City of Rockingham

MINUTES
Audit Committee Meeting

Held on Tuesday 25 October 2016 at 4:00pm
City of Rockingham Committee Room
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<td>17</td>
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# Audit Committee Minutes

## City of Rockingham
### Audit Committee Meeting Minutes
#### Tuesday 25 October 2016 - Council Boardroom

1. **Declaration of Opening**

   The Chairperson declared the Audit Committee Meeting open at 4:04pm, welcomed all present, and referred to the Acknowledgement of Country.

2. **Record of Attendance/Apologies/Approved Leave of Absence**

   2.1 **Councillors**
   - Cr Barry Sammels (Mayor)  Chairperson
   - Cr Chris Elliott
   - Cr Deb Hamblin (Deputy Mayor)

   2.2 **Executive**
   - Mr Andrew Hammond  Chief Executive Officer
   - Mr John Pearson  Director Corporate Services
   - Mr Peter Doherty  Director Legal Services and General Counsel
   - Ms Vanisha Govender  Manager Financial Services
   - Mr Peter Varris  Manager Governance and Councillor Support
   - Mr Rafal Kolodynski  Internal Auditor

   2.3 **In Attendance:**  Nil

   2.4 **Apologies:**
   - Cr Justin Smith

   2.5 **Approved Leave of Absence:**  Nil

3. **Terms of Reference**

   To oversee the risk management, internal control, legislative compliance and external audit processes of the City, including receipt of the Auditor’s Statements and Management Reports.

4. **Confirmation of Minutes of the Previous Meeting**

   Moved Cr Hamblin, seconded Cr Elliott:

   That Committee **CONFIRMS** the Minutes of the Audit Committee Meeting held on 12 February 2016, as a true and accurate record.

   Committee Voting – 3/0

5. **Matters Arising from the Previous Minutes**

   Nil

6. **Declarations of Members and Officers Interests**

   4:05pm  The Chairperson asked if there were any interests to declare.

   There were none.

7. **Petitions/Deputations/Presentations/Submissions**

   Nil
8. Agenda Items

Audit Committee

<table>
<thead>
<tr>
<th>Reference No &amp; Subject:</th>
<th>AC-002/16 The City of Rockingham Internal Control Audit Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>File No:</td>
<td>CPM/109</td>
</tr>
<tr>
<td>Proponent/s:</td>
<td>Mr Rafal Kolodynski, Internal Auditor</td>
</tr>
<tr>
<td>Author:</td>
<td>Mr James Serrano, Internal Audit Assistant</td>
</tr>
<tr>
<td>Other Contributors:</td>
<td></td>
</tr>
<tr>
<td>Date of Committee Meeting:</td>
<td>25 October 2016</td>
</tr>
<tr>
<td>Previously before Council:</td>
<td></td>
</tr>
<tr>
<td>Disclosure of Interest:</td>
<td>Executive</td>
</tr>
<tr>
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<td></td>
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<tr>
<td>Site:</td>
<td></td>
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<td></td>
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<tr>
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<tr>
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<td></td>
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</tbody>
</table>

Purpose of Report

The purpose of this report is to provide information on the following two aspects:

1. To outline the methodology and scope of the testing carried out by the Internal Audit team to complete controls testing for the 2015/16 financial year.

2. Provide overview of the findings and actions that were implemented during that review.

Background

The Local Government (Audit) Regulations 1996 r.17 states that a review is to be conducted every two years. The review is to test the appropriateness and effectiveness of a local government’s systems and procedures in relation to;

(a) Risk management;
(b) Internal control; and
(c) Legislative compliance.

Because the City has taken on the commitment of providing best practice internal audit function this testing occurs every year.
Details

Internal controls in the context of auditing are typically defined as processes that are designed to assure the achievement of the organisation’s objectives in:

(a) Operational effectiveness and efficiency;
(b) Reliable financial reporting, and;
(c) Compliance with laws, regulations, legislative compliance and policies.

Internal audit provides an independent, methodical approach to test if the City’s processes are operating effectively, efficiently and as intended.

As the City has a myriad of mechanisms that govern the way in which it operates, key controls have been identified and scoped to test for the 2015/16 financial year.

The scope has been broken down into 12 main processes. Each main process has multiple key controls to test. The purpose is to give a City wide overview of how well these controls have been designed and how well they are operating.

