and notifications concerning alleged employee misconduct are referred to either the Human Resources Unit or Governance Unit.

If there is a reasonable suspicion or possibility that an incident constitutes minor misconduct or serious misconduct (corrupt conduct), the CEO, as Principal Officer, is required in accordance with the CCM Act, to report the matter to the PSC or CCC respectively.

As both fraud and corruption generally fall within the definition of misconduct, the majority of fraud and corruption matters automatically need to be reported. The PSC or CCC respectively may choose to investigate the matter itself, refer it back to the City, or work with the City to investigate the matter.

Any allegation involving criminal offences against the City, by employees or external parties, needs to be referred to the Police. In the event the Police do not lay criminal charges, but the information requires further enquiry because the allegation raises a reasonable suspicion of employee misconduct which, if proven, would be likely to result in formal disciplinary action, an investigation will be commenced.

Investigations may involve matters of suspected fraud, misconduct, corruption, misappropriation, maladministration, theft and other matters where the conduct of an employee, if substantiated, could amount to corrupt conduct and may result in disciplinary action, including dismissal.

5.7.1 CITY'S FRAUD MISCONDUCT AND CORRUPTION PRACTICES

The City's own fraud, misconduct and corruption investigative practices are aligned and comply with the WA Ombudsman Guidelines.

Specialist training may be provided to City investigators, to ensure the integrity and professionalism of their investigative work. Fraud, misconduct and corruption investigations are conducted by experienced, senior personnel who are independent of the service unit in which the alleged misconduct, fraudulent or corrupt conduct occurred.

13 March 2019

Investigations and any resultant disciplinary proceedings are always legislatively compliant and conducted in an atmosphere of transparency, with the overall guiding principles being independence and objectivity.

Information arising from, or relevant to, investigations is not disseminated to any person not required by their position description to receive the information and considering the seriousness of fraud, misconduct and corruption allegations, investigations are overseen by the Governance Unit.

In planning and undertaking fraud, misconduct and corruption investigations, the City follows the steps outlined by the WA Ombudsman:

- Assess the complaint
- Determine the scope and nature of investigation
- Determine the responsibilities and powers of the investigator
- Develop the investigation framework
- Gather evidence
- Apply the appropriate standard of proof
- Record and store information appropriately
- Prepare the investigation report
- Close and conclude the investigation

All investigations are conducted in accordance with the rules of procedural fairness.

5.7.2 EDUCATION AND AWARENESS

Employees must co-operate with an investigation being conducted in connection with the administration, management and operation of the City to ensure the best possible outcomes.

5.7.3 POLICIES AND PROCEDURES

In addition to the City's Fraud and Misconduct Control Policy Statement, the City has a Conducting Investigations into Allegations of Serious Misconduct Management Procedure, which discusses employees legislative obligations, misconduct and corrupt conduct, the investigation process, the balance of probabilities, procedural fairness and natural justice, interviews and what each party can expect from the other during an investigation.



When the City deems an investigation into alleged misconduct or corrupt conduct, including fraud or corruption, is necessary:

- all employees are obliged to respect the rights of all involved and maintain confidentiality pending a full investigation into an alleged wrongdoing;
- managers and supervisors must ensure due process and encourage confidentiality;
- any person disclosing alleged wrongdoing must be advised of the outcome of the investigation as soon as practicable;
- the outcome may be subject of review by the PSC or CCC respectively; and
- the allegation and outcome may be reported to the Police.

Outcomes of investigations where complaints of alleged fraud, misconduct and / or corruption have been substantiated may be published, when appropriate to do so and where confidential records can be maintained.

5.8 Principle 8 – Code of Conduct

ANAO conditions: Legislation and governance, ethical leadership and culture

The City's Code of Conduct provides guidance on the standards of conduct expected of all employees and others associated in any significant way with the City. They include ethics, principles and values and advice and guidance for employees in making ethical decisions, especially in circumstances where the 'correct' or 'best' course of action may not be clear.

The Code of Conduct is based upon four ethical principles:

- Integrity and impartiality
- Promoting the public good
- Commitment to the system of government
- Accountability and transparency

The Code of Conduct is underpinned by the City's Corporate Values:

- Customer Service - we are committed to giving the best possible customer service
- Accountability - we are honest and accountable for our actions and decisions
- Excellence - we strive for excellence

13 March 2019

- Safety - safety is an integral part of all that we do
- Sustainability - we consider the natural, financial and social implication of our decisions

As a tool which outlines the City's ethical framework, it is outside the scope of the Code of Conduct to cover all ethical situations which may arise. To assist in the resolution of complex issues, including those relating to fraud, misconduct or corruption, Employees should seek the advice of their supervisors, managers or senior management when appropriate.

The value of the Code of Conduct as a deterrent to misconduct depends substantially on the perception that the provisions are enforced swiftly and equitably. Accordingly, prompt and impartial action is taken by the City in the event that a reasonable suspicion exists of fraud, misconduct, corruption or corrupt conduct.

The Code of Conduct reflects the corporate and business ethos of the City. As such, the City-wide implementation will promote integrity, encourage ethical behaviour and strengthen the City's resistance to fraud, misconduct and corruption.

The Human Resources Unit will review the Code of Conduct biennially, or more frequently if required. On an ongoing basis, the Director of Governance & Community Services will also review the need to develop any other related policies and procedures, ethical awareness training or employee development materials.

5.9 Principle 9 – Employee Education and Awareness

ANAO conditions: Governance, ethical leadership and culture

The City provides appropriate education and training for all employees.

5.9.1 MANDATORY TRAINING

As part of the City's corporate training, it will be mandatory for all employees to undertake ethics education and training. Such training will be undertaken on an on-going basis and at regular intervals during employment with the City.

The ethics education and training module includes:

- ethical decision-making training and awareness, including Code of Conduct;
- internal controls training; and
- fraud, misconduct and corruption (including Public Interest

13 March 2019



Disclosure) training and awareness.

Such training will be available to all employees through a variety of delivery modes including:

- face-to-face training;
- on-line fraud awareness and ethical decision making training; and
- ethics-related resources published on City's intranet.

5.9.2 CITY EDUCATION AND AWARENESS STRATEGIES

The City implements a variety of education and awareness strategies to foster an ethical organisational culture and strengthen the City's resistance to fraud, misconduct and corruption:

- displaying notices about the Code of Conduct and the expectation of ethical behaviour, throughout the workplace;
- making a copy of the Code of Conduct available to all new employees;
- demonstrating executive management commitment to fraud, misconduct and corruption control, with senior executives leading by example and participating in training sessions ;
- dissemination of advice about fraud awareness strategies and internal controls;
- this Framework and the Fraud and Misconduct Control and Resilience Policy made accessible to all employees
- dissemination of Public Interest Disclosure (PID) Policy and advice about the City's support and approach to PIDs;
- function-specific training about fraud and corruption control to employees working in high-risk areas;
- online Internal Controls training;
- the inclusion of fraud, misconduct and corruption control KPIs in the City's financial sustainability benchmarks;
- embedding fraud, misconduct and corruption control in the City's Enterprise Risk Management program; and
- reinforcement of the City's zero tolerance attitude to fraud, misconduct and corruption demonstrated by prompt response to incidents.

Consideration of future training programs will include but not be limited to the provision of guidelines on the identification of misconduct risk and the 'red flag' indicators of potential fraud, misconduct and corruption. Such training will also include information about accountability and ethical standards, as well as offering case studies and scenarios for ethical decision making.

13 March 2019

5.10 Principle 10 – Client and Community Awareness

ANAO conditions: Legislation and governance, ethical leadership and culture

This Framework and other relevant policies and procedures are published on the City's internet site to make them accessible for all community members and residents.

The City's external communication will emphasise the integrity of the City and its commitment to the highest standard of probity in all its dealings. The City's Statement of Business Ethics promotes this and is available on the City's internet site. In doing so, the City will give the community confidence in its dealings with the City and ensure that external providers, such as contractors, suppliers, third party providers and funding recipients are aware of the City's zero tolerance policy. This message will be augmented by the ethical actions of employees at all times.

The City promotes its position in respect of fraud and misconduct control and resilience by:

- publishing this Framework and procedure on the City's internet and intranet;
- ensuring a documented process for reporting potential fraudulent, misconduct and/or corrupt activities;
- incorporating probity compliance declarations and provisions into the City's standard contracts;
- providing a fraud, misconduct and corruption reporting Electronic Form on the City's website; and
- developing and delivering associated training to all employees.

The City's zero tolerance to fraud, misconduct and corruption should be highlighted, and measures taken to ensure the City's fraud, misconduct and corruption prevention goals are reported in the City's Annual Report.



6. MONITORING, REVIEW AND CONTINUOUS IMPROVEMENT

The processes that support continuous improvement of the Framework include:

- reviewing the Framework triennially (or following a significant change within the City) including:
 - control strategies to ensure appropriate balance between prevention and detection; and
 - control appropriateness and effectiveness of design and operation,
- updating the fraud, misconduct and corruption risk assessment to ensure fraud misconduct and corruption risks are captured and managed; and
- review of individual fraud, misconduct and corruption cases to identify the cause, areas of control weakness, where possible measure the loss or cost of fraud, and identify lessons learned.

13 March 2019

Version 1.0

{ 37 }

 107 of 161

APPENDIX 1 – LEGISLATION AND OTHER INSTRUMENTS

Legislation

- Local Government Act 1995
- Local Government Regulations
- Corruption and Crime Commission Act 2003
- Corruption, Crime and Misconduct Act 2003
- Criminal Code Act Compilation Act 1913
- Public Interest Disclosure Act 2003
- State Records Act 2000

Substantive policy and related procedures

- Employee Code of Conduct
- Elected Members Code of Conduct
- Fraud & Misconduct Control and Resilience Policy
- Compliments, feedback & Complaints Policy
- Compliments, feedback & Complaints Procedure
- Conflict of Interest Management Procedure
- Secondary Employment Management Procedure
- Gifts and Benefits Procedure
- Public Interest Disclosure Procedure
- Reporting Serious and Minor Misconduct Management Procedure
- Conducting Investigations Management Procedure
- Rules of Conduct Complaint Handling Management Procedure

Standards, guidance and best practice

- Australian Standard AS/NZS ISO 31000:2009 Risk management – Principles and guidelines
- Australian Standard AS 8001-2008 Fraud and Corruption Control
- Australian Auditing Standard ASA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report
- Australian National Audit Office – Fraud Control in Australian Government Entities – Better Practice Guide (March 2011)
- Notification of Misconduct in Western Australia
- a joint information resource prepared by the Public Sector Commission and the Corruption and Crime Commission on misconduct as defined by the Corruption, Crime and Misconduct Act 2003 – 1 July 2015
- Western Australian Auditor General's Report: Fraud Prevention and Detection in the Public Sector – Report 7 – 30 June 2013



APPENDIX 2 – DEFINITIONS

Capitalised terms referred to in this Framework are defined in the table below:

Term	Definition
Administration	The operational arm of the City which includes the Employees and is headed by the CEO.
ANAO	Australian National Audit Office.
ANAO Better Practice Guide	Australian National Audit Office – Fraud Control in Australia Government Entities Better Practice Guide.
Australian Standard	AS 8001-2008 – Fraud and Corruption Control.
Bribe	The offering, giving, receiving, or soliciting of something of value for the purpose of influencing the action of an official in the discharge of his or her public or legal duties.
CCC	Corruption and Crime Commission.
CCC Guidelines	Corruption and Crime Commission – Misconduct Resistance Guidelines.
CCM Act	Corruption, Crime and Misconduct Act 2003.
CEO	Chief Executive Officer.
City	The City of Cockburn, including the Council and the Administration.
Code of Conduct	Principles, values, standards and rules of behaviour that guide the decisions, procedures and systems of the City of Cockburn.
Commonwealth Guidelines	The Australian Minister for Home Affairs and Minister for Justice – Commonwealth Fraud Control Guidelines.
Corruption	Dishonest activity in which a director, executive, manager, employee, or contractor of an entity acts contrary to the interests of the entity and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or entity. The concept of “corruption” [within this standard] can also involve corrupt conduct by the entity, or a person purporting to act on behalf of and in the interests of the entity, in order to secure some form of improper advantage for the entity either directly or indirectly (Source: AS8001:2008).
Council	The body constituting of all Elected Members sitting formally as a Council under the Local Government Act.
Criminal Code	Criminal Code Compilation Act 1913.
Director	The senior position in the Administration directly responsible to the CEO and who classified as a “senior employee” in accordance with the Local Government Act.
Employee	Means a person employed by a local government in accordance with section 5.36 of the Local Government Act including the CEO, Directors, Managers, officers, casual and contract employees.

