



Shire of
Serpentine
Jarrahdale

Audit, Risk and Governance Committee

Confirmed Minutes

**Monday 5 August 2019
5.30pm**

**Endorsed Council – 19 August 2019
OCM169/08/19**

Contact Us

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In Person

Shire of Serpentine Jarrahdale
6 Paterson Street, Mundijong WA 6123
Open Monday to Friday 8.30am-5pm (closed public holidays)



www.sjshire.wa.gov.au



Table of Contents

1. Attendances and apologies (including leave of absence):	3
2. Public question time:	3
2.1 Response to previous public questions taken on notice.....	3
2.2 Public questions	3
3. Public statement time:	3
4. Petitions and deputations:	3
5. Declaration of Councillors and Officers interest:	3
6. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:	4
6.1 Minutes of previous Audit, Risk and Governance Committee Meeting:	4
6.2 Reports for consideration:	4
ARG006/08/19 – Internal Audit Charter (SJ2895)	4
ARG007/08/19 – Office of the Auditor General (OAG) – Fraud Management – Performance Audit (SJ2196)	9
ARG008/08/19 – Internal Audit Status Update (SJ2895)	13
7. Motions of which notice has been given:	19
8. Urgent business:	19
9. Closure:	19



Minutes of the Audit, Risk and Governance Committee Meeting held in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong on Monday 5 August 2019.

The Presiding Member, Councillor See declared the meeting open at 5.30pm and welcomed Councillors, Committee Members and Staff, and acknowledged that the meeting was being held on the traditional land of the Noongar People and paid her respects to their Elders past and present.

Minutes

1. Attendances and apologies (including leave of absence):

Councillors: Cr J See Presiding Member
Cr M Rich
Cr M Byas
Cr R Coales
Cr K McConkey

Independent Members: Ms E Newby

Officers: Ms H Sarcich..... Acting Chief Executive Officer
Ms L Keys Acting Director Community Services
Mr F Sullivan Director Corporate Services
Mr A Trosic..... Director Development Services
Mr S Harding..... Director Infrastructure Services
Dr K Parker Manager Governance
Mr R Gallagher Internal Auditor
Ms A Liersch Agendas and Minutes Officer (Minute Taker)

Apologies: Mr S Casilli

Observers: Cr Denholm

2. Public question time:

2.1 Response to previous public questions taken on notice

Nil.

2.2 Public questions

Nil.

3. Public statement time:

Nil.

4. Petitions and deputations:

Nil.

5. Declaration of Councillors and Officers interest:

Nil.



6. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:

6.1 Minutes of previous Audit, Risk and Governance Committee Meeting:

6.1.1 Audit, Risk and Governance Committee Meeting – 6 May 2019

ARG007/08/19

AUDIT, RISK & GOVERNANCE COMMITTEE RESOLUTION

Moved Ms Newby, seconded Cr McConkey

That the minutes of the Audit, Risk and Governance Committee Meeting held on 6 May 2019 be confirmed (E19/5477).

CARRIED UNANIMOUSLY 6/0

6.2 Reports for consideration:

ARG006/08/19 – Internal Audit Charter (SJ2895)	
Responsible Officer:	Internal Auditor
Senior Officer:	Acting Chief Executive Officer
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
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Report Purpose

That the Audit Risk and Governance Committee recommends that Council ADOPT the Internal Audit Charter to clarify purpose, authority, responsibility and position of Internal Audit within the Shire.

Relevant Previous Decisions of Council

N/A

Background

The Intern Audit Charter builds upon principles presented in the ARG006/05/18 – Internal Audit Charter (E18/4314) and subsequently the ARG005/05/19 – 2019 Interim Internal Audit Plan (SJ2895).



Community / Stakeholder Consultation

The following stakeholder consultation was undertaken:

- CEO / Chair of the Audit, Risk and Governance (ARG) Committee.