The City of Rockingham Internal Controls Framework for the financial year 2015/16

<table>
<thead>
<tr>
<th>Main Processes</th>
<th>Key Controls in Scope 2015/16</th>
<th>As a percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Community Development</td>
<td>5</td>
<td>2%</td>
</tr>
<tr>
<td>2 Corporate Services</td>
<td>8</td>
<td>4%</td>
</tr>
<tr>
<td>3 Engineering &amp; Parks</td>
<td>3</td>
<td>1%</td>
</tr>
<tr>
<td>4 Finance</td>
<td>17</td>
<td>8%</td>
</tr>
<tr>
<td>5 Fixed Assets</td>
<td>7</td>
<td>3%</td>
</tr>
<tr>
<td>6 Human Resources</td>
<td>27</td>
<td>13%</td>
</tr>
<tr>
<td>7 Inventory</td>
<td>12</td>
<td>6%</td>
</tr>
<tr>
<td>8 IS &amp; IT</td>
<td>12</td>
<td>6%</td>
</tr>
<tr>
<td>9 Legislative / Regulatory</td>
<td>15</td>
<td>7%</td>
</tr>
<tr>
<td>10 Planning &amp; Development</td>
<td>38</td>
<td>18%</td>
</tr>
<tr>
<td>11 Purchases &amp; Payables</td>
<td>41</td>
<td>20%</td>
</tr>
<tr>
<td>12 Revenues &amp; Receivables</td>
<td>23</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>208</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

![Controls in Scope 2016](image-url)
Control Effectiveness 2016

The below graph shows a representation of the distribution of controls tested that require improvement.

Controls that have been in effect for the full financial year can be tested in accordance with the City’s statistical audit methodology. When the controls are sampled using this methodology the testing should provide a reasonably accurate representation of the population.

![Control Effectiveness 2016 Graph]

Please note that Engineering and Parks had a small amount of controls tested as the division experienced a significant restructure. Due to the disruption of the restructure the testing scope was reduced to minimise further interference to the division.

Controls Design Testing 2016

Control design testing occurs when a new control is implemented during the financial year. This is because the control has not been in effect for a sufficient period of time to accurately indicate how well the control works. Therefore Internal Audit will examine the design and the intended outcome of the control rather than testing the result of the control.

![Controls Design Testing 2016 Graph]
New controls of note:
The 2015/16 financial year saw the implementation and development of some significant policies and procedures which introduced a substantial improvement to the City’s control environment. The following is a list of significant policies and procedures that were tested this year.

1. City of Rockingham Procedure – Use and Administration of Purchasing Cards
2. Executive Policy – Purchasing Goods and Services
3. The Procurement Framework
4. Better Practice Procurement Procedure (Corporate Services)
5. Record Keeping for Procurement
6. Executive Policy – Contract Management
8. Executive Policy – Records Management

Implications to Consider

a. Consultation with the Community
   Not Applicable

b. Consultation with Government Agencies
   Not Applicable

c. Strategic
   Community Plan
   This item addresses the Community's Vision for the future and specifically the following Aspiration and Strategic Objective(s) contained in the Community Plan 2015-2025:
   
   Aspiration C: Quality leadership

   Strategic Objective: Governance – Governance systems that enable Council to make informed and considered decisions, effectively supported by an executive informing and implementing those decisions; all within an accountable, legally compliant, transparent and ethical environment.

d. Policy
   Not Applicable

e. Financial
   Not Applicable

f. Legal and Statutory
   Local Government (Audit) Regulations 1996
   17. CEO to review certain systems and procedures
      (1) The CEO is to review the appropriateness and effectiveness of a local government’s system and procedures in relation to -
      (a) risk management; and
      (b) internal control; and
      (c) legislative compliance
      (2) The review may relate to any or all of the matters referred to in sub regulation (1) (a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
      (3) The CEO is to report to the audit committee the results of that review

1 Approved awaiting training of staff prior to roll out
g. Risk

All Council decisions are subject to risk assessment according to the City's Risk Framework.

Implications and comment will only be provided for the following assessed risks.

- Customer Service / Project management / Environment: High and Extreme Risks
- Finance / Personal Health and Safety: Medium, High and Extreme Risks

Nil

Comments

The City of Rockingham Internal Controls Framework is planned and scoped out for every financial year and it is expected that the scope of controls reviewed will change slightly to reflect changes in the operating environment at the City.

The overall performance of the City’s controls has been managed very well. The controls in place were found to be appropriate and working as intended. Some exceptions were noted but considered no more significant than moderate risk exposure for the identified processes.

