



CITY of PERTH

Lord Mayor and Councillors,

NOTICE IS HEREBY GIVEN that the next meeting of the **Audit and Risk Committee** will be held in Committee Room 1, Ninth Floor, Council House, 27 St Georges Terrace, Perth on **Monday, 8 August 2016 at 4.30pm.**

Yours faithfully

MARTIN MILEHAM
CHIEF EXECUTIVE OFFICER

3 August 2016

Committee Members:

Members:	1st Deputy:	2nd Deputy:
The Lord Mayor		
Cr Davidson OAM JP	Cr Adamos	Cr Harley
Cr Green		
Mr Linden (Independent Member)	N/A	N/A



Please convey apologies to Governance on 9461 3250 or by email to governance@cityofperth.wa.gov.au

EMERGENCY GUIDE

Council House, 27 St Georges Terrace, Perth



CITY of PERTH

The City of Perth values the health and safety of its employees, tenants, contractors and visitors. The guide is designed for all occupants to be aware of the emergency procedures in place to help make an evacuation of the building safe and easy.

BUILDING ALARMS

Alert Alarm and Evacuation Alarm.

ALERT ALARM

beep beep beep

All Wardens to respond.

Other staff and visitors should remain where they are.

EVACUATION ALARM/PROCEDURES

whoop whoop whoop

On hearing the Evacuation Alarm or on being instructed to evacuate:

1. Move to the floor assembly area as directed by your Warden.
2. People with impaired mobility (those who cannot use the stairs unaided) should report to the Floor Warden who will arrange for their safe evacuation.
3. When instructed to evacuate leave by the emergency exits. **Do not use the lifts.**
4. Remain calm. Move quietly and calmly to the assembly area in **Stirling Gardens** as shown on the map below. Visitors must remain in the company of City of Perth staff members at all times.
5. After hours, evacuate by the nearest emergency exit. **Do not use the lifts.**



EVACUATION ASSEMBLY AREA



Assembly Area

Alternate Assembly Area

AUDIT AND RISK COMMITTEE

Established: 11 May 2010

Members:	1st Deputy:	2nd Deputy:
The Lord Mayor, Scaffidi (Presiding Member)	Cr Adamos	Cr Harley
Cr Davidson OAM JP		
Cr Green		
Mr Linden (Independent Member)	N/A	N/A

Quorum: Two
Expiry: October 2017

TERMS OF REFERENCE:

[Adopted OCM 24/11/15]

1. The Audit and Risk Committee's role, in accordance with Regulation 16 of the Local Government (Audit) Regulations 1996, is to provide guidance and assistance to the local government regarding:
 - a. the matters to be audited;
 - b. the scope of audits; and
 - c. financial, risk and compliance management functions as prescribed in the Local Government Act 1995; as well as
 - d. other matters specified in these Terms of Reference.
2. The Committee may resolve to request the Chief Executive Officer (CEO) to provide any information or make arrangements to provide independent expert advice, as appropriate and required by the Committee in order to fulfil its duties and responsibilities.
3. The Committee is to review and make recommendations to the Council regarding:
 - a. Financial Management**
 - i. the annual Financial Statements with a view to being satisfied as to their accuracy and timeliness and the inclusion of prescribed disclosures and information;
 - ii. changes in accounting practices, policies and material changes in accounting treatment, providing advice on the appropriateness of implementation strategies; and
 - iii. the City's financial status and performance.
 - b. Risk Management**
 - i. the City's risk management strategies and policies;
 - ii. the adequacy of the City's risk management systems and practices; and

(Cont'd)

- iii. the management of strategic risks, identifying as appropriate, specific risks for more detailed review and response.

c. Internal Controls

- i. the standard and effectiveness of the City's corporate governance and ethical considerations;
- ii. the integrity, adequacy and effectiveness of the City's financial and administration policies, systems and controls in providing financial and governance information which:
 - is accurate and reliable;
 - complies with legislative obligations and requirements;
 - minimises the risk of error, fraud, misconduct or corruption; and
- iii. the efficiency and effectiveness on achievement of objectives.

d. Legislative Compliance

- i. the integrity, adequacy and effectiveness of the City's systems and controls for legislative compliance;
- ii. the level of compliance with legislative obligations as well as the City's policies;
- iii. the CEO's report on the review of the City's legislative Compliance systems, at least once biennially; and
- iv. the annual statutory Compliance Audit.

e. Internal and External Audit Planning and Reporting

- i. the process to select and the appointment of an External Auditor;
- ii. the integrity, adequacy and effectiveness of the City's Internal Audit Plan and External Audit Plan;
- iii. reports, findings and recommendations arising from Internal and External Audits;
- iv. the audit of the City's Annual financial statements;
- v. the integrity, adequacy and effectiveness of the management response and any actions proposed to be taken to address issues raised by the Internal or External Auditor; and
- vi. the oversight and monitoring of implementation of agreed actions.

Delegated Authority 1.1.3 – Audit and Risk Committee provides authority for the Committee to fulfil the duty of the Council to meet with the City's External Auditor at least once per year [s.7.12A(2)].

This meeting is open to members of the public.