Statutory Environment

Pursuant to Regulations 16 and 17 of the *Local Government (Audit) Regulations 1996*:

16. **Functions of audit committee**

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and*
 - (ii) its functions relating to other audits and other matters related to financial management;**
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
 - (i) report to the council the results of that review; and*
 - (ii) give a copy of the CEO's report to the council;**
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and*
 - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*

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

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and*
 - (b) internal control; and*
 - (c) legislative compliance.**
- (2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) The CEO is to report to the audit committee the results of that review.*



Comment

An Internal Audit Charter is a key document in an Internal Audit Framework clearly communicating purpose, authority, relationship, responsibility and position within the Shire. It is a key document to enable Internal Audit structures within the Shire and relationship between CEO and ARG reporting lines.

The Shire's Internal Auditor took the opportunity to meet with the Chair of ARG to walk through the intent of the document.

Options and Implications

Option1

That the Audit, Risk and Governance committee recommends that Council adopts the Internal Audit Charter.

Option 2

That the Audit, Risk and Governance committee recommends that Council does not adopt the Interim Audit Plan.

Option 1 is recommended.

Conclusion

Once adopted, Internal Audit function will reference the baseline requirements of the Internal Audit Charter.

Attachments

- [Attachment 1](#) - Internal Audit Charter (E19/5497)

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	Provide clear strategic direction to the administration

Financial Implications

Nil.



Risk Implications

Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Action Plan (Controls or Treatment proposed)
		Likelihood	Consequence	Rating	
2	That Council does not adopt an Internal Audit Charter resulting in Internal Audit activities not being sufficiently empowered to operate within the Shire	Unlikely (2) <i>The event could occur at some time.</i>	Moderate (3) <i>Medium term temporary interruption</i>	Medium (6)	<ul style="list-style-type: none"> Internal Audit Charter tabled, read and adopted Interim Audit Plan 2019.
All	Inadequate Internal Audit Charter resulting in ineffective empowerment of the function	Unlikely (2) <i>The event could occur at some time.</i>	Moderate (3) <i>Medium term temporary interruption</i>	Medium (6)	<ul style="list-style-type: none"> Internal Audit Charter referenced to IIA Standards and other local governments Interim Audit Plan 2019.
All	Lack of support from Executive Management to support Internal Audit resulting in ineffective function	Rare (1) <i>The event may only occur in exceptional circumstances</i>	Moderate (3) <i>Medium term temporary interruption</i>	Low (3)	<ul style="list-style-type: none"> Engaged Executive in place Positive working environment for Internal Audit Interim Audit Plan 2019

Risk Matrix



Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk rating of **6** has been determined for this item.

Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements: Simple Majority

ARG008/08/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation

Moved Cr Coales, seconded Ms Newby

That the Audit, Risk and Governance Committee recommends that Council:

ADOPTS the Internal Audit Charter as contained within attachment 1.

CARRIED UNANIMOUSLY 6/0

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.



ARG007/08/19 – Office of the Auditor General (OAG) – Fraud Management – Performance Audit (SJ2196)	
Responsible Officer:	Internal Auditor
Senior Officer:	Acting Chief Executive Officer
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
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Report Purpose

That the Audit Risk & Governance Committee recommends that Council NOTE the emerging findings from the Office of the Auditor General (OAG) fraud management performance audit and preliminary management responses from the Shire.

Relevant Previous Decisions of Council

N/A

Background

The OAG undertook a narrow-scope performance audit of fraud prevention approaches in local government, the Shire was selected for inclusion in the audit.

The focus of performance audit was on the economy, efficiency and effectiveness of activities, services and programs. These audits identify improvement opportunities for audited entities. The OAG will table a consolidated performance audit report to parliament.

Community / Stakeholder Consultation

The following stakeholder consultation was undertaken:

- CEO / Acting CEO
- Director Corporate Services
- Manager Governance and supporting staff
- Manager Finance and supporting staff.



Statutory Environment

On 28 October 2017, the *Local Government Amendment (Auditing) Act 2017* was proclaimed, giving the Auditor General the mandate to audit Western Australia's 139 local governments and 9 regional councils. The Act allowed the Auditor General to conduct performance audits of local government entities from 28 October 2017.

This audit process was undertaken in accordance with the above by the OAG.