13 March 2019

Version 1.0

Term	Definition
Executive Management Team	Means the CEO, the Directors and Executive Manager Strategy and Civic Support.
Framework	Means this Fraud, Misconduct Control and Resilience Framework.
Fraud	<p>Dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity and where deception is used at the time, immediately before or immediately following the activity. This also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal purpose or the improper use of information or position for personal financial benefit.</p> <p>The theft of property belonging to an entity by a person or persons internal to the entity but where deception is not used is also considered 'fraud' [for the purposes of this standard] (Source: AS8001:2008).</p>
Fraud, misconduct and corruption risk assessment	Means the application of risk management principles and techniques in the assessment of the risk of fraud and corruption within the City of Cockburn.
Investigation	Means a search for evidence connecting or tending to connect a person with conduct that infringes the criminal law or the policies and standards set by the City of Cockburn.
Local Government Act	Means the Local Government Act 1995.
Misconduct	Misconduct occurs when a public officer abuses their authority for personal gain, causes detriment to another person, or acts contrary to the public interest (Source: Corruption and Crime Commission).
Notification Guidelines	Corruption and Crime Commission and Public Sector Commission (Joint) Notification of Misconduct in Western Australia Guidelines.
PID	Means a public interest disclosure as defined in the PID Act.
PID Act	Public Interest Disclosure Act 2003.
Policy	The City's Fraud and Misconduct Control and Resilience Policy.
PSC	Public Sector Commission.
Reporting Procedure	The City's Reporting Serious and Minor Misconduct Management Procedure.
Risk	Means the chance of something happening that will have an impact upon objectives. In consideration of fraud and misconduct risk, this will generally be a negative impact.
Risk Assessment	The City's Fraud and Misconduct risk assessment.
Risk Management	Means provides the necessary foundations and organisational arrangements for managing risk across the City of Cockburn. The Framework outlines a standardised, consistent approach to risk management in accordance with current industry standards, whilst providing a best practice methodology that meets the City's Risk Management Policy requirements.





City of Cockburn

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17. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

**18. NOTICES OF MOTION GIVEN AT THE MEETING FOR
CONSIDERATION AT NEXT MEETING**

Nil



19. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY MEMBERS OR OFFICERS

19.1 (2019/MINUTE NO 0008) APPOINTMENT OF INDEPENDENT MEMBER TO THE AUDIT AND STRATEGIC FINANCE COMMITTEE

Author(s)	S Downing
Attachments	<ol style="list-style-type: none"> 1. Recruitment Advert - Independent Member Audit and Strategic Finance Committee ↓ 2. Application Ms Susan Smith - Independent Member Audit and Strategic Finance Committee ↓ 3. CV (Resume) Ms Susan Smith - Independent Member Audit and Strategic Finance Committee ↓

RECOMMENDATION

That Council:

- (1) appoints Ms Susan Smith as the Independent Member of the Audit and Strategic Finance Committee;
- (2) endorse the initial appointment for a period of twelve months at which time a review of the appointment is to be undertaken for the Audit and Strategic Finance Committee's consideration; and
- (3) will remunerate by way of reimbursement of time of the Independent Member based on four hours for each meeting of the Audit and Strategic Finance Committee.

COMMITTEE RECOMMENDATION

MOVED Deputy Mayor L Smith SECONDED Mayor L Howlett

That the recommendation be adopted.

CARRIED 5/0

Background

The City of Cockburn believes that the appointment of an independent member to the Audit and Strategic Finance Committee will strengthen the governance processes of the Committee by providing an independent view of matters brought to the Committee by City management.

This will be the first such appointment for the City of Cockburn and coincides with a number of other Council across Western Australia appointing independent members to their Audit Committees.

The appointment will also be in line with the Guidelines issued by the then Department of Local Government and Communities Guideline No.9 – Audit Committees.

Submission

N/A

Report

The City advertised the position of independent member of the Audit and Strategic Finance Committee in September 2018. A copy of the advert is attached.

The advertising process attracted a limited response of three applications. The most suitable application, matching the criteria came from Ms Susan Smith. A copy of Ms Smith's application and CV (resume) are attached.

Ms Smith's extensive audit experience will add to the broad experience brought to the Audit and Strategic Finance Committee by Elected Members and City staff.

The initial term of the appointment will be for twelve months, from 1 July 2019 to 30 June 2020. At the conclusion of the first twelve months, a review will be undertaken by the CEO as to the effectiveness of the role of the independent member. The review will consult with both the Chair and members of the Audit and Strategic Finance Committee. The findings of the review will then be presented to the Audit and Strategic Finance committee for its consideration.

The intention is that after the initial twelve months, the appointment will be two years and coincide with the municipal year – November to October.

The remuneration of the Independent Member will be based on the Department of Local Government and Communities (DLGC)'s Guideline No 9 – Audit Committees: *"...it is permissible for a payment to be made as a reimbursement of expenses incurred, commensurate with the expertise and knowledge such people bring to the committee."*

The City will reimburse the Independent Member based on four hours per meeting of the Audit and Strategic Finance Committee, which covers travel time, reading the agenda and attending the meeting of the Committee.



Ms Smith has agreed to the above conditions of the appointment. In addition, Ms Smith will be required to undertake an induction process to educate the Independent Member on governance, meeting procedures, standing orders and code of conduct matters.

Strategic Plans/Policy Implications

Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

Budget/Financial Implications

An amount of \$5,000 will be provided in the draft 2019-2020 Municipal budget to fund the appointment of the Independent Member of the Audit and Strategic Finance Committee.

Legal Implications

Department of Local Government and Communities (DLGC)'s Guideline No 9 – Audit Committees.

Community Consultation

N/A

Risk Management Implications

The appointment of the Independent Member of the Audit and Strategic Finance Committee will provide additional reviewing capacity of all matters submitted to the Committee.

The biggest risk is the potential failure of the Independent Member to understand Council standing orders and meeting procedures frustrating both the newly Independent Member and fellow members of the Audit and Strategic Finance Committee. City staff will provide an induction to the newly appointed Independent Member to minimise this risk.

Advice to Proponent(s)/Submitters

N/A

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

N/A



AUDIT & STRATEGIC FINANCE COMMITTEE POSITION AVAILABLE

The City of Cockburn is seeking applications from interested persons with senior business or financial management/reporting knowledge, and experience with financial, and/or risk management, to become a member of the City's Audit and Strategic Finance Committee.

One fixed two years term position is available, with the option of extending.

The Audit and Strategic Finance Committee objectives are 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;
- the effectiveness of the internal audit function;
- the provision of an effective means of communication between the external auditor, internal audit, management and the Council.

The successful person, who must be independent of Council, will ideally be able to demonstrate extensive knowledge and experience of:

- Financial management, risk management, governance and audit (internal and external)
- Understanding of the duties and responsibilities of the position;
- ideally with respect to local government financial reporting and auditing requirements
- Strong communication skills
- Skills and experience in providing independent expert advice.

Please submit your written application to Stuart Downing, Director, Finance & Corporate Services at sdowning@cockburn.wa.gov.au by **25 September 2018**. If you require additional information contact Stuart on **9411 3444**.

The Audit and Strategic Finance Committee Terms of Reference can be found on the City's website.

Susan Smith - Statement - Audit and Strategic Finance Committee Member Application, City of Cockburn

Financial management, risk management, governance and audit knowledge and experience

I am an assurance and management consulting professional with 15 years experience providing internal audit, external audit and consulting services for predominantly Western Australia public sector and local government clients. I have 15 years experience conducting engagements in accordance with Australian Accounting and Auditing Standards and the International Standards for the Professional Practices of Internal Auditing. I have a Bachelor of Commerce degree - majoring in Professional Accounting and a Bachelor of Legal Studies - majoring in Criminology from Murdoch University. In addition I am a qualified CPA, advancing to CPA status in 2008.

While the majority of my professional experience has focussed on internal audit, risk management, governance and management consulting, I have adequate experience and significant knowledge and skills relevant to external audit to add value to the City of Cockburn's Audit and Strategic Finance Committee. When I started my career with Stanton Partners I completed external audits and financial assurance engagements for a variety of clients including the City of South Perth. In my role with the Department of Agriculture and Food I reviewed the first draft of the financial statements and annual report prior to external audit review and the review of the final draft prior to publication. Under my own name I have completed financial audits for Rotary clubs, Lions clubs, political parties, NGOs and community groups since 2010. I have significant skills and experience performing financial controls assessments which are an integral component of all engagements, internal or external, with a financial management scope.

I have substantial financial management, risk management, governance and audit knowledge and experience from my 15 years assurance and management consulting experience. This has included:

- Providing advice and assistance in relation to audit assurance, governance, risk management and the preparation of strategic audit plans.
- Completion of planning, reviewing fieldwork and reporting in a range of performance, financial, compliance and operational audit and review areas.
- Procurement consulting and contract management facilitation.
- Probity audit services for complex procurement projects, project management, identifying potential conflict of interest issues and providing independent proactive advice to evaluation teams and management.
- Facilitation of Risk Management Workshops and performance of Risk Management reviews.
- Corporate governance consulting and training to Boards and individual Directors.
- Monitoring and managing the reporting of implementation of audit recommendations.

I remain abreast of trends, development and best practice in financial management, risk management, governance and audit through professional reading and ongoing professional development. Over the last 8 years, my roles have increasingly included a larger proportion

of management consulting work where I provided advice to clients on legislative and standards compliance requirements, risk management and governance best practice. My advice extends beyond compliance requirements and best practice and I assist clients in problem solving to ensure the implementation of improvements is practical and improves efficiency and effectiveness.

Understanding of the duties and responsibilities of the position

I have familiarised myself with the City of Cockburn's Audit and Strategic Finance Committee's Terms of Reference. I understand the role the audit committee plays in assisting local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structures, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions. I have remained abreast of the local government auditing reforms and the move towards greater independence of audit committees with the transition of the responsibility of local government audits to the Office of the Auditor General.

I have 15 years experience reporting to audit committees and have worked successfully with audit committees in a variety of shapes and forms. I understand the duties and responsibilities of local government audit committee members generally and understand the requirements for this position as the external committee member to provide independent expert advice in the areas of financial management, risk management, governance and audit.

