

City of Perth

**Audit and Risk Committee
Minutes**

**19 November 2019
5.30pm**

**Committee Room 1
Level 9
Council House**

APPROVED FOR RELEASE

**MURRAY JORGENSEN
CHIEF EXECUTIVE OFFICER**



City of Perth

**Audit and Risk Committee
Minutes**

**19 November 2019
5.30pm**

**Committee Room 1
Level 9
Council House**

Minutes to be confirmed at the next **Audit and Risk Committee** meeting.

**THESE MINUTES ARE HEREBY CERTIFIED AS
CONFIRMED**

PRESIDING MEMBER'S SIGNATURE

DATE:-----

Minutes of the **Audit and Risk Committee** meeting of the City of Perth in Committee Room 1, Ninth Floor, Council House, 27 St Georges Terrace, Perth on Tuesday, 19 November 2019.

Members in Attendance:

Commissioner McMath	Presiding Member
Commissioner Hammond	
Commissioner Kosova	
Mr Maurich	Independent Member

Officers:

Ms Strachan	A/Chief Executive Officer
Mr Parker	General Manager Corporate Services
Mr Kopec	General Manager Infrastructure and Operations
Mr Miragliotta	General Manager Planning & Economic Development
Mr Kent	Project Director Strategic Finance (departed the meeting at 7.12pm and did not return)
Mr Ridgwell	Manager Governance
Ms Jahmeerbacus	Manager Finance
Mr Noble	Corporate Strategy and Planning Advisor
Mr Cheldi	Internal Auditor
Ms Mendoza	Assistant Internal Auditor
Ms Gosling	Senior Financial Accountant (departed the meeting at 7.12pm and did not return)
Ms Morrison	Project Officer (Governance)

Guests:

Ms Drummond	Ernst & Young (via teleconference – participated in the meeting at 5.45pm and departed the meeting at 6.12pm and did not return)
Mr Baxter	Ernst & Young (departed the meeting at 6.30pm and did not return)
Mr Arulsingham	Office of the Auditor General (departed the meeting at 6.30pm and did not return)

Observers:

Two members of staff

1. Declaration of Opening

5.35pm The Acting Chief Executive Officer declared the meeting open.

Item 8.1 Election of a Presiding Member

The Acting Chief Executive Officer advised that in accordance with Section 5.12(1) of the *Local Government Act 1995*, Committee members are required to elect a Presiding Member to the Audit and Risk Committee.

The Acting Chief Executive Officer advised that the following nominations had been received:

Chair Commissioner Hammond nominated Commissioner McMath for the position of Presiding Member. Commissioner McMath accepted the nomination.

There being only one nomination, the Acting Chief Executive Officer declared that Commissioner McMath was elected Presiding Member of the Audit and Risk Committee.

Commissioner McMath assumed the Chair.

Commissioner McMath acknowledged the work of Mr Maurich as the previous Presiding Member.

2. Apologies and Members on Leave of Absence

Chief Executive Officer, Murray Jorgensen

3. Question Time for the Public

Nil.

4. Confirmation of Minutes

Moved Commissioner Hammond, seconded Mr Maurich

That the minutes of the meeting of the Audit and Risk Committee held on 20 May 2019 be confirmed as a true and correct record.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners McMath, Hammond and Kosava

Against: Nil

5. Correspondence

Nil

6. Disclosures of Members' Interests

Commissioner/Officer	Item No. and Title	Nature/Extent of Interest
Commissioner Kosova (CM 306710/19)	Item 8.6 – Moore Stephens Financial Management Review	Nature: Impartiality Interest – Commissioner Kosova is a friend of a senior staff member at Moore Stephens. Extent: Insignificant.

7. Matters for which the Meeting may be Closed

In accordance with clause 5.23(2) of the *Local Government Act 1995*, to preserve the confidentiality of Attachments 8.2B, 8.2D, 8.3B, 8.3C, 8.3D, 8.7A, 8.7B and 8.7C, it is recommended that the Committee resolve to close the meeting to the public prior to discussion of the following:

Attachment No.	Item No. and Title	Reason
Confidential Attachments 8.2B and 8.2D	Item 8.2 – Risk Management Quarterly Update – November 2019	s5.23(f)(ii) and s5.23(f)(iii)
Confidential Attachments 8.3B, 8.3C, and 8.3D	Item 8.3 – Audit Exit Interview and Presentation of the Audited Financial Statements for the Year Ended – 30 June 2019 (Unsigned)	S5.23(2)(e)(iii)
Confidential Attachments 8.7A, 8.7B and 8.7C	Item 8.7 – Internal Audit Plan 2019/20 – Cyber Security Review	s5.23(2)(f)(ii)

8. Reports

MOTION TO CLOSE THE MEETING TO THE PUBLIC

Moved Mr Maurich, seconded Commissioner Kosova

That the Committee RESOLVES to close the meeting to the public to consider Confidential Attachments to Item 8.3 in accordance with section 5.23(2)(e)(iii) of the Local Government Act 1995.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, Kosova and McMath

Against: Nil

5.41pm The meeting was closed to the public.

5.45pm Ms Drummond participated in the meeting via teleconference.

Item 8.3 Audit Exit Interview and Presentation of the Audited Financial Statements for the Year Ended – 30 June 2019 (Unsigned)

FILE REFERENCE:	P1000838-6
REPORTING OFFICER:	Sarah Gosling, Senior Financial Accountant
REPORTING UNIT:	Finance
RESPONSIBLE ALLIANCE:	Corporate Services
REPORT AUTHOR DISCLOSURE OF INTEREST:	Nil
DATE:	11 November 2019
ATTACHMENT/S:	Attachment 8.3A – Financial Statements for the Year Ended 30 June 2019 Confidential Attachment 8.3B – OAG Closing Report Confidential Attachment 8.3C – Management Letter Confidential Attachment 8.3D – Representation Letter <i>Confidential attachments are distributed to Committee Members under separate cover</i>

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive *The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative *Includes adopting local laws, town planning schemes and policies*
- Quasi-Judicial *When the Council determines an application/matter that directly affects a person’s right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*
- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

Legislation	Section 6.4 of the <i>Local Government Act 1995</i> Regulation 36 of the <i>Local Government (Financial Management) Regulations 1996</i> Regulations 9 and 10 of the <i>Local Government (Audit) Regulations 1996</i> Principle 6 of the State Records Principles and Standards 2002
City of Perth Act 2016	Objects of the City of Perth 8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors
Integrated Planning and Reporting Framework Implications	Strategic Community Plan Economic
Policy	
Policy No and Name:	N/A

Purpose and Background:

This report presents to the Audit and Risk Committee the draft audited but unsigned statutory annual financial statements of the City of Perth for the year ended 30 June 2019 (Attachment 8.3A). The Audit and Risk Committee meeting of 19 November 2019 also provides the forum for the audit exit interview wherein the external auditors, Ernst and Young, and the Office of the Auditor General (OAG) present their findings to the Committee. The findings of the OAG are contained within the closing report (Attachment 8.3B) and the management points raised for review by the external auditors are presented in the management letter (Attachment 8.3C) together with response from the City's management.

Details:

The Financial Statements for the year ended 30 June 2019 have been audited and will be signed by the City's CEO and the Auditor General subsequent to the Audit and Risk Committee meeting to be held on 19 November 2019.

The Financial Statements (Attachment 8.3A) address all statutory financial requirements imposed on the City and comply with the Australian Accounting Standards.

The Financial Statements form part of the Annual Report which will be submitted for Council approval on 17 December 2019.

The net result surplus was \$7,730,891. This compares with a budget of \$3,178,758.

Revenue

- Rates collected are \$2.3m above the original budget due to higher than forecast interim rates; and
- Fees and charges are \$0.9m above the original budget due to higher parking fee revenue than forecast.

