



## **AUDIT AND ORGANISATIONAL RISK COMMITTEE MEETING**

# **MINUTES**

**The Audit and Organisational Risk Committee Meeting  
was held in Council Chambers,  
Welcome Road, Karratha,  
on Tuesday, 23 August 2016**

A handwritten signature in black ink, appearing to read 'Chris Adams', is positioned above a horizontal line.

**CHRIS ADAMS  
CHIEF EXECUTIVE OFFICER**



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The City of Karratha warns that anyone who has any application lodged with the City of Karratha must obtain and should only rely on

#### **WRITTEN CONFIRMATION**

of the outcome of the application, and any conditions attaching to the decision made by the City of Karratha in respect of the application.

Signed: \_\_\_\_\_

**Chris Adams - Chief Executive Officer**

## DECLARATION OF INTERESTS (NOTES FOR YOUR GUIDANCE) (updated 13 March 2000)

A member who has a **Financial Interest** in any matter to be discussed at a Council or Committee Meeting, which will be attended by the member, must disclose the nature of the interest:

- (a) In a written notice given to the Chief Executive Officer before the Meeting or;
- (b) At the Meeting, immediately before the matter is discussed.

A member, who makes a disclosure in respect to an interest, must not:

- (c) Preside at the part of the Meeting, relating to the matter or;
- (d) Participate in, or be present during any discussion or decision-making procedure relative to the matter, unless to the extent that the disclosing member is allowed to do so under Section 5.68 or Section 5.69 of the Local Government Act 1995.

## NOTES ON FINANCIAL INTEREST (FOR YOUR GUIDANCE)

The following notes are a basic guide for Councillors when they are considering whether they have a **Financial Interest** in a matter. I intend to include these notes in each agenda for the time being so that Councillors may refresh their memory.

1. A Financial Interest requiring disclosure occurs when a Council decision might advantageously or detrimentally affect the Councillor or a person closely associated with the Councillor and is capable of being measure in money terms. There are exceptions in the *Local Government Act 1995* but they should not be relied on without advice, unless the situation is very clear.
2. If a Councillor is a member of an Association (which is a Body Corporate) with not less than 10 members i.e. sporting, social, religious etc), and the Councillor is not a holder of office of profit or a guarantor, and has not leased land to or from the club, i.e., if the Councillor is an ordinary member of the Association, the Councillor has a common and not a financial interest in any matter to that Association.
3. If an interest is shared in common with a significant number of electors or ratepayers, then the obligation to disclose that interest does not arise. Each case needs to be considered.
4. If in doubt declare.
5. As stated in (b) above, if written notice disclosing the interest has not been given to the Chief Executive Officer before the meeting, then it **MUST** be given when the matter arises in the Agenda, and immediately before the matter is discussed.
6. Ordinarily the disclosing Councillor must leave the meeting room before discussion commences. The **only** exceptions are:
  - 6.1 Where the Councillor discloses the **extent** of the interest, and Council carries a motion under s.5.68(1)(b)(ii) or the Local Government Act; or
  - 6.2 Where the Minister allows the Councillor to participate under s5.69 (3) of the Local Government Act, with or without conditions.

## INTERESTS AFFECTING IMPARTIALITY

**DEFINITION:** *An interest that would give rise to a reasonable belief that the impartiality of the person having the interest would be adversely affected, but does not include an interest as referred to in Section 5.60 of the 'Act'.*

A member who has an **Interest Affecting Impartiality** in any matter to be discussed at a Council or Committee Meeting, which will be attended by the member, must disclose the nature of the interest;

- (a) in a written notice given to the Chief Executive Officer before the Meeting; or
- (b) at the Meeting, immediately before the matter is discussed.

## IMPACT OF AN IMPARTIALITY CLOSURE

There are very different outcomes resulting from disclosing an interest affecting impartiality compared to that of a financial interest. With the declaration of a financial interest, an elected member leaves the room and does not vote.

With the declaration of this new type of interest, the elected member stays in the room, participates in the debate and votes. In effect then, following disclosure of an interest affecting impartiality, the member's involvement in the Meeting continues as if no interest existed.



## TABLE OF CONTENTS

ITEM	SUBJECT	PAGE NO
1	OFFICIAL OPENING .....	5
2	RECORD OF ATTENDANCES AND APOLOGIES .....	5
3	DECLARATIONS OF INTEREST .....	5
4	CONFIRMATION OF MINUTES AND BUSINESS ARISING FROM MINUTES OF PREVIOUS MEETINGS .....	5
5	ITEMS FOR DISCUSSION .....	7
5.1	EXTERNAL AUDIT – INTERIM MANAGEMENT REPORT .....	7
5.2	INTERNAL AUDIT PROGRAM .....	11
6	ITEMS FOR INFORMATION ONLY .....	15
6.1	BUSINESS IMPROVEMENT – PROGRESS REPORT .....	17
7	CLOSURE & DATE OF NEXT MEETING .....	21



# MINUTES

## 1 OFFICIAL OPENING

The Meeting was officially opened at 3:03pm.

