MINUTES
Audit Committee Meeting
Held on Tuesday 6 October 2015 at 4:00pm
City of Rockingham Boardroom
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1. **Declaration of Opening**

The Chairperson declared the Audit Committee Meeting open at **4:00pm**, 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)
   - Cr Chris Elliott
   - Cr Ron Pease JP
   - Cr Deb Hamblin

   2.2 **Executive**
   - Mr Andrew Hammond (Chief Executive Officer)
   - Mr Michael Yakas (A/Manager Corporate Services)
   - Mr Peter Varris (Manager Governance and Councillor Support)
   - Mr Rafal Kolodynski (Internal Auditor)
   - Mr James Serrano (Internal Audit Assistant)

   2.3 **In Attendance:** Nil

   2.4 **Apologies:**
   - Mr John Pearson (Director Corporate Services)
   - Mr John Woodhouse (Director Legal Services and General Counsel)

   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 **CONFIRM** the Minutes of the Audit Committee Meeting held on 17 February 2015, as a true and accurate record.

   Committee Voting – 4/0

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

   Nil

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

   **4:02pm** The Chairperson asked if there were any interests to declare.
   There were none.

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

   Nil
8. **Agenda Items**

**Audit Committee**

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<table>
<thead>
<tr>
<th>Reference No &amp; Subject:</th>
<th>AC-002/15 External Audit Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>File No:</td>
<td>CPM/135</td>
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<tr>
<td>Risk Register No:</td>
<td></td>
</tr>
<tr>
<td>Proponent/s:</td>
<td>Mr Rafal Kolodynski, Internal Auditor</td>
</tr>
<tr>
<td>Author:</td>
<td></td>
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<td>Other Contributors:</td>
<td></td>
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<td>Date of Committee Meeting:</td>
<td>Tuesday 6 October 2015</td>
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<tr>
<td>Previously before Council:</td>
<td></td>
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<tr>
<td>Disclosure of Interest:</td>
<td>Executive</td>
</tr>
<tr>
<td>Nature of Council’s Role in this Matter:</td>
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</tbody>
</table>

**Purpose of Report**

The purpose of this report is to update the Committee on the progress of the external audit that is being conducted by Grant Thornton Pty Ltd.

**Background**

The City is required by Local Government Act 1995 section 7.2 that the accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.

**Details**

The auditors have commenced their work on Monday 14 September 2015. The anticipated date for the completion of the audit at this stage is about Tuesday 20 October 2015.

**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**  
$36,500.00

f. **Legal and Statutory**  
Local Government Act 1995 section 7.2 which states:  
The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.

g. **Risk**  
Not Applicable

### Comments

The results of the audit will be communicated to the committee in accordance with the Local Government (Audit) Regulations 1996 regulation 10 when the audit is finished. An additional Audit Committee will be scheduled to present the report.

### Voting Requirements

Simple Majority

### Officer Recommendation

That Committee **ACKNOWLEDGE** the External Audit Progress report.

### Audit Committee Recommendation

**Moved Cr Hamblin, seconded Cr Pease:**  
That Committee **ACKNOWLEDGE** the External Audit Progress report.  

Committee Voting – 4/0
The purpose of this report is to communicate the way in which Internal Audit has been established at the City of Rockingham.

**Background**

The 2014/2015 financial year saw the Chief Executive Officer implement the new Internal Audit function at the City of Rockingham.

Internal audit is a dynamic function involved in helping the City achieve its objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes in an organisation. Internal Audit provides services independently from the operational environment there by providing an independent level of assurance to the City.

Internal auditors are often confused with external auditors; however, there are significant differences between the professions. External auditors focus on the accuracy of the annual report and financial statements whereas the internal auditor has a wide reaching brief which considers anything which might be important to an organisation’s success.