Comment

The Internal Auditor within the Shire was the liaison officer for the audit process and coordinated the on-site fieldwork. The Shire has now received a summary of the audit's emerging findings, see **confidential attachment 2**. This provided the Shire an opportunity to comment, correct facts, clarify or expand context, and endorse or adjust any proposed solutions, the Shire's feedback is contained in **confidential attachment 1**.

Internal Audit noted that all areas of the organisation were very cooperative and assisted in the audit processes and that OAG operated in a professional and courteous manner.

Options and Implications

Option1

That the Audit, Risk and Governance Committee recommends that Council NOTES the Emerging Findings in **confidential attachment 2** from the Office of the Auditor General and preliminary responses provided.

Option 1 is recommended.

Conclusion

Once the final management letter is tabled to parliament by the OAG, Internal Audit will track the findings through the Internal Audit Register and report in the progress each quarter for transparency to Council.

Attachments

- **Confidential attachment 1** - Preliminary Responses to OAG Emerging Findings (E19/7999)
- **Confidential attachment 2** - OAG Fraud Prevention in Local Government – Emerging Findings (E19/8000)

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	Provide clear strategic direction to the administration



Financial Implications

Nil.

Risk Implications

Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Action Plan (Controls or Treatment proposed)
		Likelihood	Consequence	Rating	
All	The Council does not engage with the OAG reporting process and planning activities resulting in a lower focus on fraud management	Unlikely (2) <i>The event could occur at some time.</i>	Minor (2) <i>Some temporary non compliances</i>	Low (4)	<ul style="list-style-type: none"> Monitoring quarterly reporting from Internal Audit
All	The Shire does not progress with management activities to address emerging findings resulting in opportunities for fraud to occur	Unlikely (2) <i>The event could occur at some time.</i>	Major (4) Substantiated, public embarrassment, high impact, high news profile, third party actions	Medium (8)	<ul style="list-style-type: none"> Internal Audit Register Monitoring quarterly reporting from Internal Audit CEO / Council visibility

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk rating of **8** has been determined for this item.

Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.



Voting Requirements: Simple Majority

ARG009/08/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation

Moved Ms Newby, seconded Cr Coales

That the Audit, Risk and Governance Committee recommends that Council:

NOTES the Office of the Auditor General (OAG) – Fraud Management – Performance Audit and management actions contained in confidential attachments 1 and 2.

CARRIED UNANIMOUSLY 6/0

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.



ARG008/08/19 – Internal Audit Status Update (SJ2895)	
Responsible Officer:	Internal Auditor
Senior Officer:	Acting Chief Executive Officer
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
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Report Purpose

To ADOPT the Internal Audit Status Update and confidential attachments.

Relevant Previous Decisions of Council

<i>Audit, Risk and Governance Committee - ARG006/05/19</i> <i>AUDIT, RISK & GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation</i> <i>Moved Ms Newby, seconded Cr Rich</i> <i>That the Audit, Risk and Governance Committee recommends that Council: ADOPTS the 2019 Interim Internal Audit Plan to guide Internal Audit activities to December 2019.</i> <i>CARRIED UNANIMOUSLY 6/0</i>
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Background

This update supports a periodic process for the CEO to review the appropriateness and effectiveness of internal controls within the Shire, through presenting results of internal audit activities in accordance with the 2019 Interim Internal Audit Plan.

Community / Stakeholder Consultation

The following stakeholder consultation was undertaken:

- CEO
- Directors
- Managers and supporting staff.



Statutory Environment

Pursuant to Regulations 16 and 17 of the *Local Government (Audit) Regulations 1996*:

16. **Functions of audit committee**

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and*
 - (ii) its functions relating to other audits and other matters related to financial management;**
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
 - (i) report to the council the results of that review; and*
 - (ii) give a copy of the CEO's report to the council;**
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and*
 - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*

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

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and*
 - (b) internal control; and***
 - (c) legislative compliance.**
- (2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) The CEO is to report to the audit committee the results of that review.*



Additionally, Local Government (Financial Management) Regulations 5.2(c):

(2) The CEO is to —

- (a) ensure that the resources of the local government are effectively and efficiently managed; and*
- (b) assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and*
- (c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.*

Comment

All scheduled Internal Audit Activities were commenced in accordance with the endorsed 2019 Interim Plan. Key areas of activity included:

- Consolidating and tracking previous Internal Audit activity
- Internal Audit of Workforce management
- Internal Audit of Regulation 17 / Financial Management
- Preliminary results from a recent performance audit by the Office of the Auditor General in relation to Fraud Management Practices
- Process improvement activities in fraud management and Information Technology General Controls.