INFORMATION FOR THE PUBLIC ATTENDING COMMITTEE MEETINGS

Question Time for the Public

- An opportunity is available at all Committee meetings open to members of the public to ask a question about any issue relating to the City. This time is available only for asking questions and not for making statements. Complex questions requiring research should be submitted as early as possible in order to allow the City sufficient time to prepare a response.
- The Presiding Person may nominate a Member or officer to answer the question, and may also determine that any complex question requiring research be answered in writing. No debate or discussion is allowed to take place on any question or answer.
- To ask a question please write it on the white Question Sheet provided at the entrance to the Council Chamber and hand it to a staff member at least an hour before the meeting begins. Alternatively, questions can be forwarded to the City of Perth prior to the meeting, by :
 - Letter: Addressed to GPO Box C120, Perth, 6839;
 - Email: governance@cityofperth.wa.gov.au.
- Question Sheets are also available on the City's web site: www.perth.wa.gov.au.

Deputations

A deputation wishing to be received by a Committee is to apply in writing to the CEO who will forward the written request to the Presiding Member. The Presiding Member may either approve the request or may instruct the CEO to refer the request to the Committee to decide whether or not to receive the deputation. If the Presiding Member approves the request, the CEO will invite the deputation to attend the meeting.

Please refer to the 'Deputation to Committee' form provided at the entrance to the Council Chamber for further information on the procedures for deputations. These forms are also available on the City's web site: www.perth.wa.gov.au.

Disclaimer

Members of the public should note that in any discussion regarding any planning or other application that any statement or intimation of approval made by any Member or officer of the City during the course of any meeting is not intended to be and is not to be taken as notice of approval from the City. No action should be taken on any item discussed at a Committee meeting prior to written advice on the resolution of the Council being received.

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AUDIT AND RISK COMMITTEE

8 AUGUST 2016

ORDER OF BUSINESS

1. Declaration of Opening
2. Apologies and Members on Leave of Absence
Cr Green (Leave of Absence)
3. Question Time for the Public
4. Confirmation of Minutes – 9 May 2016
5. Correspondence
6. Disclosure of Members' Interests
7. Matters for which the Meeting may be Closed

In accordance with Section 5.23(2) of the *Local Government Act 1995*, the meeting will be required to be closed to the public prior to discussion of the following:

Schedule No.	Item No. and Title	Reason
Confidential Item 3 and Confidential Schedule 4	Item 3 – Outstanding Internal Audit Recommendations – August 2016	5.23(2)(a)
Confidential Item 4	Item 4 – Compliance Audits – City of Perth and NSW/Victorian Transport Authority Agreements	5.23(2)(f)(i)

In accordance with Section 5.23(2) of the *Local Government Act 1995*, should an Elected Member wish to discuss the content of the confidential schedules listed below, it is recommended that Committee resolve to close the meeting to the public prior to discussion of the following:

Schedule No.	Item No. and Title	Reason
Confidential Schedules 1 and 2	Item 1 – Risk Management Update – August 2016	5.23(2)(e)(iii)
Confidential	Item 2 – Internal Audit 2016/17 – Human	5.23(2)(a)

Schedule No.	Item No. and Title	Reason
Schedule 3	Resources Review	
Confidential Schedule 5	Item 6 – Tender 111-15/16 – Appointment of External Auditors	5.23(2)(e)(iii)

Confidential reports and schedules are distributed to Elected Members under separate cover.

8. Reports

9. Motions of which Previous Notice has been Given

10. General Business

10.1 Responses to General Business from a Previous Meeting
Nil

10.2 New General Business

11. Items for Consideration at a Future Meeting

Outstanding Items:
Nil

12. Closure

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ITEM NO: 1

RISK MANAGEMENT UPDATE – AUGUST 2016

RECOMMENDATION: (INFORMATION)

That Council receives the report titled Risk Management Update – August 2016

BACKGROUND:

FILE REFERENCE: P1013822-3
REPORTING UNIT: Governance
RESPONSIBLE DIRECTORATE: Corporate Services
DATE: 22 July 2016
MAP / SCHEDULE: Confidential Schedule 1 – LGIS Report – Organisational Risk Management Maturity Assessment
Confidential Schedule 2 – Presentation from LGIS Consultant
(Confidential Schedules distributed to Elected Members under separate cover).

LEGISLATION / STRATEGIC PLAN / POLICY:

Legislation *Local Government Act 1995*
Regulation 17 of the Local Government (Audit) Regulations 1996

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
Council Four Year Priorities: Capable and Responsive Organisation
S18 Strengthen the capacity of the organisation.

Policy

Policy No and Name: 19.1 – Enterprise Risk Management

DETAILS:

Policy and Framework

The City is committed to a culture of risk management, where risk is considered at 3 levels; strategic, operational and project. Operational and Strategic Risks are currently housed in the City's risk management system (RMSS) and are reviewed on an annual basis as part of the Business Planning Process. Project level risks are

managed by relevant staff in the delivery of the projects, and where relevant are documented within specific service areas.

The Enterprise Risk Management Policy 19.1 states the purpose of risk management being:

“To protect the community, the City of Perth and its workers against foreseeable risks through developing a whole of enterprise culture of risk awareness, plans that reduce our risk exposure and systems that provide information to assist in informed decision making, maximising asset potential and enhancing community wellbeing.”

Under the framework, the Audit and Risk Committee has the responsibility for the systems and processes for risk management in line with the *Local Government (Audit) Regulations 1996*. The framework states that strategic and high level operational risks will be reported to the Audit and Risk Committee and Council on a six monthly basis.