**Details**

The Internal Audit function at the City of Rockingham consists of;

1. The Executive Audit Committee which is comprised of:
   - Chief Executive Officer - Mr Andrew Hammond
2. The Internal Audit team which comprises of:
   - Internal Auditor – Mr Rafał Kolodynski
   - Internal Audit Assistant – Mr James Serrano

The Audit function works within the requirements set out in the following Executive Policies:
1. Internal Audit – Roles and Responsibilities for Executive Audit Committee
2. Internal Audit – Request for Information
3. Internal Audit – Reporting and Finalisation of Internal Audit Response Plans

The Primary function of the Executive Audit Committee is to:
1. Oversee the production, review and adopt the Internal Audit Plan;
2. Provide the Internal Audit Team with direction and advice on strategic and operational organisational matters;
3. Monitor the effectiveness of the City’s internal audit effort;
4. Consider any requests for an unplanned and unscheduled audit; and
5. Oversee communication between the Internal Audit Team, and the Council Audit Committee.

The Primary function of the Internal Audit team is to:
1. Design and conduct internal controls testing to satisfy Local Government (Audit) Regulations 1996 r.17
2. Present and maintain the Audit Plan that scheduled the Internal Audits for the coming three years for endorsement to the Executive Audit Committee.
3. Propose any potential audits to the Executive Audit Committee for consideration.
4. Undertake internal audits across all identified areas of operation within the City including but not limited to:
   - Organisational compliance with Council and Executive Policies
   - Legislative Compliance with a particular focus upon the Local Government Act 1995 and subsidiary legislation
   - Risk Management
   - Financial systems
5. Submit details, outcomes and recommendations arising from all internal audit activities to the Executive Audit Committee in a timely and effective manner.
6. Communicate to the Executive Audit Committee any significant unidentified risks that have been recognised in the course of the work conducted by the Internal Auditor.
7. The Internal Auditor also project manages the annual external financial audit in consultation with the Director of Corporate Services and finally, to convene and provide executive support to the Executive Audit Committee.
An illustration of the City of Rockingham internal audit process is shown below:

**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**

   Internal Audit is an operational function and therefore not subject to Council Policy. There are a number of Executive Policies that embed the function within the organisation.

e. **Financial**
   
   Not Applicable

f. **Legal and Statutory**

   Local Government (Audit) Regulations 1996 r.17 which states:

   17. CEO to review certain systems and procedures

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

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

(2) The review may relate to any or all of the matters referred to in subregulation (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.

g. Risk
Not Applicable

Comments
The design of the Internal Audit function satisfies both Internal Audit best practice and the requirements of the Local Government Act 1995 and any subsidiary regulations.

It has taken some time to define roles and responsibilities of internal audit and develop it into an effective function that provides an independent assessment of the City’s key processes and activities. A significant effort has been invested by the Executive Audit Committee and Internal Audit team to provide an effective Audit function for the City of Rockingham.

Internal Audit has identified areas of improvement at the City and has monitored the implementation of those improvements.

Voting Requirements
Simple Majority

Officer Recommendation
That Committee ACKNOWLEDGE the Internal Audit structure implemented by the City.

Audit Committee Recommendation
Moved Cr Pease, seconded Cr Elliott:
That Committee ACKNOWLEDGE the Internal Audit structure implemented by the City.

Committee Voting – 4/0
### Audit Committee

**Reference No & Subject:** AC-004/15 The City of Rockingham Internal Control Audit Results

**File No:** CPM/135

**Author:** Mr Rafal Kolodynski, Internal Auditor

**Date of Committee Meeting:** Tuesday 6 October 2015

**Previously before Council:**

**Disclosure of Interest:**

**Nature of Council’s Role in this Matter:** Executive

**Site:**

**Lot Area:**

**Attachments:** Confidential Attachment – The City of Rockingham Internal Controls Audit Results

**Maps/Diagrams:**

### Purpose of Report

The purpose of this report is to outline the methodology and scope of the testing carried out by the Internal Audit team to comply with the requirements set out in the Local Government (Audit) Regulations 1996, namely regulation 17.