Expenditure

- Employee costs were in line with the budget for the year;
- Materials and contracts were below budget by \$4.6m being a combination of lower maintenance costs as well as the impact of lower spending on capital projects than forecast; and
- Depreciation and amortisation was below budget by \$1.2m also reflecting lower capital expenditure than budgeted.

Significant Items

- The replacement of walkways in the Forrest Place/Murray Street area (Padbury Walkways) resulted in a loss on disposal of \$3.3m.

Balance Sheet

- Current assets increased by \$19m due to an increase in net cashflow;
- Non-current assets have decreased by \$15.9m due to asset depreciation and disposals;
- Trade creditors rose by \$2.8m due to the change in accounting for footpath bonds which are now held as a liability and not held in trust;
- Non-current loans fell by \$6.9m as principal repayments were made and no new loans drawn down;
- Accumulated surplus increased by \$11.2m due mainly to net surplus; and
- Net cash flow was a positive \$6.2m, operating activities generated \$52.7m, capital expenditure on assets was \$26.1m net of disposal proceeds and \$7.4m loan principal was repaid.

Audit Issues

No significant items were raised in the audit management letter (Attachment 8.3C) and management is responding to all items raised.

Financial Implications:

This report and the financial statements demonstrate the sound financial position of the City at 30 June 2019.

Officer Recommendation

That the Audit and Risk Committee RECEIVES the Audited Financial Statements for the Year Ended 30 June 2019 as detailed in Attachment 8.3A.

MOVED WITH AMENDMENT

Moved Commissioner Hammond, seconded Commissioner McMath

That the Committee amend the Officer Recommendation as follows:

That the Audit and Risk Committee:

- 1. RECEIVES the Audited Financial Statements for the Year Ended 30 June 2019 as detailed in Attachment 8.3A; and***
- 2. REQUESTS an update on the progress of the findings identified within Confidential Attachment 8.3B be provided at the next Audit and Risk Committee meeting.***

PRIMARY MOTION AS AMENDED

That the Audit and Risk Committee:

- 1. RECEIVES the Audited Financial Statements for the Year Ended 30 June 2019 as detailed in Attachment 8.3A; and***
- 2. REQUESTS an update on the progress of the findings identified within Confidential Attachment 8.3B be provided at the next Audit and Risk Committee meeting.***

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

5.56pm Commissioner Hammond departed the meeting.

6.00pm Commissioner Hammond returned to the meeting.

MOTION TO REOPEN THE MEETING TO THE PUBLIC.

Moved Commissioner Kosova, seconded Commissioner Hammond

That the Committee REOPEN the meeting to members of the public.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

6.09pm The meeting was reopened. As there were no members of public were in attendance, the resolution of Item 8.3 was not read aloud.

6.12pm Ms Drummond departed the meeting and did not return.

Item 8.4 Internal Audit 2019/20 – Fraud and Corruption Controls Review July 2019

FILE REFERENCE: P1026043-2
 REPORTING OFFICER: Mario Cheldi, Internal Auditor
 REPORTING UNIT: CEO Alliance
 RESPONSIBLE ALLIANCE: CEO
 REPORT AUTHOR DISCLOSURE OF INTEREST: Nil
 DATE: 23 July 2019
 ATTACHMENT/S: Attachment 8.4A – Fraud and Corruption Controls Review Report July 2019

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
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- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

Legislation *Local Government (Audit) Regulations 1996*

City of Perth Act 2016 **Objects of the City of Perth**
 8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
 Strategic Priority - Leadership

Policy
 Policy No and Name: 19.1 – Risk Management

Purpose and Background:

Approval of the Fraud and Corruption Controls Review completed in accordance with the Internal Audit Plan 2019/20.

Details:

The results of this review are detailed in Attachment 8.4A.

Financial Implications:

There are no financial implications related to this report.

Comments:

Nil.

Moved Mr Maurich, seconded Commissioner Hammond

That Council APPROVES the Fraud and Corruption Controls Review July 2019 as part of the Internal Audit Plan 2019/20 as detailed in Attachment 8.4A.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

6.30pm Mr Arulsingham and Mr Baxter departed the meeting and did not return.

Item 8.5 Compliance Audits – City of Perth and New South Wales/Victorian Government Transport Authority Agreements

FILE REFERENCE: P1026043-2
 REPORTING OFFICER: Niloha Mendoza, Assistant Internal Auditor
 REPORTING UNIT: CEO Alliance
 RESPONSIBLE ALLIANCE: CEO
 REPORT AUTHOR DISCLOSURE OF INTEREST: Nil
 DATE: 23 July 2019
 ATTACHMENT/S: N/A

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
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- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

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

City of Perth Act 2016 **Objects of the City of Perth**
 8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
 Strategic Priority - Leadership

Policy
 Policy No and Name: 19.1 – Risk Management

Purpose and Background:

Access to interstate vehicle registration details is required by the City of Perth (the City) for the purposes of enforcing parking infringements incurred by interstate vehicle owners and drivers within the City's boundaries.

In 2014 the City entered into two agreements to access and use interstate vehicle registration details. These agreements are as follows:

- DRIVES24 Terms of Access Agreement (NSW Roads and Maritime Services (RMS)); and
- Information Protection Agreement (Roads Corporation of Victoria (VicRoads)).

The above agreement with VicRoads was superseded by a new agreement on 1 April 2019.

New South Wales (NSW) and Victoria are the only states or territories which the City has an agreement with for accessing motor vehicle registration details. These agreements are a result of the NSW and Victoria transport authorities' obligations to protect customer personal information (vehicle owner and driver details) as required by their respective state privacy legislation.

The City is required by the abovementioned state government authorities to have a review undertaken for each financial year with respect to its compliance with the relevant agreement. Failure to carry out these audits by the due date may result in access to vehicle registration detail information being suspended by the relevant government authority, which in turn affects the ability of the City to enforce and collect revenue from parking infringements incurred by NSW and Victorian drivers and vehicle owners.

The City's parking infringements are managed by the Legal Compliance and Infringement Services section (previously Infringement Support section) of the Parking Services Unit. In 2014, Internal Audit was requested by the Infringement Support section to carry out audits in relation to compliance with the abovementioned agreements. These compliance audits were undertaken by Internal Audit for the 2014/15 financial year and have been included within the approved Internal Audit Plan for each financial year since.

This report provides a summary of the abovementioned compliance audits completed for the 2018/19 financial year.

As per Pathway system records, during the 2018/19 financial year the City issued 243 parking infringements to NSW vehicle owners and drivers, and 533 parking infringements to Victorian vehicle owners and drivers which raised revenue of \$20,635 and \$42,745 respectively.

Details:**Compliance with DRIVES24 Terms of Access Agreement (RMS)**

The NSW Roads and Maritime Services (RMS) is the NSW Government agency responsible for the registration of vehicles and the issuing of driver's licences in New South Wales.

The RMS vehicle registration and driver licensing system, known as DRIVES, is the electronic records management system operated by the RMS to process and record NSW vehicle registrations and driver's licences. RMS use and disclosure of personal information contained on DRIVES is subject to the *Privacy Act 1988* (Cth), *Privacy and Personal Information Protection Act 1998* (NSW), and the confidentiality provisions of the *Road Transport Act 2013* (NSW).

DRIVES24 is the interface by which the City obtains read-only access to DRIVES. An agreement to access DRIVES24 to obtain NSW vehicle registration information was entered into by the City on 29 May 2014.

Access to the DRIVES24 interface and the use of DRIVES information has been granted by RMS and is restricted to staff within the Legal Compliance and Infringement Services section of Parking Services with a legitimate need for DRIVES information (i.e, to facilitate the issue of parking infringements) and who have signed a DRIVES External User Account Request Form (Authorised Users). Under the DRIVES24 Terms of Access Agreement with RMS (the 'DRIVES24 Agreement'), the Infringement Support Team Leader is the Security Administrator. This position title has now changed to Supervisor, Legal Compliance & Infringement Services.