RISK MANAGEMENT UPDATE

Organisational Risk Maturity Assessment

The consultant from LGIS (Local Government Insurance Scheme) has completed the Organisational Risk Management Maturity Assessment Project (refer to Confidential Schedule 1).

The consultant is scheduled to present the findings and recommendations from the benchmarking exercise to the Audit and Risk Committee scheduled to be held on 8 August 2016.

The previous Organisational Risk Maturity Assessment was conducted in 2012 resulted in the City achieving the following milestones:

- Development of a Risk Management Program comprised of policy, framework documents and handbook – complimented by risk management procedures, guidelines and manuals;
- Development of Operational and Strategic Risk Registers;
- Establishment of the Risk Management Taskforce and supporting working groups;
- Purchase and implementation of RMSS – Risk Monitoring and Reporting System; and
- Development of a Business Continuity Framework.

The main aim of this process is to benchmark the City against other Western Australia Local Governments as well as other Capital Cities in Australia. Adopted recommendations from the maturity assessment will be implemented through a road map of set milestones over an agreed period of time.

Business Continuity Management

The development of the City's Business Continuity Management Program is now complete with the following milestones archived:

- Completion of the City's Business Continuity Framework Document and Policy.
- Completion of seven location-specific Business Continuity Plans (BCPs) for:
 - Council House;
 - Library;
 - Surveillance Centre;
 - Community Centres (Citiplace, Rod Evans, Citiplace Childcare and Rest Centre and Perth Town Hall); and
 - Commercial Parking Outstations (Elder St, Perth Convention and Exhibition Centre and Mayfair).
- Completion of the City's Crisis Management Plan.
- Setup and commissioning of Citiplace Community Centre as the alternate location for Council House.

The BCPs for the Works Depot and Parks – Outstations are currently being drafted and will be finalised shortly.

In the 2016/17 financial year the below initiatives are planned:

- Development of the Crisis Communications Plan.
- Finalisation of the Critical Incident Management Team Procedure.
- Conducting briefing and training with members of both the Crisis Management Team and the Critical Incident Management Team.
- Scheduled scenario testing and exercises to test the plans and capabilities of Citiplace and other alternate locations.

Update on High and Extreme Risks

Under the City's Enterprise Risk Management Framework, the Audit and Risk Committee has the responsibility for the overseeing of the City's systems and processes for risk management in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996*. The framework states that strategic and high level operational risks will be reported to the Audit and Risk Committee and Council on a six monthly basis.

22 strategic risks and 437 operational risks currently sit on the City's risk registers. All risks have been rated using the City's risk matrix and compiled on the City's Risk System RMSS.

As at 22 July 2016, there are:

- 0 extreme risks;
- 6 high risks;
- 283 medium risks; and

- 170 low risks.

Updates on the identified High / Extreme risks are detailed below.

Risk Update: Shifting of costs from other sectors onto the City

Risk Owner: Manager Finance

Risk ID	Risk Statement	Existing Controls	Risk Rating
78	Shifting of costs from other sectors onto the City resulting in financial impacts or affecting service delivery	<ul style="list-style-type: none">• Monitoring of government policy direction.• The City budgeting process takes into account forecasted increases in levies and taxes and in most instances will pass them on to ratepayers.	High (5)

This risk continues to be monitored and reviewed to ensure the impacts are minimised. The biggest cost being the parking levy. In the current financial year the increase was minimal at 1.7% as compared to 20% in 2015/16. There was no increase in the loan guarantee fee, with the increase in the landfill levy (approximately 5 %) passed onto ratepayers.

Risk Update: Insufficient revenue generated from Elizabeth Quay (EQ) for servicing and maintenance.

Risk Owner: Manager Finance

Risk ID	Risk Statement	Existing Controls	Risk Rating
83	Revenue generated from EQ (MRA contribution + Rates) insufficient to cover maintenance and servicing of EQ.	<ul style="list-style-type: none">• Agreement with Metropolitan Redevelopment Authority (MRA).• Monitoring of costs of servicing and maintaining EQ.• Modelling of cash flows for the precinct (rates revenue + funding vs costs of serving and maintenance).	High (5)

There are ongoing negotiations with the MRA regarding the level of service provided by the City for the EQ precinct. The MRA propose the City should provide a level of service to the value of rates collected from the precinct. Other services to maintain the precinct to a suitable level will be procured from other service providers. The risk for the City is that the precinct is not maintained to a standard commensurate with other premium areas maintained by the City. Negotiations with the MRA are ongoing to ensure the best outcome for the precinct.

Risk Update: Non-disclosures of gifts and travel by staff and Elected Members

Risk Owner: Manager Governance

Risk ID	Risk Statement	Existing Controls	Risk Rating
1092	Non-disclosures of gifts and travel by staff and Elected Members leading to investigations or findings against the City resulting in reputational harm.	<ul style="list-style-type: none">• Enhanced Governance practices.• Policies and Procedures around gifts and travel disclosures.• Training and induction for new employees and Elected Members on gift and travel disclosures.• Awareness raising sessions with staff and Elected Members.• Monitoring of legislative amendments to the LG Act and regulations.	High (5)

The City has now established all processes and systems to support the legislative amendments that came into effect in March 2016 related to Travel and Gift Disclosure amendments. Separate Elected member and Officer Procedures have been prepared both for Gifts and Travel.