### 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; and  
(b) Internal control; and  
(c) Legislative compliance.

### Details

Internal controls in the context of auditing are typically defined as a process for assuring the achievement of the organisation’s objectives in:

(a) operational effectiveness and efficiency;  
(b) reliable financial reporting, and;  
(c) compliance with laws, regulations and policies.
As the definition of internal controls encompasses legislative compliance, the scope of the City of Rockingham Internal Controls Framework has included testing for legislative compliance. Internal audit provides an independent, methodical approach to obtaining comfort that tested processes are operating effectively and efficiently.

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 2014/2015 financial year.

The scope was developed with the input of the Directors of each directorate and based on how critical each process is for the effective control of activities within the City.

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

<table>
<thead>
<tr>
<th>Main Processes</th>
<th>Key Controls in Scope 2014/15</th>
<th>As a percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Community Development</td>
<td>6</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>17</td>
<td>9%</td>
</tr>
<tr>
<td>5 Fixed Assets</td>
<td>7</td>
<td>4%</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 IS &amp; IT</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>25</td>
<td>13%</td>
</tr>
<tr>
<td>11 Purchases &amp; Payables</td>
<td>42</td>
<td>22%</td>
</tr>
<tr>
<td>12 Revenues &amp; Receivables</td>
<td>23</td>
<td>12%</td>
</tr>
<tr>
<td></td>
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<td>194</td>
</tr>
</tbody>
</table>

For the specific outcomes of the audit please refer to the Confidential Attachment.
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 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 subregulation (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.

g. Risk
   Not Applicable

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 performances of the City’s controls have 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. However, two controls that are considered as strategic in nature:

(1) Segregation of duties
(2) Record keeping across the City
Further focus will be placed on cost management at the City with the identification of cost management controls at the team / department level. These tests will be added to the 2015/2016 financial year scope for internal control testing.

**Voting Requirements**

Simple Majority

**Officer Recommendation**

That Council **ACKNOWLEDGE** the Internal Controls Framework implemented by the City.

**Audit Committee Recommendation**

Moved Cr Hamblin, seconded Cr Elliott:

That Council **ACKNOWLEDGE** the Internal Controls Framework implemented by the City.

Committee Voting – 4/0
Purpose of Report

The purpose of this report is to communicate the completed internal audits for the financial year 2014/2015.

Background

The completed audits for the financial year 2014/2015 have been designed to provide feedback to management on effectiveness of specific operations at the City. The scope of the completed audits was designed to ensure that appropriate processes are followed, that legal obligations are satisfied and controls are designed to prevent and detect errors, fraud and misappropriation.

Details

Autumn Centre Cash Audit

This Audit is to review the efficiency and effectiveness of the cash handling procedures of Autumn Centre on its different sources of income, considering the following processes:

1. Cash Reconciliation
2. Security Procedures
3. Cash up process
4. Banking Process
Large Contracts Review
This Audit is to review a sample of contracts that have been paid 2 million dollars or more over the last five years (2010/11, 2011/12, 2012/13, 2013/14, 2014/15).

This review is designed to look at the following points:

1. Review tender process and ensure documented compliance with legislation and procedure.
2. Review the City’s process of entering into agreements and establish the appropriateness of the Policy, Procedure or Process.
3. Review due diligence process, considering:
   - Licences
   - Approvals
   - Insurance
   - Going Concern
   - Any other applicable requirements based on the work to be performed.
4. Establish if the appropriateness of the relevant officer(s) responsible for the management of the contract are aware of the Scope of Works / Specification.
5. Identify and review variations or increase to contract scope.