Local government financial reporting and auditing knowledge and experience

I have been involved with the external audit of the City of South Perth and managed the outsourced internal audit services of the Eastern Metropolitan Regional Council. This gave me exposure to the nuances of local government and the specific legislative requirements of the Local Government Act and Financial Management Regulations.

My knowledge and experience of local government specific requirements has been further developed through engagements for the City of Canning since 2014. This has included a number of probity assignments where I provided assurance that the procurements were conducted in accordance with the City's procurement policy, local government regulations and probity principles. These probity assignments also gave me a great background in urban design and sustainability principles and practices, facilitating development outcomes and activation. I completed the City of Canning's financial management reviews in 2017 and 2018 as well as a separate capital works project review and a project management review of the City's largest, longest highest value project. My experience has given me knowledge of local government legislation and the ability to apply my financial management, risk management, governance and audit skills in the local government context.

Strong communication skills

I have excellent interpersonal, verbal and written communication skills and the ability to communicate calmly, clearly and effectively. This contributes greatly to my ability to influence, negotiate, build trust and establish strategic partnerships and positive working relationships. My communication skills have been refined through nearly 15 years of

assurance and consulting work. This has included interviews, discussions and meetings with stakeholders, preparation and review of reports and presentation of findings and recommendations to senior management, executive and boards including negotiating acceptance of critical findings and buy in to proposed solutions. I use my interpersonal skills to identify the root cause of issues allowing effective long term solutions to be achieved through system improvements, changes in practices or negotiated agreements as appropriate.

I have the ability to communicate the application of financial, risk management, governance and audit concepts to others in practical language as well as engaging in challenging technical discussion. In addition, I have excellent conceptual and analytical skills. These skills combined with my extensive knowledge and experience in assurance and consulting allow me to identify areas that require particular attention. In this way I believe I would be an asset to the committee using my expertise and experience to highlight areas for attention, explain the context and allow robust discussion of issues. I am a confident person but not overly domineering. These personal attributes have allowed me to build capacity within Boards through my corporate governance consulting. I look forward to the opportunity to work collaboratively with other committee members to ensure the committee is effective in achieving it's objectives, assists the CEO and supports the auditor as required by the local government auditing reforms.

Skills and experience in providing independent expert advice

My work in all aspects of assurance and consulting including performance and operational audits has given me significant experience working in areas of grey in contrast to financial audits which are far more black and white. I am confident, capable and experienced in interpreting information and making assessments where there is uncertainty or room for interpretation. I consider all aspects of the environment and ensure I have the full picture in my evaluations. I am flexible and adaptable and adapt my communication style and methods to suit the audience and needs.

I have 15 years experience providing independent expert advice in assurance, management consultancy and corporate governance advisory services engagements. I have ongoing positive working relationships with clients where I am trusted and have earned respect by providing quality, credible advice and professional expertise based on the latest research and best practice. In my management consulting work I have provided strategic management advice to clients and guided them through critical decision making. I have a strong work ethic and would work hard to provide valuable advice and deliver results by critically analysing reports presented to the committee and highlighting any areas that require further explanation or clarification. I am by nature, friendly, helpful and personable whilst always maintaining professionalism. I pride myself on being well prepared, researching and reviewing available information prior to meetings. I look forward to this opportunity to join the committee and work with council to enhance the governance and accountability of the City of Cockburn and the effectiveness of it's audit programme.

Susan Smith - Curriculum Vitae/CV**Key Strengths, Skills and Achievements –**

- Excellent interpersonal, communication and presentation skills
- Significant experience providing credible expert advice on financial management, risk management, governance and audit matters
- Local government audit experience (internal and external)
- Strong leadership, operational and strategic management abilities
- Excellent decision making and problem solving skills
- Demonstrated ability to engage with stakeholders at all levels and establish successful relationships
- Commitment and desire to successfully achieve

Summary of Experience –

- 15 years experience providing assurance and management consulting services in Western Australia.
- 2 years experience specialising in corporate governance, risk and control consulting.
- Internal audit and consulting including compliance reviews, operational/performance audits, risk management, probity audit and preparation of strategic audit plans.
- Probity audit services for complex procurement projects.
- Management consulting including complete business reviews, developing and implementing new plans, budgets, policies, procedures and systems.
- Project management of multiple projects simultaneously.
- Procurement consulting services for procurements up to \$50 million.
- Corporate governance consulting and training to individuals and boards seeking advice to meet expectations and obligations.
- 3.5 years experience providing external audit services to public sector, local government, manufacturing and mining.

Professional History –

- **February 2012 – present – Manager – Quantum Assurance**
 - Management of a wide variety of engagements for a variety of clients including Legal Aid WA, Department of Education, Ombudsman WA, Economic Regulation Authority, Perth Theatre Trust, ScreenWest, Health and Disability Services Complaints Office, City of Canning, The Master Plumbers and Gasfitters Association of WA, UniCredit, Regional Development and Land, Burswood Park Board, Kimberley Community Legal Service and Department of Fire and Emergency Services. This role involved
 - Management consulting in relation to all aspects of operational and strategic management.

- Interpreting and providing advice on Acts, regulations, instructions, policies and procedures in internal audit reviews and probity assignments.
 - Providing advice and assistance in relation to audit assurance, governance, risk management and the preparation of strategic audit plans.
 - Procurement consulting and contract management facilitation.
 - Completion of planning, reviewing fieldwork and reporting in a range of financial, compliance, performance and operational audit and review areas.
 - Probity audit services for complex procurement projects, project management, identifying potential conflict of interest issues and providing independent proactive advice to evaluation teams and management.
 - Facilitation of Risk Management Workshops and performance of Risk Management reviews.
 - Project Management reviews and advice as well as the application of project management best practice internally.
 - Management of an assistant on projects when required.
- **April 2010 – present – Owner - Susan M Smith, Assurance Consulting & Advisory Services**
 - Working privately to better meet client needs with a smaller client base.
 - Business management, consulting and advice to small business.
 - Corporate governance consulting and training to boards and individuals seeking advice to meet shareholder and/or community expectations and their increasing obligations relating to responsibilities of Directors, Board Members and other roles requiring good corporate governance in evolving regulatory environments.
 - Ad hoc assurance and probity services for organisations requiring financial and grant audits and other compliance assignments including Rotary Clubs, Lions Clubs, political parties, NGOs and community groups.
 - Honorary services as Treasurer and Board Member for community groups and schools
 - **August 2009 – April 2010 – Manager, Governance Services – Braxford Consultancy**
 - Management of the internal audit and management consulting services.
 - Development of a marketing strategy.
 - Preparation of a Corporatisation Options discussion paper for Greyhounds WA.
 - Internal audits of the Public Sector Agencies including the Office of the Inspector for Custodial Services and a finance function review for a large public sector department.
 - Managing a team of two staff.

- **December 2007 – August 2009 – Manager, Assurance & Consulting – Stantons International**
 - Management of the internal audit and consulting services of Stantons Western Australian client base of mainly public sector entities including the Department of Fisheries, Department of Premier and Cabinet, Office of the Director of Public Prosecutions, Aqwest, Department of Education Services, Eastern Metropolitan Regional Council, Esperance Port Authority, Forest Products Commission, Healthways, Midland Redevelopment Authority, National Trust, Office of Energy, Department of Sport and Recreation, Western Australian Industrial Relations Commission and the Water Corporation. This role involved managing all engagements relating to:
 - Providing advice and assistance in relation to audit assurance, governance, risk management and the preparation of strategic audit plans.
 - Interpreting and providing advice on Acts, regulations, instructions, policies and procedures in internal audit reviews and probity assignments.
 - Completion of planning, reviewing fieldwork and reporting in a range of financial, compliance, performance and operational audit and review areas.
 - Probity audit services for complex procurement projects, identifying potential conflict of interest issues and providing independent proactive advice to evaluation teams and management.
 - Managing a team of five staff plus additional resources in peak periods.
- **July 2007 – December 2007 – Senior Auditor – Department of Agriculture & Food**
 - Conducting audits and reviews aimed at assessing the Department's control environment, making recommendations for corporate governance best practise and identifying opportunities for business improvement.
 - Undertaking follow-up audits and special investigations and assisting in overall audit planning and administration
- **September 2003 – May 2007 – Senior Auditor – Stanton Partners & Stantons International**
 - Internal audit and consulting services to a client base of public and private sector entities in Western Australia including Department of Fisheries, Public Transport Authority – New Metro Rail, WA Planning Commission, Department of Treasury and Finance, Eastern Metropolitan Regional Council, Department of the Premier and Cabinet, Healthways, Water Corporation, Forest Products Commission, Western Power, Rottnest Island Authority, Central TAFE, West Coast College of TAFE, Synergy and Verve Energy.
 - External audit and corporate services including control system assessments and financial assurance to public sector, local government,

mining and manufacturing including City of South Perth, Verve Energy and Red Island.

Education and Qualifications –

- Tertiary Qualifications – Completed in 2005
 - Bachelor of Commerce - majoring in Professional Accounting (Murdoch University, Western Australia)
 - Bachelor of Legal Studies (majoring in Criminology) (Murdoch University, Western Australia)
 - These qualifications were achieved with a distinction average.
- CPA Australia Member – Advanced to CPA status in 2008
 - Winner of the CPA Program Excellence Awards in recognition of achieving the highest marks in Assurance Services and Auditing and Strategic Management Accounting.
- Certified Internal Auditor Part 1 Governance, Risk and Control – completed in May 2010.
- Real Estate Sales Representative Course – Completed in August 2010.
- Advanced Taxation - CPA Advanced Taxation unit; completed in October 2010.

Hobbies/Interests –

- Travel, snorkelling, dining out, gardening, spending time with family and keeping backyard chickens.

Personal Details –

- Susan Smith
- 15 Jacobsen Way, Thornlie WA 6108
- 0431220510
- Susysmith82@gmail.com
- Date of birth – 29 April 1982
- Driving License – Western Australian C Class
- References are available on request.

19.2 (2019/MINUTE NO 0009) RESPONSE TO AUDIT RESULTS REPORT - ANNUAL 2017-2018 FINANCIAL AUDITS OF LOCAL GOVERNMENT ENTITIES BY THE AUDITOR GENERAL OF W.A.

Author(s) S Downing

Attachments 1. Audit Results Report - Annual 2017-2018 Financial Audits of Local Government Entities [↓](#)

RECOMMENDATION

That Council note the report.

COMMITTEE RECOMMENDATION

MOVED Cr C Reeve-Fowkes SECONDED Mayor L Howlett

That the recommendation be adopted.

CARRIED 5/01

Background

At the conclusion of the first year of financial audits undertaken by the Auditor General of Western Australia, a report was tabled to the WA Parliament outlining the findings as a result of the work completed by the Office of the Auditor General (OAG).

Submission

N/A

Report

The Auditor General tabled the attached report arising from the completion of the first year of financial audits undertaken by the Auditor General on 42 Local Governments.

The Auditor General made ten recommendations and below are the ten recommendations with a comment from the City on each of the recommendations.

Recommendation 1

Local Governments should ensure they maintain the integrity of their financial control environment by:

Recommendation 1a



Periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures, and communicating these to staff.

City Response:

The City reviews all policies and procedures annually and takes the results to Council through the Delegated Authorities, Policies and Position Statements (DAPPS) Committee.