The City recently introduced a number of transparency measures that are now in effect related to Gift & Travel, these measures are over and above the legislative provisions. Elected Members have also been provided with documented flowcharts for Gifts & Travel to both assist and inform Elected Members of their obligations.

Future risk mitigation measures include an update to the City of Perth Code of Conduct proposed to be updated and reviewed by Council in September 2016.

Risk Update: Reduction in Parking revenue

Risk Owner: Manager Commercial Parking

Risk ID	Risk Statement	Existing Controls	Risk Rating
108	Parking revenue decreases leading to revenue loss for the City	<ul style="list-style-type: none">• Market research done every 2 years.• The Commercial Parking Unit is currently looking at other sources of alternate revenue streams (other local governments, State agencies and private sector).• Annual budgeting based on projected increases in	High (5)

Risk ID	Risk Statement	Existing Controls	Risk Rating
		parking levies. • Liaison with officials with regards to parking levies.	

Strategy - Alternate Revenue Streams and Increased Market Share via Customer Experience

Alternate Revenue Streams

The City is currently awaiting the outcome from a presentation which was done at the City of Vincent with a proposal to provide parking management services.

The Commercial Parking Perth (CPP) unit is currently focussing considerable effort on building internal capability in the areas of Technical services, Systems Management and Reconciliation. The flexibility to work with multiple systems and providers is an essential element to competing in and securing business in a highly competitive and fast paced commercial industry.

With the recent addition of Cale parking machines due to the transition from the now former South Ward from the City of Subiaco, it was a deliberate decision to retain the machines in order to demonstrate CPP's credibility and flexibility in offering services on a commercial playing field. There are arrangements in place to provide parking services to both Turvey Lane and Town of Victoria Park. The CPP Unit will be seeking to develop a mapped approval process with assistance from the Governance Unit, to allow for smooth approval of business opportunity's to ensure that the City can be reactive to opportunities in the commercial parking market, which are not necessarily within the City boundaries.

Increased Market Share - Via Improved Customer Experience

At present commercial parking revenue is tracking along with the slowing economy, with office vacancy rates in the CBD currently at 24%. In response the CPP Unit is also focused on improving customer experience and increasing market share through initiatives such as female friendly parking facilities as well as cosmetic improvements such as recent entry statement maintenance upgrades at the Pier Street Car Park.

Risk Update: Occurrence of a significant OSH incident

Risk Owner: Manager Human Resources

Risk ID	Risk Statement	Existing Controls	Risk Rating
1123	Occurrence of a significant OSH incident	<ul style="list-style-type: none"> • OSH induction training for new employees. • OSH policies and procedures. • OSH & Risk Committee. • Directorate OSH & Risk Group meetings. 	High (5)

Risk ID	Risk Statement	Existing Controls	Risk Rating
		<ul style="list-style-type: none"> • Workplace safety inspections systematically controlled on RMSS. • Risk assessments on high risk work. • Job Safety Analysis. • Safe work statements. • Personal Protective Equipment procedures. 	

The City acknowledges the importance of health and safety throughout the organisation and is continuously reviewing and monitoring processes to ensure a positive OSH culture. A recent review was undertaken on the services provided to the City's employees and how these services were provided which resulted in the restructure of these services. This new structure is designed to ensure a more robust safety focus on the organisations high risk areas, with a collaborative approach between Human Resources and the Construction and Maintenance Directorate (this directorate has the majority of high risk operations in it).

As a result of this review a Senior Safety Officer will be recruited to lead this safety focus and develop the OSH Strategic Plan to assist in encouraging a positive OSH cultural. In conjunction with OSH Strategic Plan development a review of the OSH Management Plan and Systems will be undertaken to ensure they align with best practice. The organisation will also be undertaking an OSH Audit upon commencement of the Senior Safety Officer to measure the City's current performance against the appropriate standards. This risk will remain high, as the uncertainty of human behaviour is factored into the risk rating. This risk will continue to be monitored and reviewed as appropriate controls are put in place.

Risk Update: Inadequate Condition Rating of City Assets

Risk Owner: Manager Properties

Risk ID	Risk Statement	Existing Controls	Risk Rating
1053	Inadequate Condition Rating of City Building Assets to enable appropriate asset renewal and maintenance.	<ul style="list-style-type: none"> • Adhoc inspections. • Property maintenance helpdesk system (Hansen). • The City is currently engaging potential surveyors to undertake a portfolio wide condition assessment of building assets. • The IT Business Unit is conducting a business analysis to obtain specifications for the procurement of a property management system. • Feedback from occupants 	High (5)

Risk ID	Risk Statement	Existing Controls	Risk Rating
		of City buildings.	

Comment: The scope and specification for undertaking a comprehensive condition assessment of the City's properties portfolio is currently nearing completion with input from the Asset Management Unit. There are current known risks around both the Perth Concert Hall (PCH) and the Perth Convention and Exhibition Centre (PCEC) in terms of its aging and infrastructure and structural issues. These are being managed by the City through the Properties Unit. PCEC is recognised as a considerable High Risk with the ongoing subsidence which the City is exploring avenues to remedy.