## 2 RECORD OF ATTENDANCES AND APOLOGIES

Committee Members: Cr Evette Smeathers (Chairperson)  
Cr Grant Cucel  
Cr Daniel Scott

Staff: Chris Adams Chief Executive Officer  
Phillip Trestrail Director Corporate Services  
Henry Eaton Manager Governance & Organisational Strategy

External:

Apologies: Cr Peter Long

Absent: Cr Fiona White-Hartig

## 3 DECLARATIONS OF INTEREST

Nil.

## 4 CONFIRMATION OF MINUTES AND BUSINESS ARISING FROM MINUTES OF PREVIOUS MEETINGS

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### OFFICER'S RECOMMENDATION / COMMITTEE RESOLUTION

Res No : AOR38  
MOVED : Cr Cucel  
SECONDED : Cr Scott

That the Minutes of the Audit and Organisational Risk Committee Meeting held on Monday, 21 March 2016, be confirmed as a true and correct record of proceedings.

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CARRIED

FOR : Cr Smeathers, Cr Cucel, Cr Scott  
AGAINST : Nil



## 5 ITEMS FOR DISCUSSION

### 5.1 EXTERNAL AUDIT – INTERIM MANAGEMENT REPORT

<b>File No:</b>	<b>FM.1</b>
<b>Responsible Executive Officer:</b>	<b>Director Corporate Services</b>
<b>Reporting Author:</b>	<b>Manager Governance &amp; Organisational Strategy</b>
<b>Date of Report:</b>	<b>19 August 2016</b>
<b>Applicant/Proponent:</b>	<b>AMD Chartered Accountants</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachment(s):</b>	<b>Interim Management Report</b>

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#### **PURPOSE**

To consider outcomes from the interim audit review conducted by the City's newly appointed external auditors AMD Chartered Accountants.

#### **BACKGROUND**

AMD Chartered Accountants has been appointed to provide external audit services commencing with the financial period ending 30 June 2016. AMD visited the City during the week of 30 May – 1 June 2016 and undertook the interim audit. This was followed up with a site visit during the week 15-18 August 2016 to commence finalising the annual financial report for 30 June 2016.

The interim management report focuses on the first visit which examined the operations of the City with particular regard to understanding internal control structures and accounting system as they relate to the City's financial reporting. The interim audit visit included testing of critical audit areas in accordance with legislative and accounting standard frameworks.

The interim review focused on revenue/receipting, purchasing and payments, payroll, reconciliation activities, fair value reporting, impairment of land and buildings, contingent liabilities and land held for re-sale.

Matters raised as a result of the interim audit include a recommendation that an external independent valuation be undertaken as part of the formal reassessment of land and buildings at fair value required for the year ending 30 June 2017. In addition, AMD has recommended a valuation assessment of land held for resale (lazy lands) to determine if an impairment write down is required and that consideration be given to reclassify land held for resale as a non-current asset.

Attached is a copy of the Interim Management Report provided by AMD Chartered Accountants including interim findings and management comments. Findings included:

1. Greater disclosure of credit card information
2. Evidenced sign off of monthly reconciliations
3. Utilisation of Municipal Bank reconciliations module within SynergySoft
4. Evidenced sign off of end of day receipting procedures
5. Purchase orders to be initiated prior to receipt of invoices
6. Written authorisations for payments and deductions within payroll

7. Three Council policies out of date and require review.

The first three findings were rated as moderate risk issues which warrant action as soon as possible. The remaining four findings were rated as minor risk issue which are not of primary concern but still warrant action. All items have been addressed with most matters now actioned or implemented. A Status Report will be provided to the next meeting of the Audit and Organisational Risk Committee regarding findings that remain outstanding.

**LEVEL OF SIGNIFICANCE**

In accordance with Council Policy CG-8 Significant Decision Making Policy, this matter is considered to be of moderate significance in terms of Council's ability to perform its role.

**COUNCILLOR/OFFICER CONSULTATION**

The Manager Financial Services/CFO and the Finance team together with the Director Corporate Services and CEO have been engaged with the auditors and kept informed of the findings and proposed actions.

**COMMUNITY CONSULTATION**

No community consultation is required.

**STATUTORY IMPLICATIONS**

Under Part 7 of the *Local Government Act 1995*, the Auditors are required to comply with their legislative obligations including approved accounting and auditing standards. There is a requirement for reports issued by the auditors to be considered by the City's Audit and Organisational Risk Committee.

**POLICY IMPLICATIONS**

There are no policy implications.

**FINANCIAL IMPLICATIONS**

There may be financial implications in connection with the interim audit recommendation regarding the use of the Synergy bank reconciliations module.

**STRATEGIC IMPLICATIONS**

This item is relevant to the Council's approved Strategic Community Plan 2012-2022 and Corporate Business Plan 2012-2016. In particular the Operational Plan 2015-2016 provided for this activity:

Our Program:	4.d.1.3	Provide transparent and accountable financial information required by the Local Government Act, Code of Accounting Practice, Australian Accounting Standards and Local Government Regulations.
Our Services:	4.d.1.3.1	Prepare the financial statements and reports to Council.

**RISK MANAGEMENT CONSIDERATIONS**

The interim and annual audits assist Council in minimising risk from a financial management perspective.

**IMPACT ON CAPACITY**

There is no impact on capacity or resourcing to carry out the Officer's recommendation.

**RELEVANT PRECEDENTS**

Interim audits are carried out each year in preparation for the end of year financial audit.