Recommendation 1b

Conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments

City Response:

The City will undertake a review of financial controls prior to the completion of the current financial year. The review will then be provided to the Audit and Strategic Finance Committee for its consideration. The CEO will take a report on internal controls to council every two years.

Recommendation 1c

Regularly monitoring compliance with relevant legislation

City Response:

The completion of the Compliance Audit Return ensures compliance.

Recommendation 1 d

Promptly addressing control weaknesses brought to their attention by our (OAG) audits.

City Response:

The City puts into effect any management changes suggested or reported by and agreed on arising from the financial audit. For 2017-18, one change report on and agreed was the placement of investments. The change was to ensure that every placement of an investment was approved by the relevant City officer given delegation authority to place investments with recording in writing the approval of every such investment.

Recommendation 2



In addition to compliance with legislation, management should promote a culture of applying better practice financial management and complying with internal policies

City Response:

The City does have a history of ensuring management complies with better practice financial management and internal policies. This is achieved through internal audits of systems undertaken by an external firm of auditors, Deloitte.

Recommendation 3

An in-depth audit exit meeting should be held with audit committees, in advance of council meetings. As far as practicable, the audit committee should include a few council members, rather than the entire council.

City Response:

The City does provide the Auditor with unfettered access to the members of the Audit and Strategic Finance Committee for presentation of audit findings with appropriate responses by the CEO and staff. The meeting always precedes the Council meeting.

Recommendation 4

An audit entrance meeting should be held with the audit committee.

City Response:

The City will organise an entrance meeting with the OAG, KPMG and the Audit and Strategic Finance Committee for the 2018-19 audit.

Recommendation 5

Audit exit meetings should provide the auditor the opportunity to highlight the key audit issues, in a structured manner, and the CEO adequate opportunity to comment.

City Response:

The City does provide the Auditor with unfettered access to the members of the Audit and Strategic Finance Committee for presentation of audit findings with appropriate responses by the CEO and staff.

Recommendation 6

Local Governments should not make interim audit findings public until they are received as part of our (OAG) Audit Report on completion of the audit, unless specific urgent needs warrant earlier release.



City Response:

For 2017-18, the interim findings were not published until the audit had been completed, this was because the interim findings were not made available to Council officers until the audit was finalised. This is not consistent with prior years. This was because the interim findings were made available by the auditor much earlier. Comment from the members of the Audit and Strategic Finance Committee will be sought to this recommendation.

Recommendation 7

The Department of Local Government, Sport and Cultural Industries (the Department) should re-assess the potential advantages if Local Governments are required to report equipment assets using the cost model.

City Response:

The City supports this recommendation for the reporting of equipment assets (trucks, cars, plant and equipment) to be valued not at fair values but using the cost model.

Recommendation 8

Local Governments should robustly assess the assumptions and methodology of their valuers, in particular the approach for valuing land assets with restricted use.

City Response:

The City does review the valuation reports when they are received for valuation movements in assets by class and assets trying to understand the major or significant movement in dollar value terms.

As the industry uses a variety of valuers, there is inconsistency in the way valuers treat assets for valuation purposes. The outcome of the next recommendation (no.9) may see less inconsistency in the way assets are valued if the accounting standards provided more guidance.

Recommendation 9

Local Governments and the Department should monitor the progress of the Australian Accounting Standards Board and Internal Public Sector Accounting Standards Boards public sector fair value projects.

City Response:



The City is looking forward to receiving the outcome of the Fair Value review report being undertaken by the two accounting bodies.

Recommendation 10

Local Governments should continue to make timely preparations for implementation of the upcoming accounting standards changes, and the new regulation requiring assets with a value at acquisition below \$5,000 to be expensed.

City Response:

The significant accounting change for 2019/20 is in relation to Rates received in advance. Currently the accounting standard requires the Council to account for such money as income in the year received. The change will take it back to the prior accounting treatment of showing it on the balance sheet of Council as unearned income. The Council has been briefed on this item and has the relevant funds set aside to account for this change in accounting standard.

The City already expenses all assets purchased with a value of \$5,000 or less at the time of acquisition.

Strategic Plans/Policy Implications

Leading & Listening

Deliver sustainable governance through transparent and robust policy and processes.

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

Budget/Financial Implications

N/A

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

The issues raised by the OAG's report to Parliament attempts to minimise risks seen by the OAG across the Local Government industry.



The City looks to review each of the OAG's recommendations so as to learn from the broader approach provided by the OAG's team.

Advice to Proponent(s)/Submitters

N/A

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

Nil



Western Australian Auditor General's Report



Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities



Report 15: March 2019

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Audit Results Report – Annual 2017-18
Financial Audits of Local Government Entities**

Report 15
March 2019





THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

AUDIT RESULTS REPORT – ANNUAL 2017-18 FINANCIAL AUDITS OF LOCAL GOVERNMENT ENTITIES

Under section 24 of the *Auditor General Act 2006*, this report covers the first year of a 4-year transition for my Office to conduct the annual financial audits of the local government sector, following proclamation of the *Local Government Amendment (Auditing) Act 2017*.

The 2017-18 financial audits of 42 local government entities completed to date include:

- Results of the audits of local government entities' annual financial reports, and their compliance with applicable legislation for the financial year ending 30 June 2018.
- Issues identified during these annual audits that are significant enough to bring to the attention of the Parliament.

I wish to acknowledge the assistance provided by the councils, their chief executive officers, finance officers, and others including my dedicated staff and contract audit firms throughout the annual financial audit program and in finalising this report.

CAROLINE SPENCER
AUDITOR GENERAL
7 March 2019

Contents

Auditor General's overview	4
Executive summary	5
Key findings	5
Recommendations	6
Introduction.....	7
Local government entities audit program: 2017 onwards	7
Local government entity annual financial reporting framework and timeline.....	9
Summary of auditor's reports issued	10
Audit opinions on annual financial reports	10
Material matters of non-compliance with legislation.....	11
Adverse trends in the financial position of local government entities.....	14
Emphasis of Matter included in auditor's reports	14
Financial and management controls.....	15
Recommendations	16
Observations that may improve audit outcomes.....	17
Recommendations	18
Auditor independence.....	19
Financial reporting challenges relating to asset valuations.....	20
Recommendations	21
Upcoming changes to accounting standards and the local government regulations	22
Recommendation	23
Appendix 1: Local government entities audited	24
Appendix 2: Local government entity certifications issued	25
Appendix 3: Timeline of communications between auditors, management and council members.....	26
Glossary and acronyms.....	27

Auditor General's overview

This report summarises the results of 42 local government entities' annual financial report audits completed by my Office to date for the year ending 30 June 2018, following proclamation of the *Local Government Amendment (Auditing) Act 2017*. This was the first of a 4-year transition of local government financial auditing to the Office of the Auditor General.

In addition to reporting the results of the audits to Parliament, this report is intended to provide further insight for Parliament and the local government sector to our approach for performing and reporting on financial audits.



I recognise that we, together with the sector, have only just begun our journey in this new era of local government financial auditing. The 42 audits completed in 2017-18 represent approximately one third of all WA local government entity audits.

During our audits, in addition to routine but important audit findings, we have made other observations about what we found is working well in the sector, where improvements may be considered and where opportunities exist. One such stark governance-related opportunity relates to audit committees.

Audit committees play a key role in assisting boards, councils and chief executive officers with financial management, control, and reporting. In this report, I have included a few preliminary observations about the role of audit committees in the annual reporting and audit process. I recognise the challenges regional local government entities may have in appointing independent members with financial or audit expertise, and intend to report more broadly on the role of audit committees and internal audit in the future.

In our first year auditing local government entities, we were concerned that some local government staff considered an audit finding not worthy of formal reporting if the control weakness did not result in a breach of legislation or misstatement. My Office reports weaknesses in internal controls and governance, so that they can be remedied before they potentially lead to non-compliance with legislation including misstatement due to fraud or error.

We also identified the need for more emphasis on auditor independence. We noted it was often common practice for auditors to perform other work for local government entities, in addition to the annual financial audit. As this can impair an auditor's independence, we have tightened controls around our contracted local government auditors performing this work, as we do for state government, while recognising practical challenges - such as limited availability of alternate skills in some regional areas.

I wish to thank my staff, our contract auditors, and staff in the local government entities we audited who contributed and assisted during our first year of transition into the sector and our first annual financial audits.

I am looking forward to working with the sector over the coming years to deliver high quality audits that contribute to enhancing the financial management and performance of local governments for the benefit of the WA community.

Executive summary

This Audit Results Report contains findings from the annual financial audits of local government entities (LGs) that we audited for the 2017-18 financial year.

Following proclamation of the *Local Government Amendment (Auditing) Act 2017* (Amendment Act), the Auditor General assumed responsibility for the audits of the 2017-18 annual financial reports of 46 LGs. The annual financial audits of remaining LGs are due to transition to the Auditor General by 2021.

Under the Amendment Act, the Office of the Auditor General (OAG) also assumed responsibility for performance audits of the local government sector. These audits are reported in separate reports to Parliament when they are completed.

Key findings

- We issued auditor's reports for 42 LGs by 1 March 2019 relating to their 2017-18 financial year. (Page 10)
- All but 2 auditor's reports included clear (unqualified) audit opinions on the financial reports. We issued qualified auditor's reports on the financial reports of the Shire of Brookton and the Town of Cambridge. (Page 10)
- We reported 36 material matters of non-compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996*, or other written law in 24 of our auditor's reports. (Page 11)
- In addition to material matters of non-compliance reported in auditor's reports, we reported 290 financial management and control matters of varying significance to management in our management letters. (Page 15)
- In accordance with the *Local Government (Audit) Regulations 1996*, we reported adverse trends in the financial position of 24 LGs. (Page 13)
- In our first year of performing annual financial audits in the local government sector, we have made some general observations and included these in the report, with a view to improving audit outcomes in the future. These relate mainly to audit committees and reporting practices. (Page 17)
- The report includes details of our response, in the context of auditor independence, to existing practices where audit firms performed other work at local governments they were auditing. (Page 19)
- We detail our concerns that valuation methodologies used by various valuers to fair value property, plant, equipment and infrastructure, often differ significantly, potentially affecting comparability of asset values across local governments. (Page 20)
- We recommend that LGs make timely preparations for upcoming changes to Australian Accounting Standards and a local government regulation. (Page 22)

Recommendations

1. LGs should ensure they maintain the integrity of their financial control environment by:
 - a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures, and communicating these to staff.
 - b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments.
 - c. regularly monitoring compliance with relevant legislation.
 - d. promptly addressing control weaknesses brought to their attention by our audits. (Page 16)
2. In addition to compliance with legislation, management should promote a culture of applying better practice financial management and complying with internal policies. (Page 18)
3. An in-depth audit exit meeting should be held with audit committees, in advance of council meetings. As far as is practicable, the audit committee should include a few council members, rather than the entire council. (Page 18)
4. An audit entrance meeting should be held with the audit committee. (Page 18)
5. Audit exit meetings should provide the auditor the opportunity to highlight the key audit issues, in a structured manner, and the CEO adequate opportunity to comment. (Page 18)
6. LGs should not make interim audit findings public until they are received as part of our Audit Report on completion of the audit, unless specific urgent needs warrant earlier release. (Page 18)
7. The Department of Local Government, Sport and Cultural Industries (the Department) should re-assess the potential advantages if LGs are required to report equipment assets using the cost model. (Page 21)
8. LGs should robustly assess the assumptions and methodology of their valuers, in particular the approach for valuing land assets with restricted use. (Page 21)
9. LGs and the Department should monitor the progress of the Australian Accounting Standards Board and International Public Sector Accounting Standards Board public sector fair value projects. (Page 21)
10. LGs should continue to make timely preparations for implementation of the upcoming accounting standards changes, and the new regulation requiring assets with a value at acquisition below \$5,000 to be expensed. (Page 23)

Introduction

Under the *Local Government Amendment (Auditing) Act 2017* (Amendment Act), proclaimed in October 2017, a staged transition has commenced for local government entities (LGs) annual financial audits to transition to the Auditor General as and when existing audit contracts between audit firms and LGs expire. The Office of the Auditor General (OAG) assumed responsibility for 46 audits from the 2017-18 financial year, with full take up of all financial audits by 2020-21.