Once data from the condition assessment has been obtained the City will then be in a position to understand the potential back log maintenance liability and any under investment that has been occurring in the past, to enable the development of a strategy to address the liabilities.

Risk Profile

The distribution of risk ratings for both strategic and operational risks throughout the organisation is shown in the following risk matrix and pie chart.

The pie chart demonstrates the overall image of the City's risk categorised into Low, Medium, High and Extreme risks. As indicated by the pie graph the City is proactively managing its risks with no risks rated as Extreme and only 1.31% rated as High.

Detailed information on each of the organisational risks including the risk causes, consequences and relevant risk actions is provided for in RMSS.

Figure 1: Distribution of risk ratings as at 22 July 2016

- High Risks – 1.31%
- Medium Risks – 61.79%
- Low Risks – 36.90%

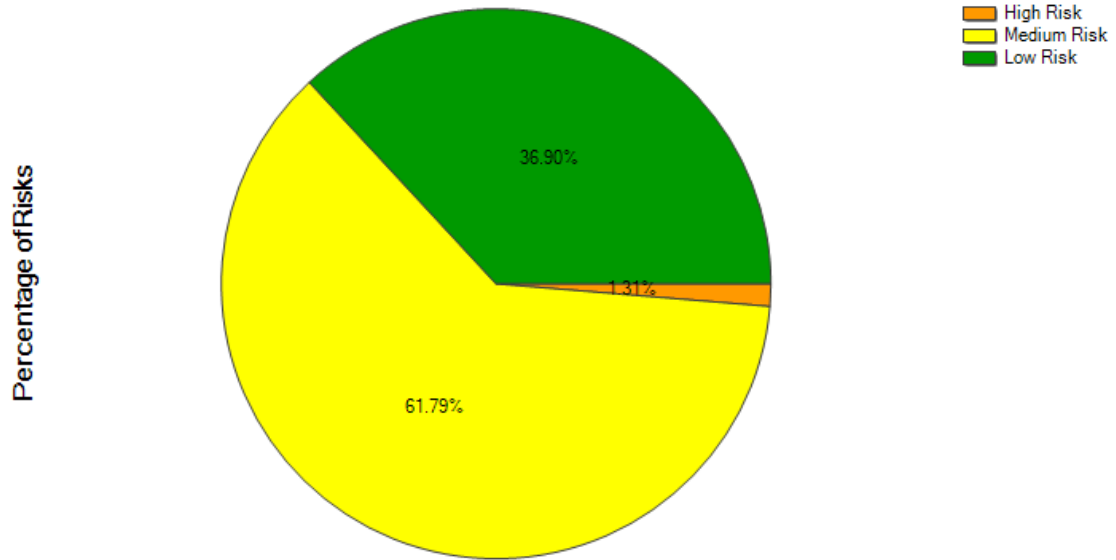


Figure 2: Risk Matrix



Residual Risk Matrix

		Consequence				
		Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood	Almost Certain	7 Risk(s)	M	H	E	E
	Likely	7 Risk(s)	23 Risk(s)	3 Risk(s)	E	E
	Moderate	15 Risk(s)	58 Risk(s)	45 Risk(s)	3 Risk(s)	E
	Unlikely	5 Risk(s)	57 Risk(s)	68 Risk(s)	24 Risk(s)	H
	Rare	9 Risk(s)	23 Risk(s)	60 Risk(s)	28 Risk(s)	24 Risk(s)

L	Low	Low level residual risks generally do not need to be treated, however they should be recorded in the risk register and reviewed periodically to determine if the level of risk has changed.
M	Medium	Medium level residual risks should be treated if it is practical and cost effective to do so.
H	High	All extreme and high rated residual risks are to be immediately treated (where practical to do so) and will be reported to the Risk Management Task Force with treatment solutions.
E	Extreme	All extreme and high rated residual risks are to be immediately treated (where practical to do so) and will be reported to the Risk Management Task Force with treatment solutions.

Generated On: Friday, 22 July 2016 16:33:41

COMMENTS:

Following the completion of the organisational risk maturity assessment all the risks on both the strategic and operational risk registers will be reviewed and reported through both the Corporate OSH & Risk, and the Audit and Risk Committees as required.

All current High and Extreme risks will continue to be reported to this committee during this review process.

FINANCIAL IMPLICATIONS:

Each risk identified may have its own financial implications which will be the subject of normal budget consideration.

The financial cost associated with testing the BCPs is included in the Governance Unit operational budget.

CONFIDENTIAL SCHEDULES 1 AND 2
ITEM 1 – RISK MANAGEMENT UPDATE – AUGUST 2016

FOR THE AUDIT AND RISK COMMITTEE MEETING

8 AUGUST 2016

DISTRIBUTED TO ELECTED MEMBERS UNDER
SEPARATE COVER

ITEM NO: 2

INTERNAL AUDIT 2016/17 – HUMAN RESOURCES REVIEW

RECOMMENDATION:

(APPROVAL)

That Council approves the Human Resources Review as part of the Internal Audit Plan 2016/17 as detailed in Confidential Schedule 3.