**VOTING REQUIREMENTS**

Simple Majority.

**OPTIONS:**Option 1

As per Officer's recommendation.

Option 2

That the Audit & Organisational Risk Committee by SIMPLE Majority pursuant to Part 7 of the *Local Government Act 1995* RESOLVES to DEFER this matter to the next Audit and Organisational Risk Committee meeting to enable staff to seek clarification on matters within the Report.

**CONCLUSION**

AMD Chartered Accountants has completed an interim audit of the City's financial systems and procedures in the lead up to the final audit for 30 June 2016. Three moderate risk and four minor risk findings are being actioned as a result of the interim audit.

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**OFFICER'S RECOMMENDATION / COMMITTEE RESOLUTION**

**Res No** : **AOR39**  
**MOVED** : **Cr Cucel**  
**SECONDED** : **Cr Scott**

**That the Audit & Organisational Risk Committee by SIMPLE Majority pursuant to Part 7 of the *Local Government Act 1995* RESOLVES to:**

- 1. RECEIVE the Interim Management Report or the period ending 30 June 2016; and**
- 2. REQUEST that Officers provide a status report on identified findings at the next Audit and Organisational Risk Committee.**

**CARRIED**

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**FOR** : Cr Smeathers, Cr Cucel, Cr Scott  
**AGAINST** : Nil



18 August 2016

**Cr E Smeathers**  
**Chairperson**  
**Audit Committee**  
**City of Karratha**  
**PO Box 219**  
**KARRATHA WA 6714**

Dear Evette

**CITY OF KARRATHA**  
**INTERIM MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2016**

We provide our Interim Management Letter following completion of our City of Karratha 30 June 2016 interim audit site visit conducted 30 May to 1 June 2016.

**1.0 OUR AUDIT APPROACH**

Australian Auditing Standards require us to obtain an understanding of the internal control structure and accounting system relevant to City of Karratha's financial reporting, as part of our annual audit process.

During our interim audit, we carried out audit procedures necessary for us to comply with the requirements of the auditing standards in respect to audit planning, risk assessment, assessment of fraud and assessment of the control environment.

The interim audit included preparation of our audit plan and completing our assessment of risks, in accordance with a risk based audit approach required under Australian Auditing Standards. A review of City of Karratha's compliance with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 was also completed.

We reviewed, documented and tested the critical audit areas as outlined within section 5 of our Audit Services Proposal, key accounting systems and related internal controls in place at the City of Karratha, including the following key areas:

- Revenue and receipting;
- Purchasing and payments;
- Payroll; and
- Reconciliation of key accounts and preparation of monthly financial reports - including bank reconciliations, sundry debtors and rates debtor's reconciliations, ratable value reconciliations, sundry creditor reconciliations and fixed asset reconciliations.

Please note our procedures were performed for audit purposes only, and therefore did not include a complete review of all controls and transactions. We will follow up on the status of our recommendation on our final visit later in the year to determine whether appropriate action has been taken.

This letter and the attached matters are provided for the purposes of general information only and are not part of our formal audit reporting process. Our audit and management reports will be formally issued at the conclusion of our audit in respect of the year ended 30 June 2016.

## 2.0 FAIR VALUE

As required by Local Government (Financial Management) Regulations 1996, section 17A, City of Karratha's plant and equipment and furniture and equipment assets must be reassessed at fair value by 30 June 2016. Discussions with management indicate that plant and equipment assets and furniture and equipment assets will be reassessed prior to 30 June 2016, thereby ensuring compliance with stated requirements.

Asset classes previously assessed at fair value by the City of Karratha, and the next due date for reassessment are as follows

Asset Class	Last Fair Value assessment	Fair Value Re-assessment required
Plant and equipment	30 June 2013	30 June 2016
Furniture and equipment	30 June 2013	30 June 2016
Land	30 June 2013	30 June 2017
Buildings	30 June 2013	30 June 2017
Roads	30 June 2015	30 June 2018
Aerodromes	30 June 2015	30 June 2018
Parks and Gardens	30 June 2015	30 June 2018
Hardcourt Facilities	30 June 2015	30 June 2018
Boat Ramps and Jetty's	30 June 2015	30 June 2018
Miscellaneous Structures	30 June 2015	30 June 2018
Artwork	30 June 2015	30 June 2018

## 3.0 EXIT MEETING DISCUSSIONS

The following matters were discussed at our onsite exit meeting on 1st June 2016 attended by Ray McDermott (Manager Financial Services / CFO) and Angela McDonald (Management Accountant) from City of Karratha and Rebecca Broad and Tyler Nicholls from AMD.

### 3.1 IMPAIRMENT OF LAND AND BUILDINGS

The 30 June 2015 annual financial statements included an impairment write-down on Council owned assets, primarily relating to staff housing. Discussions held with management indicate a re-assessment of impairment write-downs has been completed effective 30 June 2016 as a result of further normalisation of the housing market within the region.

We are reviewing management's reassessment to ensure it is reflective of identified impairment triggers in accordance with Australian Accounting Standards and that the impairment write-down will be correctly recorded as at 30 June 2016.

Based on our discussions with management the methodology used by the City of Karratha to determine the impairment of land and buildings has been an internal assessment based on recent sales history which has resulted in an anticipated \$7 million impairment as at 30 June 2016 based on initial calculations.