The DRIVES24 Agreement provides for Authorised Users to access the records held in DRIVES24 for the purpose of enforcing the following legislation listed within the agreement:

- *Road Traffic Act 1974* (WA); and
- *City of Perth Parking Local Law 2017*.

This audit comprised a review of the City's compliance with the requirements of the agreement, categorised under the following broad guidelines:

- Use of DRIVES24 and DRIVES information;
- Internal guidelines and procedures;
- Personnel security checks;
- Premises (local and remote access);
- Records, audit and inspection; and
- Review of access audit logs for users for annual compliance certificate.

As per the a DRIVES24 Agreement, RMS provided the City with access logs for three out of eight Authorised Users who accessed the DRIVES24 interface from February to May 2019. Those access logs were required to be reviewed as part of this audit to confirm that access to DRIVES24 information is in accordance with the permitted purpose contained within the agreement. A total of 41 searches were reviewed on the access logs and compliance with this permitted purpose was confirmed. No issues of concern were identified.

The audit has found that the City has complied with the RMS DRIVES24 Terms of Access Agreement and Guidelines for the 2018/19 financial year.

As per the DRIVES24 Agreement, an annual audit report template and Compliance Audit Certificate (provided by RMS) were completed and submitted to RMS prior to the 29 May 2019 deadline.

Compliance with Information Protection Agreement (VicRoads)

The Roads Corporation of Victoria (VicRoads) is the road and traffic authority in Victoria, and is responsible for driver licensing and vehicle registration in that state. Use and disclosure of information maintained by VicRoads is subject to the *Privacy Act 1988* (Cth), *Primary and Data Protection Act 2014* (Vic), and confidentiality provisions of the *Road Safety Act 1986* (Vic).

The City's access to VicRoads information (the 'Information') was agreed on 12 February 2014 as per the Information Protection Agreement (IPA). This agreement was replaced by a new IPA on 1 April 2019. Access and use of the Information is granted by VicRoads and is restricted to only those employees who have a genuine operational need to use the Information. Under the current IPA the Supervisor, Legal Compliance & Infringement Services is the Organisation Representative. The City is required to have a review undertaken for each financial year to assess compliance with the IPA.

The City obtains the Information (i.e. vehicle owner names and addresses) from VicRoads via email containing a secure file attachment in order to enforce infringements as per the following legislation listed within the current IPA:

- *Local Government Act 1995* (WA);
- *Fines Penalties and Infringement Notice Enforcement Act 1994* (WA);
- *Road Traffic Act 1974* (WA); and
- *Road Traffic (Administration) Act 2008* (WA).

Under the current IPA, VicRoads has adopted a risk-based audit approach. A template was provided by VicRoads for the City to assess its compliance with the following broad areas:

- Privacy and Data Security;
- Records and Change Management (employee changes);
- Breach Management; and
- Subcontractors (not applicable for the City of Perth).

The City was required to provide its controls under each of the above areas and these were listed on the IPA Annual Audit Report template. In addition, the City was required to rate its controls under a VicRoads maturity rating scale (zero to three). The Internal Audit Team has rated relevant controls at an average of just over two. Under the VicRoads maturity rating scale two means "The Recipient's

controls are designed and approaching maturity, with only minor improvements needed, but only partially implemented.”

IPA Annual Audit Report template also requested recommendations for improvements to controls as required. A number of recommendations were made on the template and are summarised as follows:

- City’s VicRoads policy and procedure to be updated in line with the new VicRoads IPA (including Australian Privacy Principles contained within *Privacy Act 1988* (Cth));
- Records of in-house VicRoads IPA training provided to Nominated Persons (employees who are authorised to access the information) including training on the Australian Privacy Principles contained in the *Privacy Act 1988* (Cth) to be maintained by the Organisational Representative;
- Periodic review of the City’s Register of Nominated Persons to identify changes to these persons and timely notification of these changes to VicRoads to be undertaken by the Organisational Representative; and
- Documentation of spot checks (refer below) to be carried out by the Organisational Representative.

Recommended improvements were agreed with the Organisational Representative as well as the Manager Parking Services.

In addition, the IPA Annual Audit Report template requires spot checks to be undertaken to test whether the “Information is requested, accessed, used or disclosed for the Purpose [of the IPA] only”.

Under the IPA the City requires the VicRoads information for the following purpose: “The prevention, detection, investigation and prosecution of offences and enforcement of penalties in relation to parking, traffic, abandoned vehicles and other local matters, where the council is the law enforcement agency, including the preparation for and conduct of related proceedings or the protection of public revenue.”

A sample of 203 (out of 279) access requests for VicRoads vehicle registration details were reviewed for the period 1 July 2018 to 30 June 2019. Sample testing has confirmed that this information was accessed and used for the abovementioned purpose by Nominated Persons (refer above). No issues of concern were identified.

The overall conclusion of this audit is that there is evidence to provide assurance that existing controls over the management of VicRoads information security and access requirements as per the IPA are adequate and being observed by the City of Perth. However, there is scope for improvement in these controls as per the recommendations summarised above.

The completed and signed off annual audit report template was submitted to VicRoads prior to the 31 July 2019 deadline.

Financial Implications:

There are no financial implications related to this report.

Comments:

The cooperation and assistance received from a number of relevant staff within the Legal Compliance and Infringement Services section to enable the completion of these audits is appreciated.

Moved Commissioner Hammond, seconded Commissioner Kosova

That Council APPROVES the Compliance Audits - City of Perth and New South Wales/Victorian Government Transport Authority Agreements, as part of the Internal Audit Plan for 2018/19 and 2019/20.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

Item 8.6 Moore Stephens Financial Management Review

FILE REFERENCE:	P1037237
REPORTING OFFICER:	Mario Cheldi, Internal Auditor
REPORTING UNIT:	CEO Alliance
RESPONSIBLE DIRECTORATE:	CEO
REPORT AUTHOR DISCLOSURE OF INTEREST:	Nil
DATE:	13 September 2019
ATTACHMENT/S:	Attachment 8.6A – Moore Stephens Financial Management Review September 2019 Attachment 8.6B – Findings Implementation Planning Sheet Attachment 8.6C – Risk and Audit Response Matrix

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
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- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

Legislation Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*

City of Perth Act 2016 **Objects of the City of Perth**
8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
Strategic Priority - Leadership

Policy
Policy No and Name: 19.1 – Risk Management

Purpose and Background:

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* states that the CEO is to “undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews”.

Moore Stephens were engaged by the City to undertake a Financial Management Review as required by the above legislation. The results of this review are provided within their final report (Attachment 8.6A).

Details:

The Financial Management Review was carried out by Moore Stephens between February and March 2019.

Financial systems and procedures examined by Moore Stephens are outlined on page six of their final report (Attachment 8.6A). An examination of these financial systems and procedures for the period 1 July 2018 to 31 January 2019 was undertaken.

Draft reports on the Financial Management Review were provided by Moore Stephens in March and May 2019. Management comments to the findings within the draft report were received from the former Manager Finance in August 2019. The final report was issued by Moore Stephens in September 2019.

On page five of their final report, Moore Stephens have provided the following conclusion in respect of their Financial Management Review:

“Based on our work described in this report, nothing has come to our attention to indicate the City of Perth has not established and maintained, in all material respects, appropriate and effective financial management systems and procedures during the period covered by our review being 1 July 2018 to 31 January 2019.”

A number of opportunities for improvement (findings) were identified by Moore Stephens and these are described within sections 3 and 4 of their final report. The former Manager Finance accepted the findings and provided comments including proposed actions to address these findings. However, persons responsible for actions to address findings and timeframes for completion of actions were not included within these management comments. The management comments have been incorporated into the final report by Moore Stephens (Attachment 8.6A).