Voting Requirements

Simple Majority

Officer Recommendation

That Council ACKNOWLEDGES the results of the Internal Controls tested for the 2015/16 financial year.

Committee Recommendation

Moved Cr Elliott, seconded Cr Hamblin:

That Council ACKNOWLEDGES the results of the Internal Controls tested for the 2015/16 financial year.

Committee Voting – 3/0

The Committee's Reason for Varying the Officer's Recommendation

Not Applicable

Implications of the Changes to the Officer's Recommendation

Not Applicable
## Purpose of Report

The purpose of this report is to communicate the completed internal audits for the financial year 2015/16.

## Background

The completed audits for the financial year 2015/16 have been designed to provide feedback to management on the effectiveness of specific operations at the City. The scope of the completed audits were designed to ensure that appropriate processes are followed, that legal obligations are satisfied and controls are designed to prevent and detect error, fraud and misappropriation.

Eight audits were conducted during the 2015/16 financial year. As a result of the audits a total of 38 recommendations were endorsed by the Executive Audit Committee. 25 actions have been implemented during the 2015/16 financial year. The remaining 13 actions are still being implemented and the progress is being monitored by both the Internal Audit team and the Executive Audit Committee.

## Details

### City Wide Cash Handling Audit

#### Overview

The purpose of this audit is to identify if there were cash handling processes that were in place at the City, to test the appropriateness of those processes in mitigating errors and fraud in cash and that adequate record are kept to support transactions.
Summary of Findings
Seven recommendations were endorsed by the Executive Audit Committee. All recommendations have been implemented during the 2015/16 financial year.

For further details please refer to Confidential Attachment B.

City of Rockingham Road Database – Data Accuracy

Overview
The accuracy and integrity of the City's asset database was inspected to give an opinion on its effectiveness and accuracy. In addition the controls were interrogated to ensure that processes could detect errors and rectify them in a timely manner.

Summary of Findings
Eight recommendations were endorsed by the Executive Audit Committee. All recommendations have been implemented during the 2015/16 financial year.

For further details please refer to Confidential Attachment B.

Asset Inspection Audit – Land and Building

Overview
The objective of this audit was to review the appropriateness and effectiveness of capturing land, building and fixed assets within the City's systems and that there is sufficient evidence to support the asset register.

Summary of Findings
Six recommendations were endorsed by the Executive Audit Committee and five out of the six recommendations have been implemented. The outstanding recommendation is currently being implemented.

For further details please refer to Confidential Attachment B.

Asset Inspection Audit – Plant and Machinery

Overview
This audit examined if plant and equipment owned by the City as of January 2016 has been appropriately identified, recorded, valued, and safeguarded. The processes of counting and disposal of inventory were also examined.

Summary of Findings
Five actions were endorsed by the Executive Audit Committee and all items have been implemented during the 2015/16 financial year.

For further details please refer to Confidential Attachment B.

City of Rockingham Staff Qualification, Licenses and Membership

Overview
This audit has been designed to examine and verify that the employees of the City have the necessary qualifications, licences and memberships required for their job positions.

Summary of Findings
Four actions were identified and endorsed by the Executive Audit Committee. All actions have been completed in the 2015/16 financial year.

For further details please refer to Confidential Attachment B.
Contract Licences

Overview
The purpose of this audit is to examine and verify that the contractors of the City have the necessary licences, registrations and qualifications required by law and industry relating to the work they are contracted for.

Summary of Findings
One action was identified and endorsed by the Executive Audit Committee and was completed during the 2015/16 financial year.

For further details please refer to Confidential Attachment B.

City of Rockingham Authorised Officers

Overview
A review of Authorised Officers (through a statutory mechanism) was conducted to examine the compliance of the authorisation mechanism, basically ensuring that officers were authorised officers in accordance with the relevant act or regulation.

Summary of Findings
Seven actions were identified and those actions were endorsed by the Executive Audit Committee.

All actions were implemented during the 2015/16 financial year.

For further details please refer to Confidential Attachment B.

Bookings at Mary Davis Liability and Community Centre

Overview
The purpose of this audit is to review and assess that the process for bookings at MDLCC are working as intended. This audit has been designed to check that the relevant requirements to approve a booking are obtained and verified prior to the actual of use the City’s facilities.

Summary of Findings
One item was identified and was fixed during the 2015/16 financial year.

For further details please refer to Confidential Attachment B.

