MINUTES
Audit Committee Meeting
Held on Tuesday 28 November 2017 at 4:30pm
City of Rockingham Committee Room
## City of Rockingham
### Audit Committee Meeting Minutes
4:30pm Tuesday 28 November 2017

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<td>4</td>
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<td>13</td>
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<td>13</td>
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</tbody>
</table>
1. **Declaration of Opening**

The Chairperson declared the Audit Committee Meeting open at **4:30pm**, welcomed all present, and delivered the Acknowledgement of Country.

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

2.1 **Councillors**

| Cr Barry Sammels (Mayor)   | Chairperson |
| Cr Chris Elliott           | (from 4:58pm) |
| Cr Deb Hamblin (Deputy Mayor) |             |

2.2 **Executive**

| Mr Andrew Hammond          | Chief Executive Officer |
| Mr Peter Doherty           | Director Legal Services and General Counsel |
| Mr Peter Varris            | Manager Governance and Councillor Support |
| Mr Rafal Kolodynski        | Manager Internal Audit |
| Mr James Serrano           | Internal Audit Assistant |

2.3 **In Attendance:** Nil

2.4 **Apologies:** Cr Leigh Liley

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 Sammels:

That Committee **CONFIRMS** the Minutes of the Audit Committee Meeting held on 31 October 2017, as a true and accurate record.

Committee Voting – 2/0

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

Nil

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

4:31pm The Chairperson asked if there were any interests to declare. There were none.

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

Nil
8. Agenda Items

Audit Committee

Audit Committee

Reference No & Subject: AC-003/17 The City of Rockingham Internal Control Audit Results

File No: CPM/109

Proponent/s: Mr Rafal Kolodynski, Manager Internal Audit

Author: Mr James Serrano, Internal Audit Assistant

Other Contributors: 28 November 2017

Date of Committee Meeting: 28 November 2017

Previously before Council: Executive

Disclosure of Interest: "Nature of Council’s Role in this Matter:"

Site: Confidential Attachment A – The City of Rockingham FY16/17 Internal Controls Audit Results

Lot Area:

Attachments:

Maps/Diagrams:

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 2016/17 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 2016/17 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 2016/17

<table>
<thead>
<tr>
<th>Main Processes</th>
<th>Key Controls in Scope 2016/17</th>
<th>As a percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Community Development</td>
<td>5</td>
<td>3%</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>21</td>
<td>10%</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>14%</td>
</tr>
<tr>
<td>7 Inventory</td>
<td>12</td>
<td>6%</td>
</tr>
<tr>
<td>8 Information Systems and Information Technology</td>
<td>12</td>
<td>6%</td>
</tr>
<tr>
<td>9 Legislative / Regulatory</td>
<td>12</td>
<td>6%</td>
</tr>
<tr>
<td>10 Planning &amp; Development</td>
<td>19</td>
<td>10%</td>
</tr>
<tr>
<td>11 Purchases &amp; Payables</td>
<td>47</td>
<td>23%</td>
</tr>
<tr>
<td>12 Revenues &amp; Receivables</td>
<td>28</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>201</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Control Effectiveness 2017

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 2017](image)

Engineering finalised a significant organisational restructure in the 2016/17 Financial Year. As a result the testing scope was reduced to minimise further interference to the division. Internal Audit will be identifying controls to test within the Engineering Department for the financial year 2017/18.

Information Technology and Business Systems controls were not tested by Internal Audit for the financial year 2016/17. A standalone audit will be scoped and completed in the 2017/18 year to assess control design and effectiveness.

Control Self-Assessment Testing 2017

For the 2016/17 Financial Year Internal Audit introduced Control Self-Assessment for the first time at the City.

What is control self-assessment?

It is an approach where attestations are made by the Director and senior staff who are responsible for a specific control that requires testing. The attestation is a confirmation that the control in question has worked as intended over the financial year being tested.

Benefits to the City

Using Control Self-Assessment has benefits to the City as it allows previously assessed strong controls to be assessed by their own department. This fosters an improved awareness of controls and accountabilities within the department as the responsible officers will need to confirm that the control is still operating as intended. It also reduces the impact and disruption to the department by substituting substantive testing with an attestation.
Limitations

This approach has certain limitations. Control self-assessment can only be done once every 2 years for any given control. This is because it only provides a certain level of assurance as to whether the controls are working as intended. For this year, we will be conducting Control Self-Assessment on certain controls. For the next year, these controls will be tested by Internal Audit.

What is the process?

The process for control self-assessment composes of identifying the controls that were assessed as working well in the past. The selected controls will then be assessed on the following criteria:

1. Has the control being assessed changed during the tested financial year
2. Were any new controls introduced for the process during the tested financial year
3. Was there a change of any key employees involved in the assessed process

In addition to these questions the Director is asked if they would still like Internal Audit to test the control. If the relevant Director is comfortable with the control, they sign the assessment document and the control is automatically assessed as working as intended within the current testing cycle.

Below are the results of the City’s Self Controls Assessment for the 2016/2017 Financial Year.

Control Self-Assessment 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Control Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Engineering &amp; Parks</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Finance</td>
<td>Ineffective</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Inventory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>IS &amp; IT</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Legal</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Planning &amp; Development</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Payables</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Revenues &amp; Receivables</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

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

Ar. 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 Committee ACKNOWLEDGES the results of the Internal Controls tested for the 2016/17 financial year.