A Findings Implementation Planning Sheet (Attachment 8.6B) has been prepared by the Internal Auditor which summarises the findings and risk rating given to these findings by Moore Stephens. This sheet provides an equivalent City of Perth risk rating for the findings. Based on the City of Perth risk rating, the Risk and Audit Response Matrix (Attachment 8.6C) was used to determine a timeframe for completion of action for addressing the findings using a baseline date of 28 August 2019 (the date that management comments to the findings were received from the former Manager Finance).

It should be noted that confirmation was obtained that the high-risk findings within the Findings Implementation Planning Sheet (Attachment 8.6B) have already been implemented. The status of findings within this sheet will be reported to the next Audit and Risk Committee meeting (to be scheduled in February 2020) as part of the Outstanding Audit Items Report.

Financial Implications:

There are no financial implications related to this report.

Comments:

Confirmation was obtained from the Risk Management Coordinator that the Risk and Audit Response Matrix (Attachment 8.6C), as approved by the Audit and Risk Committee at its meeting held 20 May 2019, is to apply to the findings of reviews carried out by external parties.

Moved Commissioner Hammond, seconded Commissioner Kosova

That Council RECEIVES the report on the Moore Stephens Financial Management Review.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

Meeting Note: The Committee members requested an update on the progress of Attachment 8.6B be provided at the next Audit and Risk Committee meeting.

MOTION TO CLOSE THE MEETING TO THE PUBLIC

Moved Mr Maurich, seconded Commissioner Kosova

That the Committee RESOLVES to close the meeting to the public to consider Confidential Attachments to Items 8.2 and 8.7 in accordance with section 5.23(2) of the Local Government Act 1995.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, Kosova and McMath

Against: Nil

6.38pm The meeting was closed to the public.

Item 8.7 Internal Audit Plan 2019/20 – Cyber Security Review

FILE REFERENCE: P1026043-2
 REPORTING OFFICER: Mario Cheldi, Internal Auditor
 REPORTING UNIT: CEO Alliance
 RESPONSIBLE ALLIANCE: CEO
 REPORT AUTHOR DISCLOSURE OF INTEREST: Nil
 DATE: 28 October 2019
 ATTACHMENT/S: Confidential Attachment 8.7A – ISO 27001:2013 Review (Executive Summary and Introduction)
 Confidential Attachment 8.7B – Office 365 Connectivity and Performance (Report and Recommendations)
 Confidential Attachment 8.7C – Office 365 Security Optimisation Assessment (Introduction, Executive Summary and Findings Table)
Confidential attachments are distributed to Committee Members under separate cover

Council Role:

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- Executive *The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative *Includes adopting local laws, town planning schemes and policies*
- Quasi-Judicial *When the Council determines an application/matter that directly affects a person’s right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*
- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

Legislation Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*

City of Perth Act 2016**Objects of the City of Perth**

8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors

Integrated Planning and Reporting Framework Implications**Strategic Community Plan**

Strategic Priority - Leadership

Policy

Policy No and Name:

19.1 – Risk Management

13 – End User ICT Information Security

14 – ICT Operational Security

Purpose and Background:

The purpose of this report is to seek approval of the Cyber Security Review completed as part of the Internal Audit Plan 2019/20.

Cyber security is the practice of protecting systems, networks and programs from digital attacks. These attacks are usually aimed at accessing, changing or destroying sensitive information, extorting money from individuals, or interrupting normal business processes. Effective cyber security reduces the risk of attacks and protects organisations and individuals from the unauthorised exploitation of systems, networks and technologies.

The terms “cyber security” and “information security”, are often used interchangeably, however, cyber security refers to protecting data and information from outside sources in cyberspace or the internet. Information security, on the other hand, is a broader term which relates to protection of data and information in general.

At its meeting held 5 November 2018, the Audit and Risk Committee requested that cyber security be embedded in the Risk Plan and considered in the audit process.

In January and February 2019, meetings were held between the Internal Auditor, Risk Management Coordinator, Manager Information Technology (IT) and Coordinator Infrastructure IT in relation to cyber and information security within the City as well as a proposal for Internal Audit to carry out a review in this area.

The inclusion of the Cyber Security Review as part of the Internal Audit Plan 2019/20 was later raised by the Internal Auditor with the Independent Member of the Audit and Risk Committee on 21 March 2019. The Independent Member agreed with the inclusion of this review within this plan. A draft

Internal Audit Plan 2019/20 including a Cyber Security Review was subsequently approved by the Audit and Risk Committee and Council in May 2019.

The Cyber Security Review was scheduled within the Internal Audit Plan 2019/20 to be undertaken during September and October 2019. During discussions held in August 2019 with the abovementioned IT staff it was identified that the unit had recently engaged IT consultancy firms to carry out a number of assessments which have provided findings and recommendations to improve information security within the City. The assessments undertaken by the IT consultancies are summarised below. Discussions in relation to these assessments including status of recommendations were held with the Coordinator Infrastructure and Microsoft System Specialist, during September and October 2019. These staff are members of the Infrastructure Team, which plays a key role in the maintenance of IT technical security controls within the City.

Discussions in relation to cyber and information security were also held with the Manager ICT (refer comment on new unit name below) in October 2019. As a result of these discussions it was identified that the City has a number of existing controls in place to mitigate cyber and information security risks. These controls are described below.

Overall conclusion on cyber and information security within the City, based on the findings of this review, is provided in the “Comments” section of this report.

Finally, it should be noted that as part of the new alliance structure within the City, the IT Unit is now known as the Information and Communication Technology (ICT) Services Unit and the IT Manager was appointed as the ICT Services Unit Manager, effective 16 September 2019.

Details:

Information security assessments

The following information security assessments at the City have been undertaken by independent IT consultancy firms during 2019.

ISO 27001: 2013 Review

In May 2019, IT engaged IT security specialist firm ES2 to undertake an ISO 27001:2013 Review at the City. This involved a review of the effectiveness and maturity of information security management processes across the City, utilising ISO 27001:2013 as the baseline standard for comparison. ISO 27001:2013 is the international standard for the management of information security and provides a holistic coverage of information security across the following 14 security domains:

- Information Security Policies;
- Organisation of Information Security;
- Human Resource security;

- Asset Management;
- Access Control;
- Cryptography;
- Physical and Environmental Security;
- Operations Security;
- Communications Security;
- System Acquisition, Development and Maintenance;
- Supplier Relationships;
- Information Security Incident Management;
- Information Security Aspects of Business Continuity Management; and
- Compliance.

The report on the ISO 27001:2013 Review was completed by ES2 in June 2019. As stated within the Executive Summary section of this report (Attachment 8.7A) *"...while not planning to achieve ISO 27001 certification in the near future, this assessment will aid the City of Perth in understanding the Information Security effort required to bring the organisation in line with good security practices, to aid with the remediation of any risks discovered during the engagement, and to provide the building blocks to work towards alignment with ISO 27001."*

ES2 make mention within the Executive Summary of their report that the City has solid information security foundations already in place. A number of positive attributes associated with the City's security practice has been highlighted by ES2 within the Executive Summary as follows:

- Strong technical and procedural controls particularly with respect to the server infrastructure environment which has benefitted from the security uplift activities that were required for PCI DSS compliance. (The Payment Card Industry Data Security Standard (PCI DSS) is an information security standard for organisations that handle branded credit cards from the major card schemes. This standard was created to increase controls around cardholder data to reduce credit card fraud);
- Network segmentation, end-point protection, vulnerability management, and incident and event monitoring (provided by the Symantec Security Operations Centre) are in place and providing good protection for the City of Perth's information assets; and
- The implementation of ITIL processes for operations and service management several years ago have matured to help to control risks before they eventuate (e.g. change management)

as well as managing them post-incident (e.g. incident management). (ITIL, formerly an acronym for Information Technology Infrastructure Library, is a set of detailed practices for IT service management that focuses on aligning IT services with the needs of the business. ITIL is the most widely accepted approach to IT service management in the world).