BACKGROUND:

FILE REFERENCE: P102969-8
REPORTING UNIT: Internal Audit
RESPONSIBLE DIRECTORATE: Corporate Services
DATE: 18 July 2016
MAP / SCHEDULE: Confidential Schedule 3 – City of Perth Internal Audit – Human Resources Review July 2016 (distributed to Elected Members under separate cover)

The City of Perth Internal Audit Plan 2016/17 was approved by Council at its meeting held on **17 May 2016**.

As part of the City's 2016/17 Internal Audit Plan, a Human Resources Review was carried out in June and July 2016. Confidential Schedule 3 details the findings of this review.

LEGISLATION / STRATEGIC PLAN / POLICY:

Legislation *Local Government (Audit) Amendment Regulations 2013*

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
Council Four Year Priorities: Capable and Responsive Organisation
S18 Strengthen the capacity of the organisation.

Policy

Policy No and Name: 19.1 – Enterprise Risk Management

DETAILS:

The findings of the review are detailed in the attached Confidential Schedule 3.

FINANCIAL IMPLICATIONS:

There are no financial implications related to this report.

CONFIDENTIAL SCHEDULE 3
ITEM 2 – INTERNAL AUDIT 2016/17 – HUMAN
RESOURCES REVIEW

FOR THE AUDIT AND RISK COMMITTEE MEETING

8 AUGUST 2016

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CONFIDENTIAL ITEM NO: 3

OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS – AUGUST 2016

RECOMMENDATION:

(INFORMATION)

That the Audit and Risk Committee receives the report summarising the status of outstanding internal audit recommendations as at August 2016 and detailed in Confidential Schedule 4.

BACKGROUND:

FILE REFERENCE: P1029698
REPORTING UNIT: Internal Audit
RESPONSIBLE DIRECTORATE: Corporate Services
DATE: 25 July 2016
MAP / SCHEDULE: Confidential Schedule 4 – Outstanding Internal Audit Recommendations – August 2016

In accordance with Section 5.23 (2)(a) of the *Local Government Act 1995*, this item is confidential and has been distributed to the Elected Members under separate cover.

CONFIDENTIAL SCHEDULE 4
ITEM 3 – OUTSTANDING INTERNAL AUDIT
RECOMMENDATIONS – AUGUST 2016

FOR THE AUDIT AND RISK COMMITTEE MEETING

8 AUGUST 2016

DISTRIBUTED TO ELECTED MEMBERS UNDER
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CONFIDENTIAL ITEM NO: 4

COMPLIANCE AUDITS – CITY OF PERTH AND NSW/VICTORIAN TRANSPORT AUTHORITY AGREEMENTS

RECOMMENDATION: (APPROVAL)

***That Council approves the Compliance Audits – City of Perth
and NSW/Victorian Transport Authority Agreements.***

BACKGROUND:

FILE REFERENCE: P102969-8
REPORTING UNIT: Internal Audit
RESPONSIBLE DIRECTORATE: Corporate Services
DATE: 10 July 2016
MAP / SCHEDULE: N/A

In accordance with Section 5.23 (2)(f)(i) of the *Local Government Act 1995*, this item is confidential and has been distributed to the Elected Members under separate cover.

ITEM NO: 5

CITY OF PERTH AUDIT AND RISK COMMITTEE – REVIEW OF THE TERMS OF REFERENCE AND MEMBERSHIP STRUCTURE

RECOMMENDATION: (CONSIDERATION)

That Council:

- 1. considers the appointment of an additional Independent Member to the Audit and Risk Committee to further enhance the City's transparency measures; and**
- 2. endorses that no changes be made to the Presiding Member of the Audit and Risk Committee, as the current committee structure meets the requirements of the Western Australia Local Government Operational Guidelines (No. 09 – 2013) – Audit In Local Government.**

BACKGROUND:

FILE REFERENCE: P1013822-3
REPORTING UNIT: Governance
RESPONSIBLE DIRECTORATE: Corporate Services
DATE: 20 July 2016
MAP / SCHEDULE: N/A

LEGISLATION / STRATEGIC PLAN / POLICY:

Legislation *Local Government Act 1995*
Regulation 17 of the Local Government (Audit) Regulations 1996

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
Council Four Year Priorities: Community Outcome
A capable, flexible and sustainable organisation with a strong and effective governance system to provide leadership as a capital city and deliver efficient and effective community centred services

Policy

Policy No and Name: 19.1 – Enterprise Risk Management

DETAILS:

At the its meeting held on **17 May 2016**, Council resolved the following:

“That Council requests the CEO of the City to carry out a review of the terms of reference and membership structure of the City’s Audit & Risk Committee. Council notes that all other Capital Cities of Australia have an externally appointed and suitably qualified member as Chair of their Audit Committee.”

This report provides information and officer recommendations for consideration by the Audit & Risk Committee and Council.

The Terms of Reference of the Audit and Risk Committee were last reviewed in November 2015, with no significant changes made. Previous to that, there were amendments in 2013 to align with the changes in Regulation 17 of the *Local Government (Audit Regulations 2013)* which required the scope of the committee to be broadened.

The City does not consider that any further significant amendments to the Terms of Reference are warranted, however an amendment to the membership of the Committee is proposed in this report.