<table>
<thead>
<tr>
<th>Implications to Consider</th>
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</thead>
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<tr>
<td>a. Consultation with the Community</td>
</tr>
<tr>
<td>Not Applicable</td>
</tr>
<tr>
<td>b. Consultation with Government Agencies</td>
</tr>
<tr>
<td>Not Applicable</td>
</tr>
<tr>
<td>c. Strategic</td>
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<td>This item addresses the Community’s Vision for the future and specifically the following Aspiration and Strategic Objective(s) contained in the Community Plan 2015-2025:</td>
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<tr>
<td>Aspiration C: Quality leadership</td>
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<td>Strategic Objective: Governance – Governance systems that enable Council to make informed and considered decisions, effectively supported by an executive informing and implementing those decisions; all within an accountable, legally compliant, transparent and ethical environment.</td>
</tr>
</tbody>
</table>
d. Policy
   Not Applicable

e. Financial
   Not Applicable

f. Legal and Statutory
   Not Applicable

g. Risk
   All Council decisions are subject to risk assessment according to the City’s Risk Framework.
   Implications and comment will only be provided for the following assessed risks.
   Customer Service / Project management / Environment: High and Extreme Risks
   Finance / Personal Health and Safety: Medium, High and Extreme Risks
   Nil

Comments

For the 2015/2016 financial year, the completed audits have not identified:
(1) Any ongoing significant risks exposing the City
(2) Any fraud or misappropriation

Progress of endorsed Internal Audit Response Plans has been monitored and tracked. At this stage response plans have been actioned satisfactorily by the responsible director.

Voting Requirements

Simple Majority

Officer Recommendation

That Council ACKNOWLEDGES the outcomes of the completed internal audits for the 2015/2016 financial year.

Committee Recommendation

Moved Cr Hamblin, seconded Cr Elliott:
That Council ACKNOWLEDGES the outcomes of the completed internal audits for the 2015/2016 financial year.

Committee Voting – 3/0

The Committee’s Reason for Varying the Officer’s Recommendation

Not Applicable

Implications of the Changes to the Officer’s Recommendation

Not Applicable
Audit Committee

File No: FLM/16-02
Proponent/s: Mrs Vanisha Govender, Manager Financial Services
Author: Mrs Antonietta Federico, Coordinator Financial Services
Other Contributors:
Date of Committee Meeting: 25 October 2016
Previously before Council:
Disclosure of Interest:
Nature of Council’s Role in this Matter:

Site:
Lot Area:
Maps/Diagrams:

Purpose of Report
To present to council the Audited Financial Report and Management Report for the year ended 30 June 2016.

Background
Council is required to accept the Audited Financial Report which will be included as part of the Annual Report.

Council’s Auditors have now completed the audit and have provided their Independent Auditor’s Report and Management Report.

Details
The Annual Financial Report indicated the City has net assets to a value of $1,478 billion. Some of the other key indicators for the 2015/2016 financial year are:

- Total rate revenue for the year was $74.1 million
- Total operating revenue for the year was $144.1 million
- The closing surplus for the year was $39.1 million
- Outstanding borrowings as at 30 June 2016 was $16.6 million.
Implications to Consider

a. Consultation with the Community
   Nil

b. Consultation with Government Agencies
   Nil

c. Strategic
   Community Plan
   This item addresses the Community’s Vision for the future and specifically the following Aspiration and Strategic Objective(s) contained in the Community Plan 2015-2025:

   **Aspiration C:** Quality Leadership

   **Strategic Objective:** Governance – Governance systems that enable Council to make informed and considered decisions, effectively supported by an executive informing and implementing those decisions; all within an accountable, legally compliant, transparent and ethical environment.


d. Policy
   The Annual Financial Statements is prepared in accordance with the Australian Accounting Standards and complies with Council’s Significant Accounting Policy which provides requirements on how transactions are performed or treated in an accounting context.

e. Financial
   The closing position reported in the Rate Setting Statement for the year ended 30 June 2016 is a surplus of $39.1 million. Included in the closing position is $30.1 million for carried forward funds from the previous financial year due to works in progress. Examples of this include the Rhonda Scarrot and Laurie Stanford Reserve upgrades.

   The major financial change in the Annual Financial Report for the past three financial years related to the mandatory requirement to revalue non-current assets. Effective from 1 July 2012, the Local Government (Financial Management) Regulations 1996 were amended and the measurement of non-current assets at fair value became mandatory. The amendments allow for a phasing in of fair value in relation to various classes of fixed assets every three years.