This component of our audit is based on us reviewing and assessing critical estimates and assumptions made by management in accordance with the relevant Australian Accounting Standard, our risk assessment associated with impairment as required by Australian Auditing Standards and verification of data to ensure based on the best available information.

As the proposed impairment is based on critical estimates and assumptions resulting in a material impact to the annual Financial Statement, we therefore suggest the City of Karratha consider an external independent valuation be undertaken as part of the formal reassessment of land and buildings at fair value required to be undertaken for the year ending 30 June 2017 as required by the Local Government (Financial Management) Regulations 1996, to provide further reassurance that management's internal assessment and related assumptions are in fact reasonable.

### **3.2 CONTINGENT LIABILITIES**

Discussions were held in respect to the current status of contingent liabilities previously recorded with the 30 June 2015 annual financial statements. As part of our year end audit procedures, we will obtain a solicitor representation letter in respect to these matters and any other matters being undertaken by legal counsel. Upon receipt of this solicitor representation letter, accounting treatment and disclosures will be finalised for 30 June 2016.

### **3.3 LAND HELD FOR RE-SALE**

The City of Karratha's statement of financial position at 30 June 2015 included land held for re-sale totalling \$524,251 as a current asset. Through discussions with management we understand there have been no land sales to date or any interest expressed from potential purchasers.

Land held for re-sale is required to be recorded at the lower of cost or net realisable value. As a result we recommend a valuation assessment of land held for re-sale (net of selling costs) be completed to determine whether an impairment write down is required. Furthermore we recommend reclassification of land held for resale between current and non-current asset be considered.

### **4.0 INTERIM AUDIT RECOMMENDATIONS**

As a result of internal controls being adequately designed and operating effectively throughout the period to date we have the following recommendations to raise on an exceptions basis, please refer to Appendix 1. Recommendations raised by us do not take into account materiality, and are raised in accordance with Local Government best practice guidelines.

### **5.0 INTERIM AUDIT RECOMMENDATIONS**

We would like to take this opportunity to thank Ray, Angela and the City of Karratha finance team for the assistance provided to us during our audit. We believe this result is a credit to the finance team on their diligence in maintaining internal controls to a high standard throughout the period.

Should you have any queries in respect to this report or any other matters relating to our audit, please do not hesitate to contact me.

Yours sincerely

**AMD Chartered Accountants**

**MARIA CAVALLO CA**

**Director**

cc Mr C Adams  
Chief Executive Officer  
CITY OF KARRATHA  
PO Box 219  
KARRATHA WA 6714

**APPENDIX 1**  
**Audit Recommendations for the period ended 31 May 2016**

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**GUIDANCE TO FINDINGS RATING / IMPLICATION**

*Findings identified during the final audit have been weighted in accordance with the following scale:*

*Non Compliance: Those findings where there is non compliance with Local Government Act or Regulations.*

*Significant: Those findings where there is potentially a significant risk to the entity should the finding not be addressed promptly.*

*Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.*

*Minor: Those findings that are not of primary concern however still warrant action being taken.*

**AUDIT FINDINGS**

**1. CREDIT CARD EXPENDITURE**

***Finding Rating: Moderate***

The credit card balance payable at the end of each month is paid via direct debit monthly. We note individual credit card transactions made during the month are not presented to Council as part of the monthly payments listing, rather, only the total value of the credit card direct debit is noted.

**Implication**

Ensured compliance with Regulation 13(1) of the Local Government (Financial Management) Regulations 1996 which states:

*A list of accounts paid by the Chief Executive Officer is to be prepared each month showing for each account paid since the last list was prepared:*

- 1. The payees name; and*
- 2. The amount of the payment; and*
- 3. The date of the payment; and*
- 4. Sufficient information to identify the transaction.*

**Recommendation**

Based on our credit card testing during our interim audit, we acknowledge controls relating to the operation of Council's 18 credit cards are adequately designed and operated effectively during the audit period.

However to ensure compliance with Regulation 13(1) of the Local Government (Financial Management) Regulations 1996, we recommend management list the individual purchases made on the corporate credit cards by supplier within the payment schedule presented to Council.

**Management Comment**

Reporting of list of credit card transactions by supplier to be reported to Council as part of the 'List of Payments' agenda report as of September 2016.

**APPENDIX 1**  
**Audit Recommendations for the period ended 31 May 2016**

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**2. MONTHLY RECONCILIATIONS**

***Finding Rating: Moderate***

We noted monthly key account reconciliations are not signed as evidence of being independently reviewed on a monthly basis, including the following;

1. Bank and investment reconciliations;
2. Debtor reconciliation;
3. Rates reconciliations (debtors and rateable values);
4. Creditors reconciliations; and
5. Fixed asset reconciliations.

**Implication**

Risk of material misstatement or error.

**Recommendation**

We recommend that the key balance sheet accounts (i.e. including the accounts outlined above) are regularly reconciled to the general ledger on a timely basis (i.e. monthly), being within the first week after month end.

We also recommend all key reconciliations are independently reviewed and signed off as evidence of this independent review. We suggest it may be practical for a monthly management finance review checklist to be compiled listing all the key account reconciliations and for this checklist to be the control document for preparation and independent review sign off.