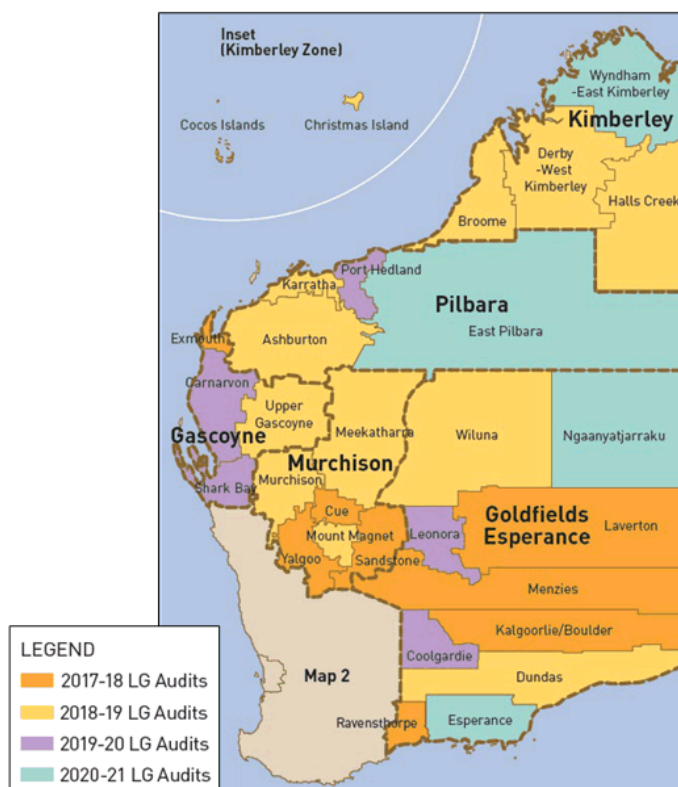
In 2017-18, OAG audit staff performed 3 of the 46 financial audits, with the others performed by contract audit firms on our behalf. Our oversight of these audits, coupled with in-house OAG audits, has provided our staff with valuable insight and understanding of the sector. From 2018-19, we will increase the number of audits performed using in-house audit teams.

For almost all of the contracted audits, we retained the existing audit firm for 2017-18 to maintain some continuity of the audit team. However, to provide open and fair competition and to ensure value for money, for 2018-19 we have now re-tendered most of these audits.

We are also committed to supporting local industry, and where possible and appropriate, we propose to use local financial auditing professionals in regional areas.

Local government entities audit program: 2017 onwards

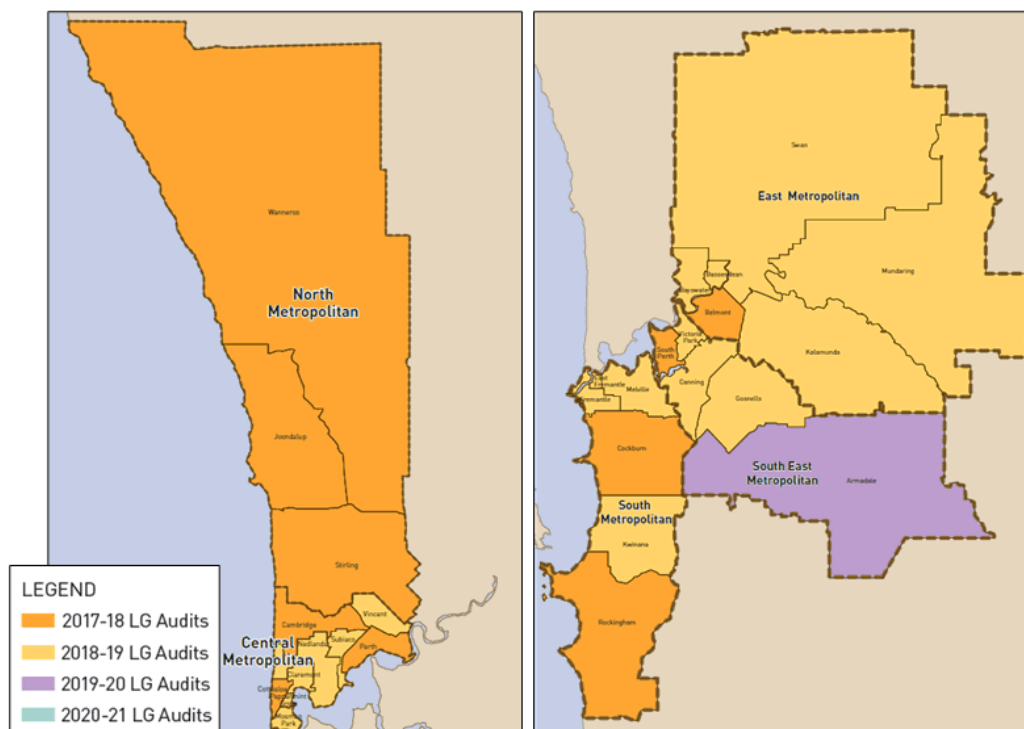
The following maps show the local governments where we performed annual financial audits for 2017-18 (these are also listed at Appendix 1) and the transitioning schedule for other local governments over the next 3 years:



Map 1: Regional WA showing Auditor General's staged transition of audits



Map 2: South West region showing the Auditor General's staged transition of audits



Maps 3 and 4: Metropolitan WA showing Auditor General's staged transition of audits

Local government entity annual financial reporting framework and timeline

Each LG is required to prepare an annual financial report that includes:

- a Statement of Financial Position, Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows
- a Rate Setting Statement
- seven financial ratios required under section 50(1) of the Local Government (Financial Management) Regulations 1996 (LG Financial Management Regulations), to be reported in the Notes to the financial report.

Under section 6.4(3) of the *Local Government Act 1995* (LG Act), a LG must submit its financial report for audit to the OAG by 30 September. Many of the 46 LGs we audited for 2017-18 submitted their financial reports for audit well in advance of this deadline. However, 10 submitted after 30 September 2018.

We completed 38 of the audits by 31 December 2018 as required by section 7.9 of the LG Act. A further 4 were completed after 31 December, and 4 are still being finalised, of which 3 were due to difficulties finalising asset balances.

Summary of auditor's reports issued

At 1 March 2019, we had issued auditor's reports for 42 LGs for the financial year ending 30 June 2018.

The auditor's report includes:

- the audit opinion on the annual financial report
- a description of significant non-compliance (if any) in relation to the financial report or other financial management practices
- an opinion whether there were any material matters that indicate significant adverse trends in the financial position of the LG.

Under the Amendment Act, the chief executive officer (CEO) is required to publish the annual report, including the audited financial report and the Auditor General's auditor's report, on the LG's website within 14 days of the annual report being accepted by the LG. A table of all auditor's reports issued by the Auditor General for 2017-18 is in Appendix 1.

Audit opinions on annual financial reports

An unqualified audit opinion in the auditor's report indicates the annual financial report was based on proper accounts and records, and fairly represented performance during the year and the financial position at year end. All but 2 LGs received unqualified (clear) audit opinions.

We issue a qualified opinion in our auditor's report on a LG's annual financial report if we consider it is necessary to alert readers to material inaccuracies or limitations in the financial report that could mislead readers. The following 2 LGs received a qualified opinion:

Shire of Brookton

We issued a qualified opinion as the Shire did not recognise the 2018-19 financial assistance grant of \$504,598 received from the Commonwealth Government in June 2018 as revenue in accordance with Australian Accounting Standard AASB 1004 'Contributions'.

Instead, the Shire advised that it intended to recognise the revenue in 2018-19, and recorded the grant as Trade and other payables at 30 June 2018.

This resulted in the Shire's net result for the year being understated by \$504,598 in its Statements of Comprehensive Income and its Trade and other payables in the Statement of Financial Position being overstated by the same amount.

In addition, this resulted in understatement of the current, debt service cover and operating surplus ratios disclosed in the Notes to their financial report.

Town of Cambridge

The opinion of the Town was qualified because in previous years the interest earned on invested trust funds was incorrectly recognised as income instead of being returned to the entitled recipients as required by the LG Act.

In 2017-18, to partially address this, the Town made a prior year adjustment to reduce income and cash balances, and also revised related Notes to the financial report.

The Town's best estimate of the cumulative effect of interest earned on trust funds at 30 June 2018 was approximately \$450,000, of which a portion that had not yet been determined should have already been paid back to entitled recipients.

Prior year qualified opinion – 2017-18 audit still in progress

In 2016-17 the Shire of Laverton received a qualified opinion on its financial report because the auditor was unable to confirm that land, buildings, plant and equipment, furniture and equipment tools and infrastructure assets were reported at fair value.

The 2017-18 audit is still in progress because key aspects of a valuation, performed during the year, are still being reviewed.

Material matters of non-compliance with legislation

Regulation 10(3)(b) of the Local Government (Audit) Regulations 1996 (LG Audit Regulations) requires the auditor to report, in the auditor's report, any matters indicating non-compliance with Part 6 of the LG Act, the Local Government (Financial Management) Regulations 1996 (LG Financial Management Regulations) or applicable financial controls in any other written law. These matters may relate to the financial report or to other financial management matters.

In determining which matters to report, we apply the principles of materiality, as required by Australian Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit*. Factors that we consider include the extent and frequency of the non-compliance, and the effect or potential effect.

Some of the matters we have reported relate to non-compliance with specific sections of the LG Act or regulations. We consider regulation 5(1) of the LG Financial Management Regulations to be particularly important, because failure to effectively apply those requirements can result in significant financial loss, inefficiency, financial misreporting or fraud. Regulation 5(1) requires efficient systems and procedures to be established, including:

- for the proper maintenance and security of the financial records of the LG
- to ensure proper accounting for municipal or trust revenue, expenses, assets and liabilities
- to ensure proper authorisation for the incurring of liabilities and the making of payments
- for the maintenance of payroll, stock control and costing records
- to assist in the preparation of accounts and reports required by the Act or the regulations.

We considered many of the findings that we reported to represent non-compliance with this important section of the LG Financial Management Regulations.