Internal Audit reporting will be continually refined to meet information requirements of Council.

Options and Implications

Option1

That the Audit, Risk and Governance Committee recommends that Council NOTES the Internal Audit Status Update and confidential attachments.

Option 1 is recommended.

Conclusion

Internal Audit will continue to report activities quarterly in the format presented and in accordance with the 2019 Interim Internal Audit Plan.

Attachments

- **Confidential attachment 1** - Internal Audit Status Report (E19/8121)
- **Confidential attachment 2** – Regulation 17 / FMR Report (E19/8191)
- **Confidential attachment 3** – Workforce Management – Internal Audit (E19/7983)
- **Confidential attachment 4** – Process Improvement Report (E19/4727).



Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	Provide clear strategic direction to the administration

Financial Implications

Nil

Risk Implications

Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Action Plan (Controls or Treatment proposed)
		Likelihood	Consequence	Rating	
All	That Council does not support management actions and recommendations from Internal Audits resulting in reduced accountability to progress audit observations	Unlikely (2) <i>The event could occur at some time.</i>	Major (4) Substantiated, public embarrassment, high impact, high news profile, third party actions	Medium (8)	<ul style="list-style-type: none"> Adoption of Internal Audit Status reporting ARG feedback processes
All	Inadequate Audit Planning resulting in Internal Audit not supporting Council oversight responsibilities	Unlikely (2) <i>The event could occur at some time.</i>	Moderate (3) Substantiated, public embarrassment, moderate impact	Medium (6)	<ul style="list-style-type: none"> Internal Audit Status reporting 2019 Interim Internal Audit Plan
All	Internal Audit reporting does not adequate assurance to ARG / Council leading to less robust decision making	Unlikely (2) <i>The event could occur at some time.</i>	Moderate (3) Substantiated, public embarrassment, moderate impact	Medium (6)	<ul style="list-style-type: none"> Endorsed Interim Audit Plan Feedback and guidance through ARG Transparency of audit activities through Audit Status Reporting



Option	Risk Description	Risk Assessment (with existing controls considered)			Risk Plan (Controls or Treatment proposed)	Action
		Likelihood	Consequence	Rating		
All	Unclear purpose and intention of Internal Audit resulting in ARG / Council not understanding of Internal Audit activities	Unlikely (2) <i>The event could occur at some time.</i>	Moderate (3) <i>Substantiated, public embarrassment, moderate impact</i>	Medium (6)	<ul style="list-style-type: none"> Revised Internal Audit Charter 2019 Interim Internal Audit Plan 1:1 Audit Committee Chair. 	

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk rating of **6** has been determined for this item.

Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.



Voting Requirements: Simple Majority

Officer Recommendation

That the Audit, Risk and Governance Committee recommends that Council
NOTES the Internal Audit Status Update and confidential attachments 1-4.

ARG010/08/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Ms Newby, seconded Cr Byas

That the Audit, Risk and Governance Committee recommends that Council

NOTES the Internal Audit Status Update and confidential attachments 1-4, with an amendment to the Target dates on attachment ARG008.4/08/19, item A1.1 and item A1.5 requiring the Internal Whistleblower Process and Register to be presented to the next Audit, Risk and Governance Committee Meeting.

CARRIED UNANIMOUSLY 6/0

Reason for difference to Officer Recommendation

The Internal Whistleblower process and register to be completed before the Target Date of June 2020 in the attachment.

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.



7. Motions of which notice has been given:

Nil.

8. Urgent business:

Nil.

9. Closure:

There being no further business, the Presiding Member declared the meeting closed at 6.11pm.

I certify that these minutes were confirmed at the
Audit, Risk and Governance Committee Meeting held on 4 November 2019.

Presiding Member – MORCAN BIAS

04 / 11 / 2019

Date