The City has undertaken some research into the membership of the Audit and Risk Committees of other Capital Cities in Australia. The table summarises the findings:

Local Government Authority	Membership	Chair	Frequency of Meetings per annum
City of Perth	4 (3 Elected Members, 1 Independent)	Any Member of the Committee	Four scheduled meetings
City of Sydney	5 (2 Elected Members, 3 Independent)	Independent	Five meetings (four regular meetings and one meeting to review the financials with external auditors).
City of Adelaide	5 (Lord Mayor and one Elected Member, 3 Independent)	Independent	Four meetings
City of Melbourne	7 (3 Elected Members, 4 Independent)	Independent	Four meetings
City of Hobart	5	Independent	Six meetings

Local Government Authority	Membership	Chair	Frequency of Meetings per annum
	(2 Elected Members, 3 Independent)		
City of Darwin	4 (2 Elected Members, 2 Independent)	Independent	Four meetings
City of Brisbane	3 Internal Committees: Audit Committee* Risk Committee* Finance Committee* *1 Independent Member and officer representation. All 3 report to the Finance & Economic Development Committee with membership of 5 Elected Members	CEO Presiding EM	Audit - 6 monthly Risk - Quarterly Finance - Quarterly

From the information in the above table, it is standard practice across other Australian Capital Cities, with the exception of Brisbane, to have an Independent Member as Chair of the committee. This is in line with the relevant state audit operational guidelines. Extracts from other state guidelines below:

- **NSW Government Premier & Cabinet Division of Local Government NSW - Internal Audit Guidelines - September 2010:**

“The chair of the committee should be independent and should not be the mayor or a member of council.”

- **Northern Territory Government – Department of Local Government and Community Services – Audit Committees – General Instruction No. 3:**

“The chairperson of the audit committee must be independent, i.e. neither a councillor of the same council nor a council staff member.”

- **Victoria Government Gazette – Audit Committees – A guide to good practice for Local government - 31 January 2011:**

“The mayor and chair of the Local Government Entity (LGE) or LGE-related entity must not be appointed chair of the audit committee.”

These requirements are also contained within each of the relevant Capital Cities' Audit & Risk Committee Terms of Reference.

The Western Australia Local Government Operational Guidelines however, do not specify a requirement for the presiding member or chair of the Audit and Risk Committee to be an Independent Member.

- **Western Australia Local Government Operational Guidelines (No. 09 – 2013) – Audit in Local Government:**

- “(a) *Each local government is to establish an audit committee consisting of three or more persons to exercise the powers and discharge the duties conferred on it; Members of the committee are to be appointed by an absolute majority decision of Council. At least three of the members, and a majority of the members, are to be elected members;*
- (b) *The Chief Executive Officer (CEO) is not to be a member of the committee and may not nominate a person to be a member or have a person to represent him or her as a member of the committee;*
- (c) *An employee is not to be a member of the committee;*
- (d) *The only powers and duties that can be delegated to a committee are any of the powers and duties of the local government under part 7 of the Act; that is, those relating to audit. The committee cannot on-delegate the powers and duties delegated to it;*
- (e) *An audit committee with a member who is a person that is not an elected member can be delegated powers and duties to in (e); and*
- (f) *A decision of the committee is to be made by a simple majority.”*

The guidelines also state:

“Local Governments may decide to appoint a committee involving only elected members or they may appoint one or more persons who are external to the Council. If a Council considers it appropriate, the whole of Council can be appointed to the audit committee.”

Appointment of an Independent Member as the Presiding Member of the Audit and Risk Committee

While noting that the WA guidelines relating to committee membership do not have specific requirements with regards to the appointment of the Presiding Member, there exists an opportunity for the City to appoint an Independent Member as Chair above and beyond the WA guidelines.

However the City does not consider having an Independent Member as the Presiding Member to providing further transparency to the committee process. Nothing currently prohibits an Independent Member becoming the Presiding Member; however the current practice allows the most experienced person in chairing committee meetings to preside over the meetings. This also enables the Independent

Member to provide a contribution unfettered by the requirements of being Presiding Member.

The current process being that the most experienced member of the committee is voted in as Presiding Member by the members of the committee. This is consistent with other committee structures in the City and good governance practices. This creates the right balance with the City selecting independent members for their technical expertise without the need to have experience in chairing and running committee meetings.

Appointment Of An Additional Member

Council may consider appointing an additional Independent Member of the Committee. This would set the membership above other Local Governments in Western Australia by having more than one Independent Member. To the City's knowledge, the majority of Councils in Western Australia do not have an Independent Member as part of their Audit & Risk Committee, and for those that do, the Committee has only one Independent Member.

As the current Terms of Reference are broad, this allows for the Independent Members to come from specialist fields, such as Audit Compliance, Occupational Safety and Health and Risk Management.

The recruitment of the additional Independent Member may be included in the recruitment process following the expiry of the term of the sitting Independent Member, Stephen Linden, in October 2016.

FINANCIAL IMPLICATIONS

The consideration of an additional Independent Member would have the below financial implications:

- Costs per Meeting – \$1,000.
- Meetings per year – Four.
- Annual cost – \$4,000.

Should Council elect to appoint an Independent Member as Chair, the costs may need to be adjusted to reflect the added responsibility of being Presiding Member. This will be in addition to the existing financial commitment for the existing sitting Independent Member, Stephen Linden.

COMMENTS:

The recommendations of this report will require a minor amendment to the membership section in the Terms of Reference of the Audit and Risk Committee, being:

- The inclusion of an additional Independent Member of the Committee.