**Management Comment**

Reconciliation checklists have been consolidated and updated and implemented to obtain officer signature on a monthly basis with the reconciliations to be independently reviewed by the Management Accounting team and subsequently filed as support documents for the monthly financial statements.

A quarterly presentation of reconciliations will be provided to the Director Corporate Services.

**APPENDIX 1**  
**Audit Recommendations for the period ended 31 May 2016**

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**3. MUNICIPAL BANK RECONCILIATION WITHIN SYNERGY**

***Finding Rating: Moderate***

We noted the Municipal bank reconciliations are currently manually reconciled within an excel spreadsheet as a result of the Synergy system reconciliation reporting a variance which differs from month to month (we understand this variance is due to old reconciling items which have not been correctly cleared).

**Implication**

Risk that error or fraud may not be identified in a timely basis.

**Recommendation**

Bank reconciliations are a key control and as a result to avoid manual error, we recommend the Synergy system bank reconciliation module be utilised where possible. We suggest IT vision be contacted to resolve the carried forward variances currently being reported to mitigate the current requirement for manual excel spreadsheets to be utilised.

**Management Comment**

The Bank Reconciliation has been slated for redevelopment by IT Vision commencing in mid 2017. Discussion with similar sized local governments, Greater Geraldton and Kalgoorlie Boulder, has highlighted similar issues with the IT Vision bank reconciliation requiring completion of manual bank reconciliations.

IT Vision have been requested to expedite development of the Bank Reconciliation module. In the interim council officers are liaising with IT Vision staff as to interim measures that can improve the utilisation of system functionality.

**4. END OF DAY RECEIPTING PROCEDURES**

***Finding Rating: Minor***

We noted that the end of day reconciliation (summary of daily takings) are reviewed, however during our testing we identified instances where end of day reconciliations were not signed off as evidence of this independent review.

We also noted that on occasion, the preparer of the end of day reconciliation is not always signing off on the reconciliation.

**Implication**

Increased risk of error or fraud.

**Recommendation**

The end of day reconciliations is a key control and should be reviewed by someone independent of the reconciliation function. These reconciliations should always be signed off as evidence of this independent review.

We also suggest that that the preparer of the end of day reconciliations are signed Off by the preparer.

**Management Comment**

Recommendation implemented for sign off by preparer and reviewer of receipting daily reconciliations.

**APPENDIX 1**  
**Audit Recommendations for the period ended 31 May 2016**

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**5. PURCHASE ORDERS**

***Finding Rating: Minor***

During our sample testing of the purchasing and payment procedures, we noted instances whereby purchase orders were dated subsequent to invoice dates. For example payment to Development Cartographics with purchase order dated 16 March 2016 however the date of the invoice was 1 March 2016.

**Implication**

Non compliance with standard Council purchasing policies.

**Recommendation**

Although we consider the above to be isolated instances, we recommend staff members complete purchase orders in accordance with stated policy for all purchases requiring their use. In addition, we also recommend purchase orders be correctly authorised by senior staff members prior to purchases being made.

**Management Comment**

Managers have been reminded to ensure Purchase Orders are raised prior to engagement of services in accordance with Council Policy.

It is proposed to bolster purchasing inductions/training to guide staff in complying with purchasing legislation and Council policy. Purchasing induction requirements have been incorporated into Council's risk register and are scheduled to commence in October 2016.

Purchasing delegations are reviewed annually to determine their appropriateness to maintain efficiency while ensuring compliance.

**APPENDIX 1**  
**Audit Recommendations for the period ended 31 May 2016**

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**6. PAYROLL DOCUMENTATION**

***Finding Rating: Minor***

During our review of payroll, we noted the following instances whereby payroll information was missing or not correctly authorised;

1. Instances whereby there was no authorised deduction form for salary sacrifice rent or salary sacrifice superannuation signed by the employee supporting the amount to be deducted; and
2. An instance whereby a timesheet summary was not signed by the manager/supervisor as per stated procedures.

**Implication**

Unauthorised payments and deductions within payroll.

**Recommendation**

We recommend signed deduction forms are completed by employees for any deductions and/or salary sacrifice agreements that are in place.

We also recommend all timesheet summaries are signed by the relevant manager/supervisor ensuring hours worked are correctly authorised and paid.

**Management Comment**

1. 21 files were examined as part of the interim audit which highlighted 2 instances of payroll deduction forms not being available, both were for a long term employee who has had the same deduction being rent & SS super for a number of years. All new deductions have the relevant documentation as part of current HR practices.
2. Custom and practice is to only accept timesheets that are signed by the relevant manager, HR will ensure that unsigned timesheets are returned for signature prior to processing.

**APPENDIX 1**  
**Audit Recommendations for the period ended 31 May 2016**

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**7. OUTDATED POLICIES**

***Finding Rating: Minor***

During a review of a sample of the City of Karratha's policies and procedures, the following policies appeared to not have been updated as per stated review dates. Examples of policies include:

- Use of information Technology Facilities policy – due for review in June 2014;
- Asset Management policy – due for review August 2010; and
- Employee Housing policy – due for review October 2011.

**Implication**

Non-compliance with City of Karratha's stated policy in respect to the review and update of policies and procedures.

**Recommendation**

We recommended policies and procedures are reviewed and updated as per the initial review date stated.