Our individual findings were included in our auditor's reports which are included in annual reports on each LG's website. For the convenience of Parliament and the public, we have summarised the matters we reported in the following table:

Issue	Finding
Controls over accounting journal entries	At 12 LGs, we found that accounting journal entries were posted with no evidence of independent review and approval by another person. Accounting journals can represent significant adjustments to previously approved accounting transactions, and could result in, for example, one type of expenditure being re-coded to another type of expenditure. Journals should therefore be subject to independent review.
Quotes not obtained for purchases below the tender threshold	At 4 LGs, 26% to 57% of purchases we sampled below the \$150,000 tender threshold had inadequate or no evidence that a sufficient number of

	<p>quotations was obtained, to test the market. There was no documentation to explain why other quotes were not sought.</p> <p>This practice increases the likelihood of not receiving value for money in procurement. This could also result in favouring of certain suppliers, although our audits did not identify any instances.</p>
Review not performed of systems and procedures	At Bunbury-Harvey Regional Council, a review of the appropriateness and effectiveness of the Council's systems and procedures in relation to risk management, internal controls and legislative compliance was not completed at least once every two years as required by Regulation 17 of the LG Audit Regulations. The last review was in 2014.
Approval to make investments	At City of Cockburn, the officer sending communications to the City's investment advisor, instructing them to make investments, had not been delegated with authority to issue these instructions. Although management advised that another officer with delegation was consulted before making investment decisions, there was no evidence of consultation and no approval of the instructions to invest.
Inadequate recordkeeping for infrastructure assets	<p>A stocktake of infrastructure was conducted at the City of South Perth for the first time in a number of years, and the City found \$21 million of infrastructure assets that was not recorded on the asset register.</p> <p>The asset register has however now been appropriately updated.</p>
System access controls	<p>More employees than necessary at the Shire of Brookton had the ability to make modifications in the system to the rates used for fees and charges. The Shire did not have a system logging process to report and review changes made to fees and charges.</p> <p>In addition, a shared account could be used to modify creditor and debtor details in the system. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.</p>
Financial ratio not reported	<p>The Shire of Bruce Rock did not report the Asset Renewal Funding Ratio in the annual financial report as required by regulation 50(1)(c) of the LG Financial Management Regulations, as planned capital renewals and required capital expenditure were not estimated in a long term financial plan and asset management plan respectively.</p> <p>The Shire has advised that the plans are currently being completed.</p>
Financial ratios not reported	<p>The Shire of Denmark did not report the Asset Renewal Funding Ratio in the annual financial report as required by regulation 50(1)(c) of the LG Financial Management Regulations, as planned capital renewals and required capital expenditure were not estimated in a long term financial plan and asset management plan respectively.</p> <p>The Shire also did not report the Asset Consumption Ratio for 2017 and 2016 in the annual financial report as required by regulation 50(1)(c) of the LG Financial Management Regulations, as current replacement cost of depreciable assets was not estimated in previous years.</p>
Financial ratio not reported	The Shire of Kondinin did not report the Asset Renewal Funding Ratio in the annual financial report as required by section 50(1)(c) of the LG Financial Management Regulations, as management considered the available information on planned capital renewals and required capital expenditure was unreliable.
No signed employment contracts for 3 staff	For 3 employees at the Shire of Koorda, there were no signed employment contracts or letters of employment in the Shire's records.

Lack of policies, review not performed of systems and procedures, and financial ratio not reported	<p>The Shire of Nungarin had not developed key policies and procedures, such as purchasing and risk management policies.</p> <p>A review of the appropriateness and effectiveness of the Council's systems and procedures in relation to risk management, internal controls and legislative compliance was not completed at least once every two calendar years as required by Regulation 17 of the LG Audit Regulations.</p> <p>The Shire has not reported the Asset Renewal Funding Ratio for 2016, as planned capital renewals and required capital expenditure were not estimated in a long term financial plan or asset management plan, as required by the LG Financial Management Regulations.</p>
Bank reconciliation	<p>Several monthly bank reconciliations at Shire of Perenjori were not completed in a timely manner, and some were not independently reviewed by management. In addition, one had alterations that were not explained, and one did not have schedules to support the reconciling items.</p>
Review not performed of systems and procedures	<p>A review of the appropriateness and effectiveness of the Council's systems and procedures in relation to risk management, internal controls, and legislative compliance was not completed by the Shire of Tammin at least once every two calendar years as required by Regulation 17 of the LG Audit Regulations.</p>
Approval of payments, bank reconciliations and reporting to Council	<p>For 19 of 26 payments we sampled at Shire of Yalgoo, there was no evidence of the signing officers examining supporting documentation to payments and documenting approval.</p> <p>Several monthly bank reconciliations were not completed in a timely manner, and some were not independently reviewed by management. In addition, the 30 June 2018 bank reconciliation included numerous uncleared payments and deposits in excess of 12 months old.</p> <p>Due to difficulties implementing new accounting software, four statements of financial activity were not presented at an ordinary meeting of Council within two months after the end of the month to which the statement relates, which is not in compliance with Regulation 34(4)(a) of the LG Financial Management Regulations.</p>
Delegations, reporting of financial ratio, and reporting of a separate balance sheet for a trading undertaking	<p>In April 2018 at the Town of Cambridge, Council approved a delegation to the CEO to make payments from the municipal fund. Management was however not able to provide evidence that these powers had been delegated prior to that date. Payments from the municipal fund were approved by the CEO or other staff prior to April 2018.</p> <p>The Town also did not report the Asset Renewal Funding Ratio for 2016 and 2017 as planned capital renewals and required capital expenditure were not estimated in the long term financial plan and asset management plan respectively, as required by the LG Financial Management Regulations.</p> <p>The Town did not report a balance sheet for its major trading undertaking, the Wembley Golf Course, in the Notes to the financial report, as required by regulation 45 of the LG Financial Management Regulations.</p>

Table 1: Material non-compliance with legislation reported in auditor's reports

Adverse trends in the financial position of local government entities

Regulation 10(3)(a) of the LG Audit Regulations requires the auditor to report, in the auditor's report 'any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government'.

A performance audit of adverse financial trends would typically consider numerous aspects of a LG's finances, and inter-relationships between financial ratios. However, for purposes of the annual financial audit process, we have limited our audit to a high level assessment of whether the 7 financial ratios reported in the notes to the financial report achieved the standards set by the Department of Local Government, Sport and Cultural Industries (the Department). When determining whether a trend was significant, in some instances we allowed for a ratio to be slightly lower than the Department's standard, in recognition that failing to meet some standards is more significant than failing to meet others.

LGs report these ratios for the current year and the preceding 2 years. Our trend analysis was limited to these 3 years of information.

The 7 ratios, defined in regulation 50(1) of the LG Financial Management Regulations are:

- current ratio
- asset consumption ratio
- asset renewal funding ratio
- asset sustainability ratio
- debt service cover ratio
- operating surplus ratio
- own source revenue coverage ratio.

We reported that 38 ratios at 24 LGs indicated adverse trends. It is important to note that although most of the ratios are useful indicators, further assessment would be necessary before concluding on the overall financial position of an entity.

Emphasis of Matter included in auditor's reports

Regulation 16(a) of the LG Financial Management Regulations requires that the financial report of a LG is not to include the value of certain types of land, including land under roads, that are managed by or under the control of the LG. The Department informed us that it considered that the benefits of reporting land under roads did not justify the cost of its periodic valuation. The exclusion of any land under roads acquired on or after 1 July 2008 is inconsistent with Australian Accounting Standard AASB 1051 *Land Under Roads*. Regulation 4(2) of the LG Financial Management Regulations provides that if a provision of the Australian Accounting Standards is inconsistent with a provision of a regulation, then the regulation prevails to the extent of the inconsistency.

We noted that this significant divergence from the accounting standards was not being clearly disclosed in the annual financial reports of LGs. As land under roads is reported for the WA State Government sector and some other LG jurisdictions, we considered it important to alert readers to this different method of reporting. We requested that LGs prominently disclose this in their accounting policy notes to their financial reports. Although we considered that this inconsistency between the regulations and the accounting standards did not warrant a qualified audit opinion, we included an Emphasis of Matter paragraph in our auditor's reports to highlight this accounting treatment for readers:

Regulation 16 of the Local Government (Financial Management) Regulations 1996 does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Financial and management controls

In addition to the material non-compliance matters reported in our auditor's reports (see Table 1 on pages 11 to 13), we reported other matters to management, including less material non-compliance as well as financial management and information system control weaknesses identified in our audits. These management letters, together with the auditor's report, form part of our overall audit report that we provide under section 7.12AD of the LG Act to the mayor, president or chairperson, the CEO and the Minister for Local Government on completion of the audit.

In our management letters, we provide a rating for each matter reported. We rate matters according to their potential impact, and base our ratings on the audit team's assessment of risks and concerns about the probability and/or consequence of adverse outcomes if action is not taken. We consider the:

- quantitative impact – for example, financial loss
- qualitative impact – for example, inefficiency, non-compliance, poor service to the public or loss of public confidence.

Risk category	Audit impact
Significant	Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
Moderate	Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
Minor	Those findings that are not of primary concern but still warrant action being taken.

Table 2: Risk categories for matters reported to management

We give LG management the opportunity to review our audit findings and provide us comments prior to completion of the audit. When management responds to our draft management letters, we request them to set a time frame for remedial action to be completed. Often management improves policies, procedures or practices soon after we raise them and before the audit is completed. Other matters may take longer to remedy and we will follow them up during our subsequent annual audits.

During 2017-18, we alerted 40 LGs to control weaknesses that needed their attention. We reported 290 control weaknesses, of which 56 rated as significant and 186 as moderate.

Figure 4 shows a breakdown of the categories of control weaknesses identified in our 2017-18 management letters.

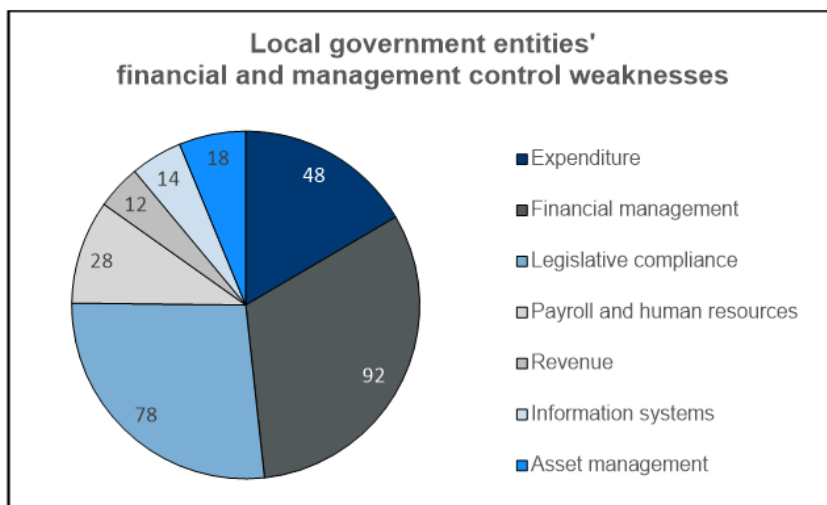


Figure 4: Financial and management control weaknesses reported to LGs

Recommendations

LGs should ensure they maintain the integrity of their financial control environment by:

- a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to staff
- b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
- c. regularly monitoring compliance with relevant legislation
- d. promptly addressing control weaknesses brought to their attention by our audits.

Observations that may improve audit outcomes

The annual financial audit is focussed on providing assurance over a LG's annual financial report. During the audit we also make audit findings regarding compliance and financial and information system controls.

In this first year of auditing local government we have made some initial observations regarding opportunities for improving audit outcomes which would contribute to improved governance, financial management and performance for enhanced community satisfaction and confidence in LGs. It is important to note that each of the following issues was observed, with differing frequency across the LGs we audited.

Compliance vs better practice

At some LGs we noted an emphasis on minimum compliance (with the detailed regulations), rather than broader principles of good internal control and governance. In some instances, LG officers questioned why we were reporting their failure to comply with internal policies – it was apparent that some only regarded non-compliance with legislation to be an audit issue.