If approved by Council, the appointment of the additional member will be completed in line with the City's recruitment process for the Independent Member of the Audit and Risk Committee.

ITEM NO: 6

TENDER 111-15/16 – APPOINTMENT OF EXTERNAL AUDITORS

RECOMMENDATION:

(APPROVAL)

That Council:

- 1. accepts the most suitable tender, being that submitted by Grant Thornton Australia Limited for the Provision of Audit Services (Tender 111-15/16) for the 2015/16 and 2016/17 financial years with a one year option for the 2017/18 financial year;***
- 2. notes that the tender price is a fixed price of \$47,000 per annum (excluding GST) and that there is no indexation to be applied.***

BACKGROUND:

FILE REFERENCE: P1032877
REPORTING UNIT: Finance
RESPONSIBLE DIRECTORATE: Corporate Services
DATE: 21 July 2016
MAP / SCHEDULE: Confidential Schedule 5 – Tender Evaluation Matrix

LEGISLATION / STRATEGIC PLAN / POLICY:

Legislation

Section 3.57 of the *Local Government Act 1995*
Part 4 of the *Local Government (Functions and General) Regulations 1996*
Part 7 of the *Local Government (Audit) Regulations 1996*

Strategic Community Plan

Council Four Year Priorities: Capable and Responsive Organisation
S18 Strengthen the capacity of the organisation.

Policy

Policy No and Name: 9.7- Purchasing

DETAILS:

The City of Perth (the City) engaged auditors Grant Thornton Australia Limited in 2010 to perform the external audit for five years which concluded with the audit of the City's 2014/15 financial accounts at a cost of \$25,000.

The City issued a tender for audit services in May 2016. The scope of the audit was expanded to include a financial systems review as required by *the Local Government Act 1995* which has previously been completed by other external consultants, and the audit of key risks identified in the City's Risk Register. The specific risks to be audited will be agreed with the auditors prior to each year's audit and a budget of forty hours has been allocated for this work.

The following four tender submissions were received:

- Vicpass Pty Ltd, trading as +1 Group;
- Moore Stephens;
- Grant Thornton Australia Limited; and
- KPMG.

Tender Evaluation

The tenders were assessed against the following criteria:

- Quality of the respondents Audit Management Plan;
- Local Government Audit Experience with substantial Metropolitan Local Governments;
- Experience of Partners and Key Personnel;
- Quality of written or verbal references from other local governments;
- Compliance with the stated specification and innovation of approach;
- Capability to complete the works within the specified time frame; and
- Value for money.

Compliance Assessment:

All the tender submissions met the compliance criteria with the exception of KPMG who did not provide professional indemnity insurance details and included its own Terms and Conditions of Business.

Qualitative Assessment against Selection Criteria:

Vicpass Pty Ltd, trading as +1 Group

Vicpass Pty Ltd, trading as +1 Group, provided the lowest rated response in its submission and did not include any written or verbal references. Although the company provided the cheapest price, it is based in Victoria and the proposal included no indication of the cost of travel and accommodation to complete the audit.

Moore Stephens

The tender submission from Moore Stephens did not address all of the elements required by the City's audit management plan and the company failed to provide any references. The pricing of its proposal was considered to be comparable with the proposal from Grant Thornton Australia Limited.

Grant Thornton Australia Limited

Grant Thornton Australia Limited provided the most complete tender submission which scored well for all criteria. The company has the most experience auditing local governments and the company is the City's incumbent auditor.

KPMG

The tender submission from KPMG was ranked second of the respondents but it was the most expensive submission.

FINANCIAL IMPLICATIONS:

ACCOUNT NO:	CL50B 21000 7243
BUDGET ITEM:	Public Notices and Tenders
BUDGET PAGE NUMBER:	50
BUDGETED AMOUNT:	\$ 50,000
AMOUNT SPENT TO DATE:	\$ NIL
PROPOSED COST:	\$ 47,000
BALANCE:	\$ 3,000
ANNUAL MAINTENANCE:	N/A
ESTIMATED WHOLE OF LIFE COST:	N/A

All figures quoted in this report are exclusive of GST.

The proposed audit fee is considerably higher than the audit cost of \$25,000 for the 2014/15 annual accounts. The 2014/15 fee is considered to be low when considering the work required to complete an audit for an entity with the size and complexity of the City of Perth. The proposed fee for 2016/17 of \$47,000 is considered to be reasonable in the context of the expanded work scope.

COMMENTS:

The WA State Government issued a circular in April 2016 stating an intention to amend the *Local Government Act 1995* to allow for the Auditor General and the Office of the Auditor General (OAG) to take responsibility for local government financial audits from 1 July 2017. Under the proposed changes, the Auditor General may contract out some of the financial audits, but all financial audits will be done under the supervision of the Auditor General and the OAG.

As a result of this direction, the term of the audit was limited to two years, that is, for the financial years ending 30 June 2016 and 30 June 2017, with a one year option which will only be exercised after consultation with the State Government.

CONFIDENTIAL SCHEDULE 5
ITEM 6 – TENDER 111-15/16 – APPOINTMENT OF
EXTERNAL AUDITORS

FOR THE AUDIT AND RISK COMMITTEE MEETING

8 AUGUST 2016

DISTRIBUTED TO ELECTED MEMBERS UNDER
SEPARATE COVER