**Management Comment**

Use of Information Technology Facilities policy was last reviewed and updated in June 2016, the updated policy is on Council's website.

Asset management Policy – the policy displayed on Council's website at the time of the interim audit was reviewed and replaced in December 2012, the correct policy is now displayed on the website with the current policy review to be considered by Council in October 2016.

Employee Housing policy – policy to be reviewed and updated in line with Housing Service Review due 30 September 2016. New policy will then be considered by Council in November 2016.



## 5.2 INTERNAL AUDIT PROGRAM

<b>File No:</b>	<b>CM.131</b>
<b>Responsible Executive Officer:</b>	<b>Director Corporate Services</b>
<b>Reporting Author:</b>	<b>Manager Governance &amp; Organisational Strategy</b>
<b>Date of Report:</b>	<b>16 August 2016</b>
<b>Applicant/Proponent:</b>	<b>Nil</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachment(s):</b>	<b>Nil</b>

### PURPOSE

The purpose is to consider the development of a structured Internal Audit Program.

### BACKGROUND

Probity is increasingly sitting at the forefront in local government. As noted by the Institute of Internal Auditors, 'an effective, professional internal audit activity can provide meaningful insights and assurance on all areas of risk, internal controls and governance'.

In August 2013 the City introduced an internal audit program. Two audits were undertaken, which surfaced a number of issues with the approach taken. Approximately \$10,000 was budgeted for each internal audit however only one audit firm provided quotes within budget. On both occasions the most advantageous priced contractor was engaged. Their recommendations were not considered to be reflective of the true nature of the City's systems or were not pragmatic or reasonably capable of being implemented.

Therefore to build on the existing compliance and risk management programs it is intended to use internal staff rather than external providers to implement the Internal Audit Program. The Governance Officer – Compliance will conduct internal audits that will comprise a minimum of two reviews per annum of key organisational processes and systems. The aim of the program is to assess general compliance and to consider business improvement opportunities. By using staff, flexibility is available to increase the number of internal audits should the need arise to examine a particular activity not otherwise programmed.

The following indicative program has been developed on the basis that the Audit and Organisational Risk Committee would review and determine internal audit activity prior to each scheduled audit commencing. The results of the audits and action plan would then be reported to the next scheduled meeting of the Audit & Organisational Risk Committee.

<b>Financial Year</b>	<b>Audit Activity Areas</b>	
2016/17	Delegations and Authorisations	Credit cards
2017/18	Grants and Contributions	Tenders/Contract Management
2018/19	Records Management	Inventory Control

**LEVEL OF SIGNIFICANCE**

In accordance with Council Policy *CE-8 Significant Decision Making Policy*, this matter is considered to be of moderate significance.

**COUNCILLOR/OFFICER CONSULTATION**

Consultation has taken place between the Director Corporate Services, Manager Governance and Organisational Strategy and the Governance team.

**COMMUNITY CONSULTATION**

No community consultation is required.

**STATUTORY IMPLICATIONS**

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in regards to risk management, internal control and legislative compliance. The results of those reviews are to be submitted to the audit committee for consideration.

**POLICY IMPLICATIONS**

There are no policy implications.

**FINANCIAL IMPLICATIONS**

Given that the internal audits will be conducted by staff, there are no financial implications involved in conducting the internal audits. There may be financial implications involved in addressing recommendations arising from the audits.

**STRATEGIC IMPLICATIONS**

This item is relevant to the Council's approved Strategic Community Plan 2012-2022 and Corporate Business Plan 2012-2016. In particular the Operational Plan 2015-2016 provided for this activity:

Our Program:	4.c.2.3	Develop and/or review Council policies, procedures and processes.
Our Services:	4.c.2.3.1	Undertake internal audits and reviews

**RISK MANAGEMENT CONSIDERATIONS**

Internal audits will assist the City in effectively managing risks and improving operational systems and processes.

**IMPACT ON CAPACITY**

Capacity has been made available to deliver internal audits using internal resources.

**RELEVANT PRECEDENTS**

There are no relevant precedents related to this matter.

**VOTING REQUIREMENTS**

Simple Majority

**OPTIONS:**Option 1

As per Officer's recommendation.

Option 2

That the Audit & Organisational Risk Committee by SIMPLE Majority pursuant to section 7.3 of the *Local Government Act 1995* RESOLVES to DEFER consideration of the Internal Audit Program.

Option 3

That Council by SIMPLE Majority pursuant to section 7.3 of the *Local Government (Audit) Regulations 1996* RESOLVES to ENDORSE the Internal Audit Program (as amended).

Financial Year	Audit Activity Areas	
2016/17		
2017/18		
2018/19		

**CONCLUSION**

Following a restructure of the City's Governance team, resources have been allocated internally to conduct internal audits. A draft program is now proposed that would provide for review and identification of potential improvements in the City's established systems, processes and procedures.