In our reporting we have made, and intend to continue making recommendations that not only address non-compliance, but which also assist to achieve better practice in financial management and control. This is aimed at remedying weaknesses before they contribute to potential breaches of legislation.

Internal audit

Only 11 of the 42 LGs we surveyed had an internal audit function. An effective internal audit function is important for ongoing maintenance and improvement of risk management, internal control and governance processes. The internal audit function acts as the independent eyes and ears for council on LG administration in key areas of risk. While recognising the difficulties for regional LGs to maintain an effective, independent internal audit function, we encourage LGs to collaborate with a view to effective internal audit assurance. We propose to cover this topic further in future performance audits.

Interaction with audit committees - audit entrance and exit meetings

Effective audit entrance and exit meetings are essential to good audit outcomes. These should facilitate informed, respectful and robust exchange between the auditors, management and the audit committee. This was the case for several of the 2017-18 audits.

On other audits however, the exit meeting was held with the entire council and this often hindered detailed discussion of the audit issues, due to the formality of proceedings and number of attendees. Section 7.12A of the LG Act requires the LG to meet with the auditor at least once each year, with the meeting typically occurring on completion of the audit. We strongly support this approach.

However, because of the number of attendees and time pressures at a full council meeting, it is preferable that, in advance of the council meeting, a more detailed exit meeting is held with the audit committee. The committee should preferably include a few council members only, with relevant skills/background in finance, risk management or auditing. We noted that 27 out of 42 LGs we surveyed had audit committees which included 5 or more council members. This is not considered better practice for facilitating effective entity-auditor communication, however we do recognise the potential challenges for regional entities in appointing members with specialist skills to their audit committees and the evident interest of councillors in audit-related matters.

We also made the following observations:

- In the past, it has generally not been common practice for audit entrance meetings to be held with the audit committee or council, and some exit meetings have also not been held with the audit committee or council. Australian Auditing Standard ASA 260 *Communication With Those Charged With Governance* requires the auditor to discuss certain key aspects of the audit planning and the audit results with those charged with governance. As a committee of council, the audit committee is the usual forum to enable effective audit communication.
- It is better practice for the auditors to highlight and explain the key elements of their entrance or closing report to the audit committee and management. Most of the meetings, especially exit meetings, did not follow a format that facilitated this but rather moved straight to councillors questioning the auditors. While this is important and as auditors we are happy to answer questions, as outlined above there are key matters that an auditor should directly communicate to those charged with governance.
- In some exit meetings, CEOs were, in our view, not given adequate opportunity to participate due to the formality of proceedings during audit meetings. CEOs and finance officers provide important information to those charged with governance, including updates on how audit findings have been prioritised and actioned.

At Appendix 3, we have briefly set out better practice guidelines for communications between auditors, management and councils.

Disclosure of audit communications

Sometimes during our planning or interim audit visit, we issue interim management letters to the CEO and council, to provide them early advice of our audit findings, to enable them to take timely remedial action.

However, these findings only form part of our report under section 7.12AD of the LG Act when we issue them as part of our report on completion of our audit. For this reason, our interim management letters advise that they may not be suitable for other purposes. They are not intended for public release until we issue them as part of our Audit Report, and indeed in our performance audit processes disclosure of draft findings is prohibited by the *Auditor General Act 2006* (AG Act).

Some LGs have made these interim management letters public. However, we regard them as 'working documents' until we issue them formally to the mayor, president or chairperson, the CEO and the Minister for Local Government as part of our final report.

Recommendations

1. In addition to compliance with legislation, management should promote a culture of applying better practice and complying with internal policies.
2. An in-depth audit exit meeting should be held with the audit committee, in advance of the council meeting. As far as is practicable, the audit committee should include a few council members, rather than the entire council.
3. An audit entrance meeting should be held with the audit committee.
4. Audit exit meetings should provide the auditor the opportunity to highlight the key audit issues, in a structured manner, and the CEO adequate opportunity to comment.
5. LGs should not make interim audit findings public until they are received as part of our Audit Report on completion of the audit, unless specific urgent needs warrant earlier release.

Auditor independence

OAG staff and contractors are required, by the AG Act, the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* and APES 320 *Quality Control for Firms*, and auditing standard ASQC1¹, to be independent of the entities we audit.

Prior to assuming responsibility for LG financial audits, we were aware that it was often common practice for the existing auditors to perform other work for LGs, in addition to the annual financial audit. This can impair an auditor's independence. We have therefore given careful consideration to this, taking into account factors including:

- limited access to alternate accounting firms in regional areas to perform these other tasks
- the efficiencies that can sometimes be achieved if, for example, the auditor of the annual financial report also audits grant acquittals
- the key principle that auditors should not audit financial reports that they have prepared, to avoid the 'self-review threat to independence'
- whether some of the "other" tasks should be performed as part of the annual financial audit rather than as a separate task.

In 2017-18, we approved our contract auditors to perform various other audit tasks, in addition to the annual financial audit. We require our contractors to seek our approval, in advance. This is mainly to ensure that the nature of the proposed task does not impair their independence, and also to ensure that their fee is not too high in comparison to the fee for the annual financial audit, as that could also impair auditor independence.

For grant acquittals, including Royalties for Regions or Roads to Recovery, we generally permitted our contract auditors to, after obtaining our approval, engage directly with LGs and complete the required acquittals.

We also noted that some other work performed by audit firms was being regarded as separate from the annual financial audit, with separate fees, whereas part of the work should be routinely performed during the annual financial audit. For example, audit firms have often performed reviews of systems and procedures for the CEO as required by regulation 17 of the LG Audit Regulations or regulation 5(2)(c) of the LG Financial Management Regulations. Much of this work should already be covered during the annual financial audit and included in that audit fee. In our view, this had the effect of under-stating the audit fees for annual financial audits. We have taken steps to ensure adequate review of systems and controls as part of our annual financial audit process.

Some LGs also inquired whether our contract auditors could provide training to LGs where they were performing audits on our behalf. It is OAG practice that our contract auditors may provide general training in areas such as accounting principles or new accounting standards to entities, provided the fees are not so high as to impair their audit independence.

Independence can also be impaired through auditors instructing accounting staff on specific accounting entries that the auditors would subsequently audit. All additional work must be considered on a case by case basis for threats to impairment of auditor independence.

¹ ASQC1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements

Financial reporting challenges relating to asset valuations

During our audits we noted a variety of valuation methodologies being used for property, plant, equipment and infrastructure in the WA LG sector. In this first year of our LG financial auditing, we noted several issues relating to these valuations. One issue was the timely completion of valuations – at least 3 audits were completed late because the LGs received their valuation reports too late.

Two other aspects were of particular concern:

- the cost of performing valuations
- inconsistent valuation methods.

The cost of performing valuations

Australian Accounting Standard 116 *Property, Plant and Equipment* requires entities to elect to measure property, plant and equipment, including infrastructure, using either a revaluation model (at fair value) or a cost model. In the public sector, it is common practice to measure assets such as land, buildings and infrastructure at fair value, requiring periodic valuations. However, it is more common for the public sector to measure assets such as equipment (including computing equipment), some plant, furnishings and motor vehicles at cost less accumulated depreciation, thereby avoiding the often significant expense and effort of periodically valuing the assets and auditing the valuations.

The WA State public sector measures these assets at cost, whereas local governments are required, by Regulation 17A of the LG Financial Management Regulations, to fair value the assets through periodic valuations. A recent revision to the LG Financial Management Regulations, effective 1 July 2018, will remove the requirement to value assets below \$5,000. However, we suggest consideration also be given to requiring local governments to report all assets in these asset sub-classes using the cost model.

Inconsistent valuation methods

Valuation methodologies used for property, plant, equipment and infrastructure in the LG sector sometimes vary significantly across the different valuers. Some revaluations performed in 2017-18 yielded significant increments or decrements compared to the values of the previous revaluations, which were generally performed between 2013 and 2015. We concluded that most of the revalued assets were reported at amounts that materially represented fair value. However, in some instances, we asked LGs and their valuers to revisit the estimated values, resulting in some amendments.

Of particular concern is the inconsistent approach across different LGs, for valuing land assets that have restricted use. These include sports grounds, parks, gardens, sumps, foreshore, or land reserved as 'bush forever'. One of the reasons for inconsistency is differing interpretations of the principles in Australian Accounting Standard AASB 13 *Fair Value Measurement*. In particular, the standard requires valuers to take into account the highest and best use to which a market participant could put the asset. However, the standard also specifies the need to take into account the characteristics of the asset, including any restrictions on sale or use.

Different valuers are applying different interpretations of these principles, resulting in significant differences in values attributed to these types of restricted use assets. This impacts comparability of the assets of local governments. Both the Australian Accounting Standards Board (AASB) and the International Public Sector Accounting Standards Board

(IPSASB) currently have projects under way relating to fair value of public sector assets, and it is anticipated that they will provide guidance that could then be consistently applied in the LG sector.

Recommendations

1. The Department should re-assess the potential advantages if LGs are required to report equipment assets using the cost model.
2. LGs should robustly assess the assumptions and methodology of their valuers, in particular the approach for valuing land assets with restricted use.
3. LGs and the Department should monitor the progress of the AASB and IPSASB public sector fair value projects.

Upcoming changes to accounting standards and the local government regulations

A number of significant changes to Australian Accounting Standards will be applicable over the next few years, some commencing in 2018-19. These, and a change to the LG Financial Management Regulations are expected to require close attention by entities' finance officers and our audit teams.

Expensing assets with a value at acquisition under \$5,000

Regulation 17A(5) of the LG Financial Management Regulations requires, with effect from 2018-19, assets with a value below \$5,000 at the time of acquisition, to be excluded from the assets reported in the financial report. These assets will instead be reported as an expense in the statement of comprehensive income in the year of acquisition.

Australian Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, requires this amendment to the asset values to be treated as a change in accounting policy. The standard requires balances to be adjusted retrospectively, unless it is impracticable to determine the period-specific or cumulative effects of the change.

Future impact of changes to accounting standards

The following new and revised standards issued by the AASB are expected to impact LGs to varying extent:

- **AASB 9 – *Financial Instruments*** – This standard changed the classification and measurement of financial assets from 1 January 2018 and therefore applies to LGs for the 2018-19 reporting year. Another change is earlier recognition of provisions for bad/doubtful debts based on expected credit losses.
- **AASB 15 – *Revenue from Contracts with Customers*** – This standard requires revenue to be recognised by entities on the fulfilment of the performance obligations of an enforceable contract at a point in time or over time, as applicable. An example for LGs is receiving grant moneys. LGs need to allocate the grant amount to each performance obligation in the contract and recognise the revenue only when the related performance obligations are satisfied. This will be consistent with current practice for the private sector.

Also, authoritative implementation guidance has been issued for not-for-profit public sector licensors reporting transactions involving the issue of licences. This standard applied from 1 January 2018 reporting for for-profit entities, and from 1 January 2019 reporting for not-for-profit entities.