Internal Audit for Baldivis Quarrying Operations
The objectives for the Internal Audit of Baldivis Quarrying Operations:

1. Establish if the agreement complies with relevant legislation in terms of its establishment and is it executed in line with the delegation of authority?
2. Establish if the relevant officer(s) responsible for the management of the contract are aware of the scope of the agreement?
3. Review if the contract clauses in relation to performance are monitored and adhered with?
4. Review income generated is in line with the definitions of the agreement?
5. Review if any variations or additional costs exist, ensuring they are appropriate and justifiable?

Purchase Order Process Review
The objective of this audit is to ascertain the following:

1. Is the delegation to Purchase compliant with Section 5.44(2) of the Local Government Act 1995?
2. Is the delegation consistent with the actual permissions granted within the Purchase Order Module of Authority system?
3. Are the monitoring processes in place adequate to maintain an accurate record of current Purchase Order delegations within Authority?
4. Does the Purchase Order Module of Authority have adequate controls to prevent errors or misallocations made by users?

Risk Management Audit
The objective of this audit is to ascertain the following:

1. Does the City’s risk management system identify appropriate strategic risks
2. The appropriateness of the system
3. The effectiveness of the system.
4. Establish if the risk rating is appropriate to the risk.
5. Follow up if action plans are needed to be established, or if mitigating controls have been introduced.

Recommendations to the above audits are shown in the Confidential Attachment.

### 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**  
   Not Applicable

g. **Risk**  
   Not Applicable

### Comments

For the 2014/2015 financial year the completed audits have not identified:

1. Any ongoing significant risks exposing the City
2. Have not identified 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 **ACKNOWLEDGE** the outcomes of the completed internal audits for the 2014/2015 financial year.

### Audit Committee Recommendation

Moved Cr Elliott, seconded Cr Pease:  
That Committee **ACKNOWLEDGE** the outcomes of the completed internal audits for the 2014/2015 financial year.
Audit Committee Meeting Agenda
Tuesday 6 October 2015
AC-006/15

<table>
<thead>
<tr>
<th>Reference No &amp; Subject:</th>
<th>Internal Audit Plan (Financial Years 2015/2016 to 2017/2018)</th>
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<tbody>
<tr>
<td>File No:</td>
<td>CPM/135</td>
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<td>Executive</td>
</tr>
<tr>
<td>Nature of Council’s Role in this Matter:</td>
<td></td>
</tr>
</tbody>
</table>

Site:
Lot Area:
Attachments: Confidential Attachment – Approved Three Year Internal Audit Plan 2015/2016 to 2017/2018
Maps/Diagrams:

Purpose of Report
The purpose of this report is to communicate the Internal Audit Plan for the financial years 2015/2016 to 2017/2018.

Background
As part of the Internal Audit Function a three year internal Audit Plan has been developed and endorsed by the Executive Audit Committee.

Details
The Executive Audit Committee has approved a three year audit plan with focus on the 2015/2016 financial year. Please refer to Confidential Attachment – Approved Three Year Internal Audit Plan 2015/2016 to 2017/2018.

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**  
Not Applicable

g. **Risk**  
Not Applicable

### Comments

The Internal Audit Plan has been designed to give a broad testing scope in terms of subject matter. As a result the plan is intended to give management a solid overview of how specific functions are operating at the City.

### Voting Requirements

Simple Majority

### Officer Recommendation

That Committee **ACKNOWLEDGE** the Audit Plan for 2015/2016 to 2017/2018 implemented by the City.

### Audit Committee Recommendation

Moved Cr Elliott, seconded Cr Hamblin:  
That Committee **ACKNOWLEDGE** the Audit Plan for 2015/2016 to 2017/2018 implemented by the City.

Committee Voting – 4/0
9. **Other Business**

   Nil

10. **Date and Time of Next Meeting**

    The next Audit Committee Meeting will be held on a **date to be advised** *(Tuesday 27 October 2015).*

11. **Closure**

    The Chief Executive Officer thanked Rafal Kolodynski and James Serrano for their efforts. There being no further business, the Chairperson thanked those persons present for attending the Audit Committee meeting, and declared the meeting closed at **4:20pm**.