The ES2 report highlights the top five recommendations from their review which upon implementation will provide “...a considerable increase in the effectiveness and maturity levels of information security across the business”. These top five recommendations have been summarised from a number of different findings across the report and logically grouped to assist the City better understand the work required to increase their security maturity, and are as follows:

- Develop an Information Security Governance Framework;
- Drive an Information Security Culture Change program;
- Conduct an Information Classification Exercise;
- Implement Technical Controls; and
- Enhance the Security capability within the IT team.

Specific details under each of the above five recommendations are contained within the Executive Summary section of the ES2 report on the ISO 27001:2013 Review (Attachment 8.7A).

The abovementioned recommendations were accepted by IT management following receipt of the ES2 report in June 2019.

The ISO 27001:2013 Review is the first deliverable of an information security program being undertaken by ES2. The second deliverable is a roadmap of key initiatives required to align business and IT operations to the ISO 27001:2013 standard. IT were awaiting the appointment of an ICT Services Unit Manager (refer Purpose and Background section above), prior to inviting ES2 back into the City to develop the abovementioned roadmap. As at the date of this report, ES2 consultants were scheduled to meet with key ICT staff to commence the development of the roadmap in early November 2019.

The last deliverable of the ES2 program is the ISO 27001:2013 Final Audit. After remediation of the identified gaps, ES2 will conduct a final audit of the City’s IT security environment and report on the effectiveness of improvement actions and note any outstanding items.

Office 365 Connectivity and Performance Review

In June 2019, IT consultancy firm Dimension Data were engaged to investigate performance issues relating to connecting to the City of Perth Microsoft Office 365 (O365) tenant. These performance issues comprised extensive login times, followed by slow performance whilst connecting both internally and externally to O365. Dimension Data were requested to investigate the following items:

- Investigate and identify any issues with connectivity from the internal network to O365 Services;
- Investigate and identify any issues with connectivity from the external network to O365 Services;
- Provide guidance and best practice recommendations to remediate any issues identified; and
- Provide a summary of findings and recommendations post investigation.

Dimension Data within their report on this review have made a number of IT technical findings and recommendations in relation to user connectivity and authentication within Office 365 (refer Attachment 8.7B).

There are also a number of additional service findings and recommendations within the Dimension Data report including reducing the number of global admin accounts (for Systems Administrators) which were identified to be in place since implementation of Office 365 in 2017. These accounts provide access to most management features and data across Microsoft online services. As a result, multiple global admin accounts create a security risk.

The Microsoft System Specialist has advised that as at 28 October 2019, around 70% of the recommendations highlighted within the Dimension Data report had been addressed with work continuing on addressing the remaining recommendations.

Office 365 Security Optimisation Assessment

In July 2019, an Office 365 Security Optimisation Assessment was undertaken by Microsoft as a value add service provided under the City's agreement with Microsoft. This assessment was planned separate from the abovementioned Office 365 Connectivity and Performance Review. The City's Microsoft System Specialist has advised that this assessment will be undertaken again in 2020.

For this Office 365 Security Optimisation Assessment, the City had engaged Microsoft to provide recommendations in order to optimise the security posture of their Office 365 tenant, focussing on email security, identity, SharePoint Online, and Skype for Business Online.

A report on this assessment is dated 8 August 2019. Introduction, Executive Summary and Findings Table sections of this report can be found within Attachment 8.7C. As per the Introduction section the following was included within the scope of this assessment:

- Conduct a full security assessment of the current configuration of the Office 365 tenant;
- Highlight any remediation items that need to be completed to align with recommended practices; and
- Provide contextualised education and information on Office 365 security features.

The report contains a total of 65 security issue findings. The Executive Summary section of the report (Attachment 8.7C) highlights items identified by Microsoft to be high risk or in contradiction with the City’s security policies.

The security issue findings for this assessment have been classified by Microsoft based on their recommendations. Recommendation classifications are colour-coded and described below.

Microsoft recommendation classification		Number for City of Perth assessment
	Change Strongly Recommended Items within this rating are likely to have a significant risk exposure on the security of your organisation’s tenant, therefore, change is strongly recommended.	25
	Change Recommended Items within this rating are likely to have some impact towards your organisation’s security posture.	28
	Review against your organisation’s policies Your organisation may have security policies in place which the current configuration may impact. Review the configuration item to determine if it fits in line with your organisation’s security policies.	12
Total		65

The 25 security issue findings classified by Microsoft as “Change Strongly Recommended” have been listed on a Remediation Planning Spreadsheet. As a result of discussions with the City’s Microsoft System Specialist, it was determined that as at 28 October 2019, 13 out of 25 of these security issue findings have been addressed with work carrying out on a continual basis for addressing the remaining findings. It was confirmed by the Microsoft System Specialist that it is planned to address the remaining security issue findings (those classified as “Change Recommended” or “Review against your organisation’s policies”), following the City addressing all items classified as “Change Strongly Recommended”.

As advised by the Coordinator Infrastructure, the recommendations from the Office 365 Security Optimisation Assessment provide the details around the required IT security controls highlighted within the ISO 27001:2013 Review carried out by ES2 (refer above).

Microsoft have applied one of the following “Cybersecurity Functions” to each of the 65 classified recommendations:

- Protect – Use preventative measures to harden the organisation from security threats;
- Detect – Process information and signals when security incidents have occurred; or
- Respond – Remediate issues uncovered as part of a security incident.

According to the Coordinator Infrastructure, during their review Microsoft tested the integrity of the City’s network and found no indication of suspicious activity.

It should be noted that there is duplication in the recommendations of the Office 365 Security Optimisation Assessment and the Office 365 Connectivity and Performance Review. However, as confirmed by the Coordinator Infrastructure, the Office 365 Security Optimisation Assessment is the current key document for the improvement of IT security controls within the City.

Existing information security controls

Payment Card Industry Data Security Standard

The City's IT security controls have been audited by Qualified Security Assessors and assessed to be compliant in 2017, 2018 and 2019 (evidence sighted) with the Payment Card Industry Data Security Standard (PCI DSS). This standard is a comprehensive set of controls designed to protect credit card data while in the hands of merchants. The City has leveraged the technologies, processes and governance required under the PCI DSS to maintain a high level of security across all critical systems.

The comprehensive controls required under PCI DSS encompass many IT security domains including:

- Secure administration and system configuration;
- Change, vulnerability, threat and incident management;
- Threat detection capabilities, antimalware, intrusion detection, event logging and monitoring;
- Policy enforcement, user awareness and training;
- On-boarding/off-boarding processes and access control;
- Encryption and key management; and
- Annual security (penetration) testing for applications, servers and network.

ES2 identified from their ISO 27001:2013 Review (Attachment 8.7A) that the City has *"...strong technical and procedural controls particularly with respect to the server infrastructure environment which has benefitted from the security uplift activities that were required for PCI DSS compliance."*

Information Technology Infrastructure Library (ITIL) processes

As previously mentioned, Information Technology Infrastructure Library (ITIL) is a set of detailed practices for IT service management that focuses on aligning IT services with the needs of the business.

ITIL processes allow the management of IT incidents whether security related or not in a quality practiced manner to reduce the impact to the City's operations and mitigate future threats from lessons learned.

During the ISO 27001:2013 Review, ES2 noted (Attachment 8.7A) that *"...the implementation of ITIL processes for operations and service management several years ago have matured to help to control*

risks before they eventuate (eg change management) as well as managing them post-incident (eg. incident management).”

Strategic relationships with IT security companies

The ICT Unit maintains strategic relationships with a number of IT security companies. These companies are engaged to provide specialist services such as threat feeds and alerts, computer forensic services and technology specific advice on an as needed basis.

Policies, plans and training

Two organisational policies relating to information security are in place: 13 – End User ICT Information Security Policy; and 14 – ICT Operational Security Policy.

An IT Strategic Plan 2018 to 2022 has been established with Cyber Security listed as a strategic objective for 2019. This strategic plan is to be succeeded by an ICT Strategy with ICT security across the organisation as an objective of this new strategy.