   The first cycle of revaluations was completed at the end of 2014/2015 financial year. This financial year the City has commenced with a new cycle of revaluations and has performed the fair value exercise for plant, furniture and equipment. The revaluation exercise resulted in an increase of $772,099 to the asset revaluation reserve account (non-cash), an increase of $1,667,365 to the income statement (non-cash) and a retrospective increase to the relevant infrastructure asset accounts.

   There has been no other significant change to the Australian Accounting Standards that has impacted the City’s financial statements.

f. Legal and Statutory
   Section 6.4(1) and 6.4(2) of the Local Government Act 1995 (LGA) requires a Local Government to prepare an annual financial report for the preceding financial year which is to be presented in the manner and form prescribed.

   Section 6.4(3) of the LGA requires the Local Government to submit to its auditor the accounts balanced up to the last day of the preceding financial year and to submit the annual financial report by 30 September.

   Section 5.53(2)(f) and 5.53(2)(h) of the LGA requires the Local Government to prepare an annual report that includes the financial report and auditor’s report for the financial year.

   Section 5.54 of the LGA requires the local government to accept the annual report for a financial year by no later than 31 December after that financial year, unless the auditor’s report is not available in time, then it is to be accepted no later than two months after the auditor’s report becomes available.
Section 7.9(1) of the LGA requires an audit to be conducted to examine the accounts and annual financial report submitted for audit and to prepare a report thereon which is required to be forwarded to the Mayor, Chief Executive Officer and the Minister for Local Government.

Section 7.9(2) of the LGA requires the auditor to report on any error or deficiency in any accounts, misapplication of funds or any matters that needs to be addressed by the local government.

Regulation 51(2) of the Local Government Financial Management Regulation 1996 requires Local government to submit a copy of the annual financial report to the Department within 30 days of Local Government receiving the auditor’s opinion on the financial position and the results of the operations of the local government.

Regulation 10(1) of the Local Government (Audit) Regulations 1996 requires the auditors to submit an audit report to the persons specified in section 7.9(1) of the LGA within 30 days of completing the audit.

Regulation 10(2) and 10(3) of the Local Government (Audit) Regulations 1996 provides full details about what the auditor’s report is required to report on. The report is to include any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices. It must also report on any matters indicating non-compliance with Part 6 of the LGA and Local Government (Financial Management) Regulations 1996 or applicable financial controls in any other written law.

Regulation 10(4) of the Local Government (Audit) Regulations 1996, considers where appropriate the auditor is to prepare a management report to accompany the auditor’s report and to forward a copy of the management report to the persons specified in section 7.9(1) of the LGA with the auditor’s report.

All statutory requirements related to the Annual Financial Report 2015/2016 have been met.

g. Risk

All Council decisions are subject to risk assessment according to the City’s Risk Framework.

Implications and comment will only be provided for the following assessed risks.

Customer Service / Project management / Environment : High and Extreme Risks
Finance / Personal Health and Safety : Medium, High and Extreme Risks

Nil

Comments

The Auditor’s Management Report as provided indicates that no deficiencies were identified for the 2015/2016 financial year.

The Audited Financial Report includes financial information relating to Bert England Lodge, which is operated on behalf of the City of Rockingham, under a Management Agreement, by Southern Cross Care (WA) Inc. These figures have been incorporated into the Financial Report and are disclosed in Note 35.

Staff are satisfied with the financial year outcome and believe the report demonstrates the City is in a sound financial position.

Voting Requirements

Simple Majority

Officer Recommendation

That Council:

Committee Recommendation

Moved Cr Elliott, seconded Cr Hamblin:

That Council:


Committee Voting – 3/0

The Committee's Reason for Varying the Officer's Recommendation

Not Applicable

Implications of the Changes to the Officer's Recommendation

Not Applicable
<table>
<thead>
<tr>
<th></th>
<th><strong>Other Business</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td><strong>Date and Time of Next Meeting</strong></td>
</tr>
<tr>
<td></td>
<td>The next Audit Committee Meeting will be held on a date to be advised.</td>
</tr>
<tr>
<td></td>
<td><strong>Closure</strong></td>
</tr>
<tr>
<td></td>
<td>There being no further business, the Chairperson thanked those persons present for attending the Audit Committee meeting, and declared the meeting closed at 3:45pm.</td>
</tr>
</tbody>
</table>