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**OFFICER'S RECOMMENDATION / COMMITTEE RESOLUTION**

Res No : AOR40  
 MOVED : Cr Scott  
 SECONDED : Cr Cucel

That the Audit & Organisational Risk Committee by SIMPLE Majority pursuant to Section 7.3 of the *Local Government Act 1995* and regulation 17(1)(b) of the *Local Government (Audit) Regulations 1996* RESOLVES to ENDORSE the following indicative Internal Audit Program:

Financial Year	Audit Activity Areas	
2016/17	Delegations and Authorisations	Credit cards
2017/18	Grants and Contributions	Tenders/Contract Management
2018/19	Records Management	Inventory Control

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**CARRIED**

FOR : Cr Smeathers, Cr Cucel, Cr Scott  
 AGAINST : Nil



## **6 ITEMS FOR INFORMATION ONLY**

**Responsible Officer:** Director Corporate Services

**Reporting Author:** Minute Secretary

**Disclosure of Interest:** Nil

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### **PURPOSE**

To advise the Audit and Organisational Risk Committee of the information items.

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### **OFFICER'S RECOMMENDATION / COMMITTEE RESOLUTION**

**Res No** : AOR41

**MOVED** : Cr Scott

**SECONDED** : Cr Cucel

That the Audit and Organisational Risk Committee note the following information item:

- **6.1 Business Improvement – Progress Report**

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**CARRIED**

**FOR** : Cr Smeathers, Cr Cucel, Cr Scott

**AGAINST** : Nil



**6.1 BUSINESS IMPROVEMENT – PROGRESS REPORT****File No:** FM.3**Responsible Executive Officer:** Director Corporate Services**Reporting Author:** Manager Governance and Organisational Strategy**Date of Report:** 16 August 2016**Disclosure of Interest:** Nil**Attachment(s):** Nil**PURPOSE**

To provide the Audit & Organisational Risk Committee with a progress update on Business Improvement.

Focus Areas	Brief Description	Indicative Activities/Outputs	Current and Future Status	Review Date
1. <b>Strategic Community Plan 2016-2026</b>	Outlines the outcomes expressed by our communities and our response as an organisation in achieving those agreed outcomes in the next 10 years.	<ul style="list-style-type: none"> <li>• Vision</li> <li>• Strategies</li> <li>• Community Engagement</li> <li>• Resources and Commitments</li> </ul>	<ul style="list-style-type: none"> <li>• Review undertaken by Councillors community and staff during 2105/16</li> </ul>	<ul style="list-style-type: none"> <li>• Submitted to Council in July, endorsed excluding Vision.</li> </ul>
2. <b>Corporate Business Plan 2016-2020</b>	Outlines what the organisation needs to deliver in the next five years. Has been extensively reworked internally over the past 4-6 weeks with a focus on consistency and measurability of KPI's.	<ul style="list-style-type: none"> <li>• Activates Strategic Community Plan</li> <li>• Progress Measures to achieve delivery of outcomes</li> <li>• Budget information for five years</li> </ul>	<ul style="list-style-type: none"> <li>• Review undertaken by staff in Q4 of 2015/16 and Q1 of 2016/17.</li> </ul>	<ul style="list-style-type: none"> <li>• To be submitted for Council consideration at the September 2016 Council meeting.</li> </ul>
3. <b>Operational Plan 2016-2017</b>	Annual slice and dice of Corporate Business Plan. Has been extensively reworked internally to ensure consistency and compliance.	<ul style="list-style-type: none"> <li>• Annual Budget.</li> <li>• Annual Projects and Services</li> </ul>	<ul style="list-style-type: none"> <li>• Review undertaken by staff in Q4 of 2015/16 and Q1 of 2016/17.</li> </ul>	<ul style="list-style-type: none"> <li>• To be submitted for Council consideration at the September 2016 Council meeting.</li> </ul>
4. <b>Asset Management Plan</b>	What Assets are required at what service level to deliver the	<ul style="list-style-type: none"> <li>• Asset Conditions &amp; Ratings</li> <li>• Levels of Service, operational,</li> </ul>	<ul style="list-style-type: none"> <li>• Approved by Council in June 2013.</li> </ul>	<ul style="list-style-type: none"> <li>• To be completed by June 2017.</li> </ul>