Committee Recommendation
That Committee ACKNOWLEDGES the results of the Internal Controls tested for the 2016/17 financial year.

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

Reference No & Subject: AC-004/17 Summary of Completed Internal Audits for the 2016/2017 Financial Year

File No: CPM/109

Proponent/s: Mr Rafal Kolodynski, Manager Internal Audit

Author: Mr Rafal Kolodynski, Manager Internal Audit

Other Contributors: Mr Rafal Kolodynski, Manager Internal Audit

Date of Committee Meeting: 28 November 2017

Previously before Council: 

Disclosure of Interest:

Nature of Council’s Role in this Matter: Executive

Site:

Lot Area:

Attachments: Confidential Attachment B – Summary of Completed Internal Audits for the Financial Year 2016/2017

Maps/Diagrams:

Purpose of Report

The purpose of this report is to communicate the completed internal audits for the financial year 2016/17.

Background

The completed audits for the financial year 2016/17 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 2016/17 financial year. As a result of the audits a total of 47 recommendations were endorsed by the Executive Audit Committee. 21 actions have been implemented during the 2016/17 financial year. The remaining 26 actions are still being implemented and the progress is being monitored by both the Internal Audit team and the Executive Audit Committee.

Details

Authority Segregation of Duties

Overview

Internal Controls testing for the financial year 2015/16 identified some gaps relating to Segregation of Duties. As a result, a full scope audit was scoped to examine whether segregation of duties within the City are effectively designed and implemented. This audit focused on the finance team at the City.
Summary of Findings
Four actions were endorsed by the Executive Audit Committee. One action has been closed at the time of writing this report and three actions remain open.

For further details please refer to Confidential Attachment B.

City Fuel Audit
Overview
This Audit focuses on the purchase and stock control of bulk fuel (both diesel and unleaded) at the City of Rockingham.

Summary of Findings
Thirteen actions were endorsed by the Executive Audit Committee. All items are open at this stage.

For further details please refer to Confidential Attachment B.

Community Grants Policy Compliance
Overview
The purpose of this audit report is to review the City of Rockingham’s payments in relation to grants paid out to the public and the compliance of those payments with the relevant policies and procedures.

Summary of Findings
Five actions were endorsed by the Executive Audit Committee. All items have been closed.

For further details please refer to Confidential Attachment B.

Procurement Procedure Compliance
Overview
The purpose of this audit is to ascertain if City staff are complying with the City’s Procurement Policies and Procedures.

Summary of Findings
Five actions were endorsed by the Executive Audit Committee, four items have been closed, and one item remains open.

For further details please refer to Confidential Attachment B.

Rockingham Smart Watch – KPI Review
Overview
This audit was designed to test the Smart Watch functions performance against Key Performance Indicators a year after its formation

Summary of Findings
Six items were endorsed by the Executive Audit Committee. All items have been successfully closed.

For further details please refer to Confidential Attachment B.

Risk Management Audit
Overview
The Executive Policy – Risk Management states that:

The Internal Auditor shall review the effectiveness of the City’s Risk Management Framework annually and submit the findings of the review and associated recommendations to the Executive Audit Committee.
Summary of Findings
Two findings were endorsed by the Executive Audit Committee. One item remains open at this stage.

For further details please refer to Confidential Attachment B.

Salaries and Wages Payments Audit

Overview
This audit was designed to test the accuracy of salary and wages payment to employees with non-standard working hours. The audit reviewed the effectiveness of processes and procedures in place to prevent and identify overpayments of salary and wages.
This audit also looked at the existence of ghost employees. This involved looking at whether there are non-bona fide employees that were included in the system and processed for salary and wages payment.

Summary of Findings
Four items were endorsed by the Executive Audit Committee. All items have been successfully closed.

For further details please refer to Confidential Attachment B.

City of Rockingham Overhead Allocations

Overview
This review focused on the methodology of identifying costs that relate to Public Work Overheads and the methodology of applying those costs to specific activities.

Summary of Findings
Eight items were endorsed by the Executive Audit Committee. All Items are open at this stage.

For further details please refer to Confidential Attachment B.

Implications to Consider

<table>
<thead>
<tr>
<th></th>
<th>Consultation with the Community</th>
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<tbody>
<tr>
<td>a.</td>
<td>Not Applicable</td>
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<thead>
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<th>Consultation with Government Agencies</th>
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<td>b.</td>
<td>Not Applicable</td>
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<tr>
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<th>Strategic</th>
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<tbody>
<tr>
<td>c.</td>
<td>Community Plan</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>d.</th>
<th>Policy</th>
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<tr>
<td></td>
<td>Not Applicable</td>
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<thead>
<tr>
<th>e.</th>
<th>Financial</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>
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 2016/2017 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 Committee ACKNOWLEDGES the outcomes of the completed internal audits for the
2016/2017 financial year.

Committee Recommendation

That Committee ACKNOWLEDGES the outcomes of the completed internal audits for the
2016/2017 financial year.

Carried

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>Other Business</th>
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<tbody>
<tr>
<td></td>
<td>Nil</td>
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<thead>
<tr>
<th>10.</th>
<th>Date and Time of Next Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The next Audit Committee Meeting will be held on a <strong>date to be advised</strong>.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>11.</th>
<th>Closure</th>
</tr>
</thead>
<tbody>
<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 <strong>5:15pm</strong>.</td>
</tr>
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