- **AASB 1058 – *Income of Not-for-profit Entities*** – This standard, in combination with AASB 15, establishes new principles for income recognition for not-for-profit entities from 1 January 2019 reporting and will therefore apply to LGs for the 2019-20 reporting year. AASB 1058 applies to transactions where assets are acquired at significantly less than fair value, including rates and grant moneys. It is anticipated that the implementation of these two standards will result in more delayed income recognition.
- **AASB 16 – *Leases*** – For lessees, this standard removes the distinction between operating leases and finance leases, and requires all leases (except short-term leases and leases of low-value assets) to be recognised as lease assets and lease liabilities on the balance sheet. This will result in the grossing-up of the balance sheet and higher expense in the early years of the lease term. Peppercorn lease assets can be elected to

be measured either at cost or at fair value. This standard applies from 1 January 2019 and will therefore apply to local governments for the 2019-20 reporting year.

- AASB 1059 – *Service Concession Arrangements: Grantors* – This standard is applicable to public sector entities (grantors) that enter into service concession arrangements with private sector operators. It requires grantors to recognise a service concession asset and, where applicable, a service concession liability on the balance sheet. The initial balance sheet accounting, as well as the ongoing income statement impacts, will have implications for grantors. AASB 1059 will apply for years beginning on or after 1 January 2020 and will apply to local governments for the 2020-21 reporting year.

We acknowledge that there are varying degrees of readiness and preparation for these new accounting standards. We are preparing and training financial audit staff in the new and revised requirements and updating relevant audit policies and procedures.

Recommendation

Local governments should continue to make timely preparations for implementation of the upcoming accounting standards changes, and the new regulation requiring assets with a value at acquisition below \$5,000 to be expensed.

Appendix 1: Local government entities audited

We have to date completed 42 of the 46 audits for 2017-18. The auditor's reports issued are listed in the table below.

LGs are listed alphabetically.

Local government	Opinion issued
Bunbury-Harvey Regional Council	29/10/2018
City of Belmont	31/10/2018
City of Bunbury	17/10/2018
City of Cockburn	27/11/2018
City of Joondalup	14/11/2018
City of Kalgoorlie-Boulder	29/11/2018
City of Perth	13/12/2018
City of Rockingham	09/11/2018
City of South Perth	29/11/2018
City of Stirling	09/11/2018
City of Wanneroo	15/11/2018
Eastern Metropolitan Regional Council	05/10/2018
Pilbara Regional Council	14/12/2018
Rivers Regional Council	11/12/2018
Shire of Brookton	13/12/2018
Shire of Bruce Rock	13/12/2018
Shire of Capel	29/11/2018
Shire of Cranbrook	01/03/2019
Shire of Cue	11/12/2018
Shire of Cunderdin	Not finalised
Shire of Dandaragan	07/12/2018
Shire of Denmark	18/12/2018
Shire of Exmouth	27/11/2018
Shire of Jerramungup	11/02/2019
Shire of Kellerberrin	05/12/2018
Shire of Kondinin	12/12/2018
Shire of Koorda	18/10/2018
Shire of Laverton	Not finalised
Shire of Menzies	Not finalised
Shire of Moora	30/11/2018
Shire of Morawa	05/12/2018
Shire of Narrogin	20/12/2018
Shire of Northampton	03/12/2018

Shire of Nungarin	31/01/2019
Shire of Perenjori	10/12/2018
Shire of Ravensthorpe	Not finalised
Shire of Sandstone	30/10/2018
Shire of Tammin	31/01/2019
Shire of Three Springs	11/12/2018
Shire of West Arthur	13/12/2018
Shire of Woodanilling	18/12/2018
Shire of Wyalkatchem	18/01/2019
Shire of Yalgoo	18/12/2018
Shire of York	27/11/2018
Town of Cambridge	17/12/2018
Town of Cottesloe	05/12/2018

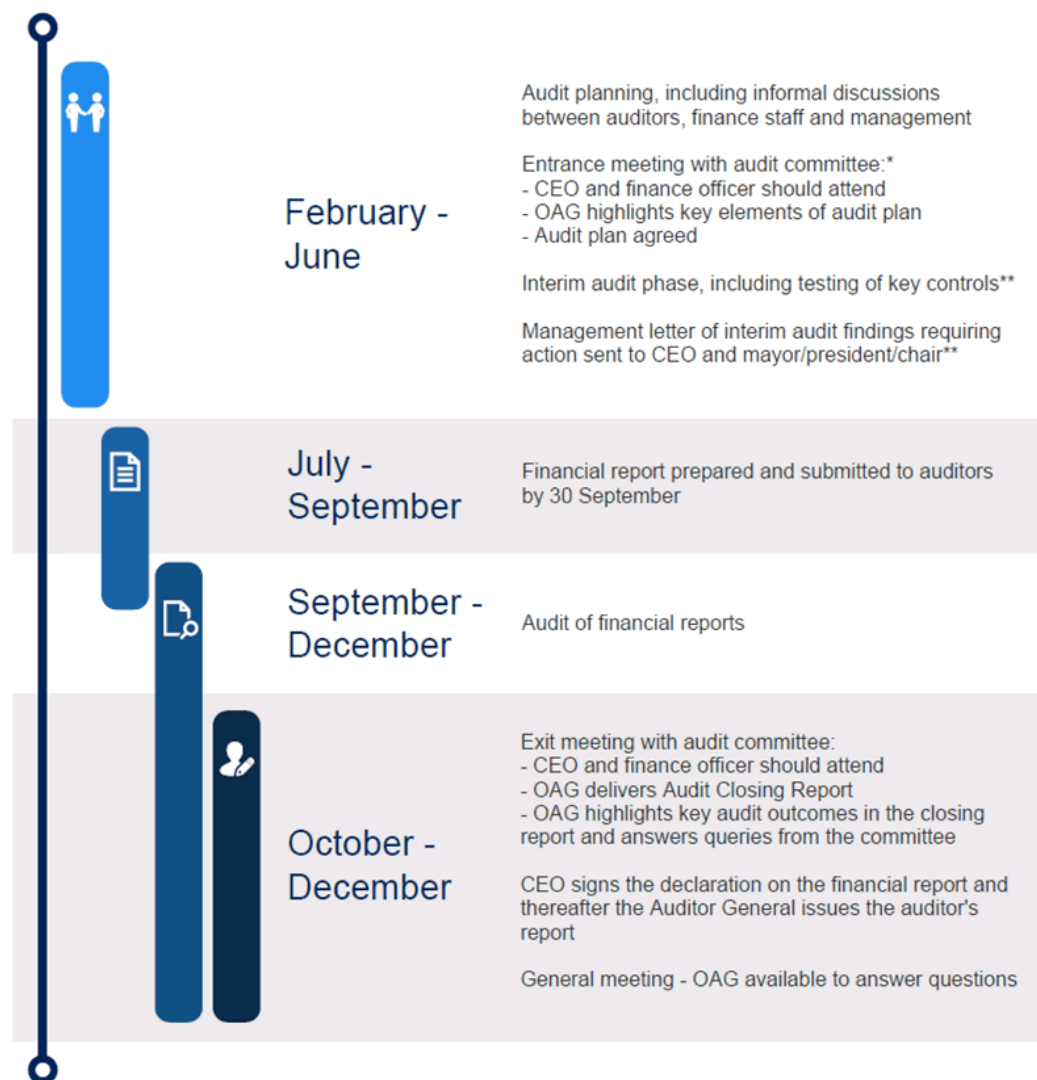
Appendix 2: Local government entity certifications issued

In addition to annual auditor's reports, some LGs needed to acquit moneys received from other sources under grant agreements or other legislation. We issued the following 3 certifications on statements of income and expenditure of LGs, to help them discharge their financial reporting obligations, some being for Commonwealth grants.

LGs are listed alphabetically.

Local government	Opinions issued
City of South Perth – <i>National Land Transport Act 2014</i> – Roads to Recovery Funding	25/10/2018
Shire of Brookton – Pensioner Deferments	13/12/2018
Town of Cambridge – <i>National Land Transport Act 2014</i> – Roads to Recovery Funding	10/12/2018

Appendix 3: Timeline of communications between auditors, management and council members



Source: OAG

Notes

Meetings with some remote LGs will be conducted by teleconference due to cost and logistical reasons.

* If it is not practicable for the audit committee to meet for an audit entrance meeting, we suggest at least one councillor attends the entrance meeting.

** For small regional LGs, there may not be an interim audit visit. This work is usually completed at the same time as the audit of the financial report, and findings are reported at that time. The extent and proposed timing of interim work will be outlined in the audit plan.

Glossary and acronyms

AASB	Australian Accounting Standards Board
AG Act	<i>Auditor General Act 2006</i>
Amendment Act	<i>Local Government Amendment (Auditing) Act 2017</i>
Auditor's Report	The Auditor General's Auditor's Report that is published in the local government's annual report by the CEO, in accordance with section 5.55A of the LG Act.
Audit Report	The overall report under section 7.12AD of the LG Act, formally issued to the Mayor, President or Chairperson, the CEO and the Minister for Local Government on completion of the audit, including the Auditor's Report and the management letter(s).
CEO	Chief executive officer
Clear opinion (or unqualified opinion)	Auditor General's opinion expressed when an annual financial audit concludes that in all material respects the financial report is presented fairly in accordance with the <i>Local Government Act 1995</i> and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.
Contract audit	Audit of a local government undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract.
Department	Department of Local Government, Sport and Cultural Industries
Emphasis of Matter	A paragraph included in an auditor's report that refers to a matter that is appropriately presented or disclosed in the financial report but which, in the auditor's judgment, is of such importance that it should be emphasised in the auditor's report.
Financial audit	Work performed to enable an opinion to be expressed regarding a financial report prepared by the party who is accountable for the financial transactions.
IS	Information systems, primarily computerised systems
LG Act	<i>Local Government Act 1995</i>
LG Audit Regulations	Local Government (Audit) Regulations 1996
LGs	Local government entities, being Western Australian local governments and regional councils
LG Financial Management Regulations	Local Government (Financial Management) Regulations 1996
Management letter	A letter to management of a local government that conveys significant audit findings and results of the audit. On completion of the audit, the management letter forms part of the audit report sent to the CEO, to the Mayor, President or Chairperson, and to the Minister for Local Government.
Materiality	The characteristic based on the size and/or nature of an omission or misstatement of accounting or compliance information that, in the light of context or circumstances, has the potential to adversely affect the economic decisions of users of the information or the discharge of accountability by senior management.
OAG	Office of the Auditor General
Qualified opinion	Auditor General's opinion expressed when an audit identifies aspects of the annual financial report that are likely to be misleading to users, there was material conflict with applicable financial reporting frameworks or a limitation of scope on audit work.
Significance	Relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.

Auditor General's Reports

Report number	Reports	Date tabled
14	Opinions on Ministerial Notifications	13 February 2019
13	Opinion on Ministerial Notification	23 January 2019
12	Managing Disruptive Behaviour in Public Housing	20 December 2018
11	Opinions on Ministerial Notifications	20 December 2018
10	Opinions on Ministerial Notifications	18 December 2018
9	Treatment Services for People with Methamphetamine Dependence	18 December 2018
8	Opinions on Ministerial Notifications	10 December 2018
7	Audit Results Report – Annual 2017-18 Financial Audits of State Government Entities	8 November 2018
6	Opinion on Ministerial Notification	31 October 2018
5	Local Government Procurement	11 October 2018
4	Opinions on Ministerial Notifications	30 August 2018
3	Implementation of the GovNext-ICT Program	30 August 2018
2	Young People Leaving Care	22 August 2018
1	Information Systems Audit Report 2018	21 August 2018



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20. MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE

Nil

21. CONFIDENTIAL BUSINESS

Nil

22. CLOSURE OF MEETING

The meeting closed at 6.31pm