An Information Governance project is underway within the organisation. This project has two parts – an Information Governance Framework and Information Governance Policy. The Information Governance Framework is being managed by the ICT unit and is currently at a proof of concept stage. This framework will result in the implementation of a new cyber security governance framework and update of existing information security policies.

An Information Governance Policy is to be developed by the Information Management section of the Governance Unit.

Finally, staff must complete IT Security Awareness training via the City Learn system as part of the induction process and the annual staff refresher training programme.

Risk management

The City’s Risk Management Team undertake business unit operational risk assessment workshops involving key unit staff. Risks are identified from these workshops, documented and assessed by the team.

During an IT risk assessment workshop undertaken in October 2018, the following risk in relation to IT security was identified:

- Failure to provide Information Technology security which adequately protects the City’s IT systems and data against breaches, viruses, malware and intrusions.

Controls effectiveness for the above risk identified in October 2018 was assessed as adequate and a risk rating of medium was assigned to this risk by the Risk Management Team.

The above risk was reassessed in June 2019 via a workshop facilitated by the Risk Management Team with key IT staff. This reassessment also resulted in the team arriving at a controls effectiveness rating of adequate and risk rating of medium for this risk.

As sighted, the above risk is included within the latest IT Unit Business Plan 2018/19 with an action description of semi-annual review, which is in line with the City's Risk Acceptance Criteria for a risk with a medium risk rating.

Financial Implications:

There are no financial implications related to this report.

Comments:

The abovementioned information security assessments carried out in 2019 have provided ICT with a firm understanding of where the City is positioned with its information security and what is needed to be put into place to improve this security.

A high priority has been assigned by ICT to implementing the recommendations to improve technical information security controls as outlined within the Dimension Data and Microsoft information security assessment reports. ICT has demonstrated that it is well advanced in implementing these recommendations.

The ES2 review to benchmark the City against ISO 27001 has resulted in five key recommendations to improve information security maturity. These recommendations have been accepted by ICT management. Development of a roadmap towards ISO 27001 certification has commenced with ES2.

The overall conclusion from this review is that the City already has solid information security foundations in place (as confirmed by ES2 and in discussions with ICT staff as mentioned above), however is demonstrating a willingness to improve on this security by implementing the recommendations made from the abovementioned information security assessments. In addition, the City has made a commitment to increasing its information security maturity by taking the first steps towards certification with ISO 27001.

The cooperation and assistance received from the Coordinator Infrastructure, Microsoft System Specialist and Manager ICT to enable the completion of this review is appreciated.

Moved Commissioner Kosova, seconded Commissioner Hammond

That Council APPROVES the Cyber Security Review carried out as part of the Internal Audit Plan 2019/20.

The motion was put and carried

The votes were recorded as follows:

COMMITTEE MINUTES

TUESDAY, 19 NOVEMBER 2019

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

Meeting Notes: Commissioner Hammond requested that future Audit and Risk Committee meeting agendas be reviewed for compliance with Section 5.23 of the *Local Government Act 1995* prior to publication.

Item 8.2 Risk Management Quarterly Update – November 2019

FILE REFERENCE: P1013822-3
 REPORTING OFFICER: Tess Jackson, Risk and Business Continuity Officer
 REPORTING UNIT: Strategy and Recovery
 RESPONSIBLE ALLIANCE: CEO Alliance
 REPORT AUTHOR DISCLOSURE OF INTEREST: Nil
 DATE: 30 October 2019
 ATTACHMENT/S: Attachment 8.2A - High and Extreme Risks Report
 Confidential Attachment 8.2B - High and Extreme Risks Report
 Attachment 8.2C - Strategic Risk Register
 Confidential Attachment 8.2D - Strategic Risk Register
 Attachment 8.2E - Risk and Audit Response Matrix
Confidential attachments are distributed to Committee Members under separate cover

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive *The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative *Includes adopting local laws, town planning schemes and policies*
- Quasi-Judicial *When the Council determines an application/matter that directly affects a person’s right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*
- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

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

City of Perth Act 2016 **Objects of the City of Perth**
8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
Strategic Priority - Leadership

Policy
Policy No and Name: 19.1 – Risk Management

Purpose and Background:

This report provides the quarterly update for the City’s operational and strategic risks.

Details:

City of Perth Risk Profile

As at 6 November 2019, there are 143 operational risks and six strategic risks which make up the City’s Risk Profile. Figure 1 highlights the percentage of inadequate controls in place to mitigate the City’s identified risks, at each level, based on the City’s Risk Assessment Criteria.

Figure 1: Percentage of inadequate risk controls in place, as at 6 November 2019.

Operational and Strategic Risks	Inadequate Controls
Extreme Risks – 5 risk	100%
High Risks – 19 risks	79 %
Medium Risks – 104 risks	21 %
Low Risks – 21 risks	0%

The attachments to this report provide the details for all high and extreme risks including the status updates for their respective risk treatment action plans.

Four operational risks previously rated as high have been reviewed down to medium level, due to the work carried out over the past six months. These risks are listed below;

1. Corporate Governance Framework;
2. Cash Handling;
3. Recruitment; and
4. Management of leases, licences and legal agreements.

The details to the risks is provided for in Attachment 8.2A and Confidential Attachment 8.2B of this report.

City of Perth Risk Profile (Operational and Strategic Risks)

	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	M	1 Risk(s)	H	E	E
Likely	M	4 Risk(s)	7 Risk(s)	4 Risk(s)	E
Possible	L	2 Risk(s)	53 Risk(s)	11 Risk(s)	1 Risk(s)
Unlikely	3 Risk(s)	15 Risk(s)	23 Risk(s)	15 Risk(s)	1 Risk(s)
Rare	L	2 Risk(s)	1 Risk(s)	6 Risk(s)	M

City of Perth Risk Acceptance Criteria

Low	Risk acceptable with adequate controls, managed by routine procedures and subject to annual monitoring
Medium	Risk acceptable with adequate controls, managed by specific procedures and subject to semi-annual monitoring
High	Risk acceptable with effective controls , managed by senior management / executive and subject to quarterly monitoring. Quarterly reports will be provided to Council on all high risks
Extreme	Risks only acceptable with effective controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority and subject to monthly continuous monitoring. Quarterly reports will be provided to Council on all Extreme Risks

The City of Perth top 10 operational risks are listed below:

Risk ID	Risk Name	Controls Effectiveness	Risk Rating	Within the City's risk acceptance*
101	Procurement	Inadequate	Extreme	No
105	Electrical and Lighting infrastructure	Inadequate	High	No
60	Management of City Assets	Inadequate	High	No
61	Financial Sustainability of Assets	Inadequate	High	No
103	Protecting Crowded Places from Terrorism	Inadequate	High	No
120	Facilities Management – PCEC Car Park	Inadequate	High	No
124	Public Health Inspections	Inadequate	High	No
108	Licencing and Compliance of Public Health Premises	Inadequate	High	No
112	Event Approvals	Inadequate	High	No
106	Management of new assets (projects) handed over from State Government	Inadequate	High	No

*Risk acceptance is based on the City's Risk Acceptance criteria above.

Attachment 8.2A and Confidential Attachment 8.2B provide detail on the above risks including the other high operational risks.

The allocated risk treatment actions have been developed to specifically address the inadequacies of the key preventative and mitigating controls. All risks identified above, with the exception of Procurement, are required to have implemented plans within **one month** to address the risk, with resultant actions implemented, executed within **nine months** from 5 August 2019. The identified Procurement risk is required to have implemented plan(s) **immediately** to address the risk, with resultant actions implemented, executed within **three months** from August 2019. This in line with the Risk Response Matrix (Attachment 8.2E).