Focus Areas	Brief Description	Indicative Activities/Outputs	Current and Future Status	Review Date
	services expressed by our communities?	<ul style="list-style-type: none"> <li>technical and community</li> <li>Financial information for maintenance of assets at an agreed level of service</li> <li>Asset Disposal Strategy and Lifecycle Costing.</li> <li>Action Plans</li> </ul>	<ul style="list-style-type: none"> <li>Asset Management Policy to be submitted to Council by mid-2017 for consideration.</li> </ul>	
<b>5. Long Term Financial Plan</b>	Informs the Strategic Community Plan and Corporate Business Plan. CEO has reviewed with EMT. Staff believe that assumptions that inform the financial modelling need review prior to Council adoption.	<ul style="list-style-type: none"> <li>Sensitivity Analysis</li> <li>Long Term Financial Sustainability</li> <li>Capital Works Program for next 10 years</li> <li>Financial Modelling</li> <li>Assumptions and Scenarios</li> </ul>	<ul style="list-style-type: none"> <li>Submitted to the Department of Local Government in June 2013.</li> <li>Key assumptions and 10 year Capital Works Plan reviewed by Council in June 2015.</li> <li>Workshops held with EMT and Councillors in March 2016 reviewing key assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>Update submitted to DLGC in June 2016.</li> </ul>
<b>6. Workforce Plan 2013-2018</b>	Development of an all-encompassing strategy which addresses staff turnover rates and an appreciation of the full number of staff required to deliver City business now and into the future.	<ul style="list-style-type: none"> <li>Structural Review</li> <li>Performance Measurement Systems</li> <li>Performance Appraisal System</li> <li>Retention</li> <li>Recruitment</li> <li>Succession Planning</li> <li>Development and training</li> <li>Staff housing &amp; accommodation</li> </ul>	<ul style="list-style-type: none"> <li>Approved by Council in August 2013.</li> <li>Annual review has been completed and incorporated in the LTFP assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>To be reviewed again in 2017.</li> </ul>
<b>7. Housing Strategy</b>	Development of a strategy to address the housing and accommodation needs of the City from retention and recruitment perspective.	<ul style="list-style-type: none"> <li>Short term review and modifications undertaken.</li> <li>Options for staff housing to be developed (ownership vs leasing vs paying allowances)</li> </ul>	<ul style="list-style-type: none"> <li>Draft strategy currently under review to reflect normalisation of the housing market.</li> </ul>	<ul style="list-style-type: none"> <li>Dec 2016.</li> </ul>
<b>8. Corporate Performance Management System</b>	A tool to integrate all operations including projects and services delivered by the	<ul style="list-style-type: none"> <li>Ability for all reporting teams to update their quarterly performances</li> </ul>	<ul style="list-style-type: none"> <li>Contract awarded to Civica Pty Ltd.</li> <li>KPIs in system for 2015/16 and</li> </ul>	<ul style="list-style-type: none"> <li>2016 Q4 KPIs presented to Council in August. KPIs</li> </ul>

Focus Areas	Brief Description	Indicative Activities/Outputs	Current and Future Status	Review Date
	organisation and report on the individual status and financials.		quarterly performance reporting. <ul style="list-style-type: none"> <li>Upon completion of the SCP and BCP, KPIs will be determined for the 2016/17 year</li> </ul>	updated as part of CBP.
<b>9. Procurement and Tendering</b>	Given the large growth and volume of projects that the City is accountable for, there needs to be a review of the way procurement and tendering occurs to ensure a more centralised approach is adopted which is connected across the various directorates within the organisation.	<ul style="list-style-type: none"> <li>Centralise and streamline the approach to procurement and tendering</li> <li>Create knowledge management and succession planning of procurement and tendering through the organisation</li> </ul>	<ul style="list-style-type: none"> <li>Induction and awareness training commenced June 2014.</li> <li>Internal audit conducted on tenders and contract management</li> <li>eQuotes for local suppliers introduced in November 2015. Traction in using product was slow by staff because of limited number of local suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>
<b>10. Functional Processes / Service Reviews</b>	A review of the key processes that link how things are done within the organisation and examine the need to streamline and avoid duplication of activity that further create efficiencies in time and cost on how activities are undertaken.	<ul style="list-style-type: none"> <li>Define what a process is and how these will be recorded.</li> <li>Conduct a review of current functional processes across the organisation</li> <li>Define what functional processes are needed, how they will be recorded, understood and applied consistently throughout the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>Policies adopted.</li> <li>Current practices are being process mapped as an internal resource and guide to all staff.</li> <li>643 processes have been developed with 63% published for organisation to use.</li> <li>Service reviews have commenced across organisation. 49 service areas to be reviewed over 18 month period.</li> <li>Into the sixth Tranche of reviews.</li> <li>Risk plan and policies approved by</li> </ul>	<ul style="list-style-type: none"> <li>Service reviews to be completed January 2017</li> </ul>
<b>11. Risk Management Review</b>	Review of existing policies, procedures and	<ul style="list-style-type: none"> <li>Common, contemporary, compliant framework to be</li> </ul>	<ul style="list-style-type: none"> <li>Risk plan and policies approved by</li> </ul>	<ul style="list-style-type: none"> <li>Policy review to be submitted to AORC for</li> </ul>

Focus Areas	Brief Description	Indicative Activities/Outputs	Current and Future Status	Review Date
	supporting documentation. Development of Risk Management Framework.	developed and utilised by four (4) Pilbara LGA's.	Council in June 2014. • Risk report presented to Council in September 2015.	review. Next risk report due in October 2016
<b>12. Business Continuity Management Project</b>	A project funded by the PRC to assist Pilbara councils to establish a business continuity framework for their local authorities.	<ul style="list-style-type: none"> <li>• BCM Policy and Plan</li> <li>• BCM Governance Framework</li> <li>• Exercise Maintenance and Awareness Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Documents prepared and training undertaken by PRC with Critical Response Team in November 2015.</li> </ul>	<ul style="list-style-type: none"> <li>• Next review of BCMP due in 2018</li> </ul>

## **7 CLOSURE & DATE OF NEXT MEETING**

The meeting closed at 3:43pm

The date of the next meeting is to be held on Tuesday, 25 October 2016 at 3:00pm in Council Chambers - Welcome Road, Karratha.

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I, Cr Evette Smeathers, Chairperson for the Audit & Organisational Risk Committee of the City of Karratha, hereby declare on behalf of the Committee that the enclosed Minutes are a true and accurate record of the Audit & Organisational Risk Committee Meeting held on Tuesday, 23 August 2016.

..... Date \_\_\_\_/\_\_\_\_/\_\_\_\_