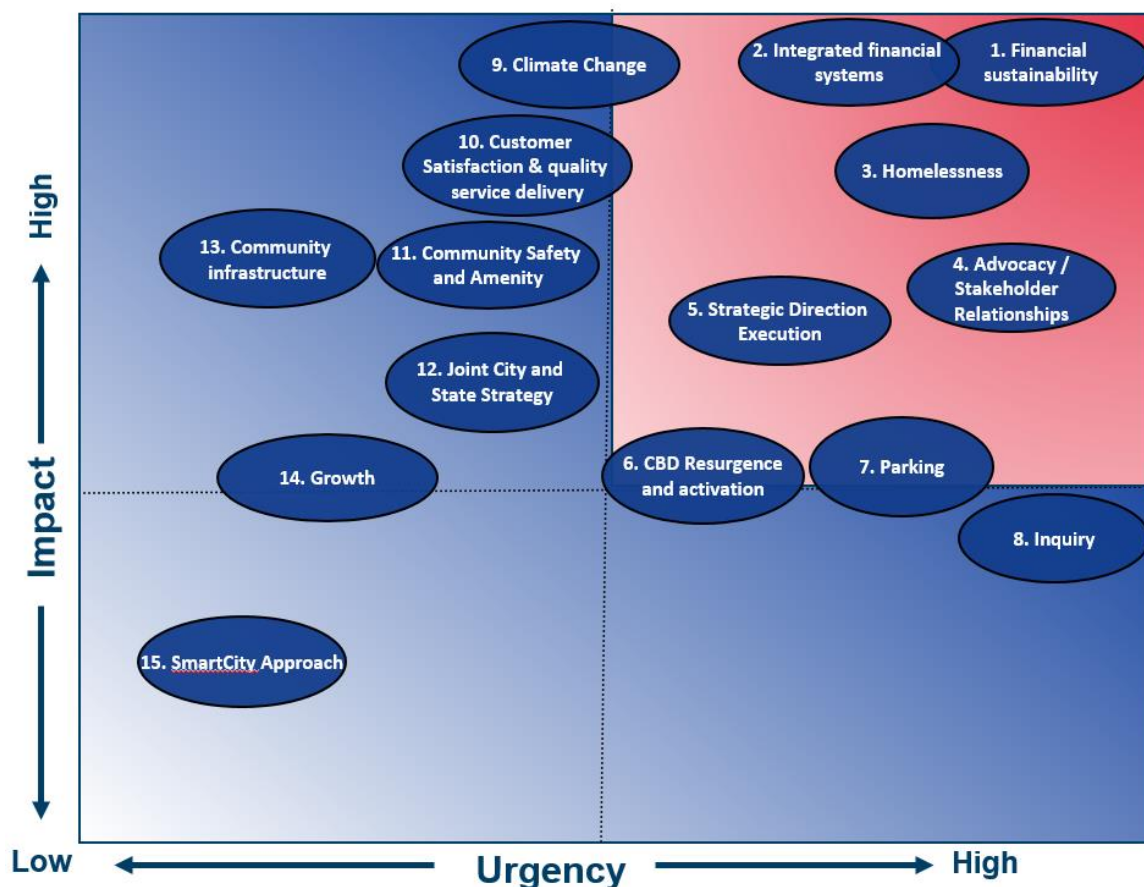
Strategic Risk

City of Perth definition of strategic risk:

- Identified through analysis of both the Strategic Community Plan and Corporate Business Plan and key issues that can impede the City from delivering on strategic objectives.
- Risks identified from the external environment, that affect the decisions made around organisational priorities, resource allocation, tolerance and acceptance of risk, as illustrated in the below matrix.

City of Perth - Key Opportunities and Concerns for 2019/20

(Political, Economic, Socio-demographic, Technological, Environmental, Internal)



The annual review of key opportunities and areas of concern was carried out by the Executive Leadership Team in late July 2019, with the below outcomes achieved;

- Established the City’s strategic priorities for 2019/20;
- Reviewed the strategic risks and their associated causes and impacts;
- Allocated key preventative and mitigating controls to the strategic risks; and
- Aligned the risk treatment actions into the Corporate Recovery Implementation Plan (CRIP).

The updated strategic risks (below) and associated risk treatment actions plans are provided in detail in Attachment 8.2C and Confidential Attachment 8.2D.

Risk ID	Risk Name	Controls Effectiveness	Risk Rating	Within the City's risk acceptance*
SR1	Strategic Direction Execution	Inadequate	Extreme	No
SR2	Financial Sustainability	Inadequate	Extreme	No
SR3	Stakeholder Relationships	Inadequate	High	No
SR4	Climate Change (NEW)	Inadequate	High	No
SR5	Homelessness (NEW)	Inadequate	Extreme	No
SR6	Integrated Financial Systems (NEW)	Inadequate	Extreme	No

*Risk acceptance is based on the City's Risk Acceptance criteria

The allocated risk treatment actions have been developed to specifically address the inadequacies of the key preventative and mitigating controls. The report seeks the Committee's endorsement of the reviewed strategic risk register, treatment actions and corresponding completion dates (Attachment 8.2C and Confidential Attachment 8.2D).

The report also seeks approval for the exceptions rule to be applied to all strategic risks as these will not be addressed within the timeframes dictated by the risk response matrix.

Business Continuity Update

A crisis exercise was conducted with the Crisis Management Team (CMT) in early July 2019. The objectives of the exercise included the below;

- Familiarise the CMT with the City's Crisis Management Plan and supporting documentation;
- Enhance understanding of roles and responsibilities in a crisis event; and
- Provide opportunities to further enhance the City's resilience.

The City's plans and processes will continue to be updated following recommendations from the exercise, as well as organisation structural changes.

Division of Committee

In October 2018, the City of Perth completed a Risk Maturity Assessment which identified opportunities to enhance Risk Management at the City. It was recommended to split the Corporate OSH and Risk Committee into two separate committees; one for Safety, Health and Wellbeing and one for Risk Management, Internal Audit and Legislative Compliance.

Separating the Corporate OSH and Risk Committee will allow focus on responsibilities in relation to specific functions including financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions, a direct progression to what is required for the Audit and Risk Committee.

The separation has now been enacted and a formal Terms of Reference will be developed for each of the new Committees over the coming month.

Financial Implications:

There are no financial implications related to this report.

Comments:

A review of the City's strategic and operational risks will be conducted following the successful introduction of the City's new Executive in November. The key focus will be on integrating risk into the planning and decision-making processes. Quarterly updates will continue to be provided to the Audit and Risk Committee.

Moved Commissioner Kosova, seconded Commissioner Hammond

That Council:

- 1. RECEIVES the Risk Management Quarterly Update for November 2019; and***
- 2. APPROVES the Strategic Risk Register as detailed in Attachment 8.2C and Confidential Attachment 8.2D.***

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

7.12pm Mr Kent and Ms Gosling departed the meeting and did not return.

MOTION TO REOPEN THE MEETING TO THE PUBLIC.

Moved Commissioner Hammond, seconded Commissioner Kosova

That the Committee REOPEN the meeting to members of the public.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

7.15pm The meeting was reopened. As there were no members of public were in attendance, the resolutions of Items 8.2 and 8.7 was not read aloud.

Item 8.8 Internal Audit 2019/20 – Investments Audit

FILE REFERENCE: P1026043-2
 REPORTING OFFICER: Niloha Mendoza, Assistant Internal Auditor
 REPORTING UNIT: CEO Alliance
 RESPONSIBLE ALLIANCE: CEO
 REPORT AUTHOR DISCLOSURE OF INTEREST: Nil
 DATE: 24 October 2019
 ATTACHMENT/S: Attachment 8.8A – Investments Audit Report October 2019

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive *The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative *Includes adopting local laws, town planning schemes and policies*
- Quasi-Judicial *When the Council determines an application/matter that directly affects a person’s right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*
- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

Legislation *Local Government (Audit) Regulations 1996*

City of Perth Act 2016 **Objects of the City of Perth**
 8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors

Integrated Planning and Reporting Framework Implications **Strategic Community Plan**
 Strategic Priority - Economic

Policy
 Policy No and Name: 19.1 – Risk Management

Purpose and Background:

Approval of the Investments Audit completed in accordance with the Internal Audit Plan 2019/20.

Details:

The results of this review are detailed in Attachment 8.8A.

Financial Implications:

There are no financial implications related to this report.

Comments:

Nil.

Moved Mr Maurich, seconded Commissioner Kosova

That Council APPROVES the Investments Audit October 2019 as part of the Internal Audit Plan 2019/20, as detailed in Attachment 8.8A.

The motion was put and carried

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

Meeting Note: Commissioner Hammond requested that a discussion paper that will inform the development of a new investments policy be developed as a priority.

The Presiding Member requested that for each matter to be considered by the Audit and Risk Committee at its future meetings, an appropriate technical or subject matter expert attend for the purpose of answering any questions asked by the Committee.

7.20pm Mr Ridgwell departed the meeting.

7.24pm Mr Ridgwell returned to the meeting.

Item 8.9 Outstanding Audit Items – October 2019

FILE REFERENCE:	P1026043-2
REPORTING OFFICER:	Mario Cheldi, Internal Auditor
REPORTING UNIT:	CEO Alliance
RESPONSIBLE ALLIANCE:	CEO
REPORT AUTHOR DISCLOSURE OF INTEREST:	Nil
DATE:	31 October 2019
ATTACHMENT/S:	Attachment 8.9A – Status of the implementation of internal audit and other report recommendations as at 31 October 2019 Attachment 8.9B – Risk and Audit Response Matrix

Council Role:

- Advocacy *When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.*
- Executive *The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative *Includes adopting local laws, town planning schemes and policies*
- Quasi-Judicial *When the Council determines an application/matter that directly affects a person’s right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*
- Information *For the Committee to note.*

Legislation / Strategic Plan / Policy:

Legislation <i>City of Perth Act 2016</i>	Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i> Objects of the City of Perth 8(1)(a) - to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors
Integrated Planning and Reporting Framework Implications	Strategic Community Plan Strategic Priority - Leadership
Policy Policy No and Name:	19.1 – Risk Management

Purpose and Background:

Provide a summary of the status of outstanding audit items as at 31 October 2019 to the Audit and Risk Committee. This report is a standard item on the agenda for the Audit and Risk Committee meeting.

Risk and Audit Response Matrix

A Risk and Audit Response Matrix was approved by the Audit and Risk Committee at their meeting held on 20 May 2019. The Matrix (Attachment 8.9B) includes guidelines in relation to addressing risk and audit items. Based on the risk rating assigned to these items, the Matrix provides a timeframe for management to implement an action plan to address the items arising from the risk and audit reviews carried out.

The report on the Risk and Audit Response Matrix considered by the Audit and Risk Committee at its meeting held 20 May 2019 required that following its approval, the Risk Management and Internal Audit Teams would apply the requirements of the Matrix to all risks and internal audits reported to the Committee from August 2019.

Details:**Contract Management Review April 2018**

Two internal audit recommendations remain outstanding for this review as at 31 October 2019.

The outstanding recommendations relate to contractor performance reviews and contract variations (Attachment 8.9A).

These outstanding recommendations will now be addressed via the procurement transformation process underway at the City. This process includes review and improvement of the City's procurement policies, procedures and processes. Procurement related functions of purchasing, tendering and contract management are part of the scope of this review.

As a result of the significant work involved in the procurement transformation process, the recently appointed Strategic Procurement Lead has confirmed that the timeframe for addressing the outstanding recommendations from this review will be 30 April 2020. This timeframe was previously reported on the Outstanding Audit Items – April 2019 report presented and accepted at the 20 May 2019 Audit and Risk Committee meeting.

A risk rating of high was assigned to the findings of the outstanding recommendations from the Contract Management Review, which requires a three-month response (priority 2) as per the Risk and Audit Matrix (Attachment 8.9B). However, the 30 April 2020 timeframe for addressing these outstanding recommendations represent an exception under the Matrix due to the abovementioned procurement transformation process.

Compliance Audit Return Controls Review July 2018

This review has led to a number of control improvements for facilitating compliance with key legislative requirements under the *Local Government Act 1995* (the "Act") and Regulations, as contained within the annual Compliance Audit Return.

The implementation of these control improvements has been followed up with various relevant staff within the organisation. As at 31 October 2019, one control improvement has yet to be implemented and remains outstanding (Attachment 8.9A). This control improvement relates to the following:

- Amend asset management policy guidelines to achieve alignment with the requirements of section 3.58 (Disposal of property) of the Act.

The implementation of this control improvement has experienced several delays since original agreed completion date of 31 August 2018.

A risk rating of high has been assigned to the issue of the above control improvement, requiring a three-month response (priority 2) as per the new Risk and Audit Matrix (refer Attachment 8.9B). The three-month response period has now elapsed.

However, a revised date of 30 November 2019 for completion of this control improvement was considered by the Corporate OSH and Risk Management Committee at its meeting held 5 November 2019, and a request for acceptance of this revised date is now sought from the Audit and Risk Committee.

Tender Process Review April 2019

A number of improvements to the City's tender process were identified from this review (Attachment 8.9A).

The management comments contained within the report on this review, which was presented at the Audit and Risk Committee at its meeting held 20 May 2019, state that these tender process improvements will be addressed as part of the procurement transformation process (refer above) underway at the City. An estimated timeframe of 30 April 2020 for addressing these tender process improvements as part of the procurement transformation process was also specified within these management comments.

A risk rating has been applied to each of the tender process issues identified from this review. Most of these tender process issues were given a high-risk rating with one assessed as medium risk (Attachment 8.9A). In terms of the new Risk and Audit Matrix (Attachment 8.9B), the 30 April 2020 timeframe for addressing these process improvements represents an exception to the outlined audit response timeframe within the matrix for addressing a finding with a high or medium risk rating (three months or six months). This exception was approved at the May 2019 Audit and Risk Committee meeting.

Financial Implications:

There are no financial implications related to this report.

Comments:

Provision of this report facilitates the monitoring of progress of action to implement the outstanding audit items from prior audits carried out.

The format of Attachment 8.9A is based on an Australian National Audit Office template used for the follow up of outstanding audit recommendations.

Moved Commissioner Hammond, seconded Commissioner Kosova

That the Audit and Risk Committee;

1. ***RECEIVES the report Outstanding Audit Items – October 2019; and***
2. ***ACCEPTS the revised date for completion of actions to address the remaining issue from the Compliance Audit Return Controls Review.***

The motion was put and carried.

The votes were recorded as follows:

For: Mr Maurich, Commissioners Hammond, McMath and Kosova

Against: Nil

9. Motions of which previous notice has been given

Nil

10. General Business

10.1 Responses to General Business from a Previous Meeting

Nil

10.2 New General Business

10.2.1 – Internal Audit Service Delivery Model

Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the audit committee for consideration.

An internal auditor's activities should typically include the following:

- a. review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
- b. a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
- c. examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
- d. a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- e. a review of compliance with management policies and directives and any other internal requirements;

- f. review of the annual Compliance Audit Return;
- g. assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance; and
- h. specific tasks requested by management.

The Internal Audit team (2.0 FTE equivalent) reports functionally to the City of Perth Audit & Risk Committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.

A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the Audit & Risk Committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.

While it is recognised that smaller councils may not be able to justify a full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.

The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.

Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996.

The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

Source: Local Government Operational Guidelines Number 9.

The Audit and Risk Committee may consider instigation of a review of the best service delivery model and reporting lines for Internal Audit.

Audit and Risk Committee Meeting Dates 2020

The Presiding Member requested the Audit and Risk Committee meeting dates for 2020 be confirmed and circulated to the Committee, and that the meetings are preferably held on Wednesdays. Tuesdays are unsuitable.

11. Items for consideration at a future meeting

Outstanding Items:

Nil

12. Closure

7.36pm There being no further business, the Presiding Member declared the meeting closed.