



City of **Perth**

Minutes

Audit and Risk Committee

22 February 2021

Approved for release

Michelle Reynolds

Chief Executive Officer

2 March 2021

Minutes to be confirmed at the next Audit and Risk Meeting

These minutes are hereby certified as confirmed.

Presiding member's signature _____

Date _____

Terms of Reference

Established: 11 May 2010

Elected member appointments

Appointment expiry	October 2021	Remuneration	Nil
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Committee overview

Membership	Deputy Lord Mayor Sandy Anghie Cr Brent Fleeton (<i>Presiding Member</i>) Cr Catherine Lezer (<i>Deputy Presiding Member</i>) One external Independent Member (Current member - Robert Maurich) Term expires 26 August 2021 Deputy Members Lord Mayor Basil Zempilas Cr Rebecca Gordon
Objectives	To oversee the risk management, internal controls, legislative compliance and external audit processes of the City, including receipt of the auditor's statements and management reports.
Delegated authority	Yes

Meetings

Frequency	Quarterly and as required
Average duration	Two hours
Venue	Committee Room One, Council House
Open to the public	Yes

1. The Audit and Risk Committee's role, in accordance with Regulation 16 of the *Local Government (Audit) Regulations 1996*, is to:
 - a. guide and assist the local government in carrying out:
 - i. its functions under Part 6 of the Act;
 - ii. its functions relating to other audits and other matters related to financial management;
 and
 - b. functions in relation to audits conducted under Part 7 of the Act. review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —
 - c. report to the council the results of that review; and
 - d. give a copy of the CEO's report to the Council.
2. monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - a. regulation 17(1); and
 - b. the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
3. support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
4. oversee the implementation of any action that the local government —
 - a. is required to take by section 7.12A(3); and

- b. has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
 - c. has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
 - d. has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
5. perform any other function conferred on the audit committee by these regulations or another written law.
6. The Committee may provide guidance and assistance to the local government regarding:
- a. other 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.
7. 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
8. 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
 - 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; and
 - 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 triennially; and
 - iv. the annual statutory Compliance Audit.

e. Internal and External Audit Planning and Reporting

- i. the integrity, adequacy and effectiveness of the City's Internal Audit Plan and External Audit Plan;
- ii. reports, findings and recommendations arising from Internal and External Audits;
- iii. the audit of the City's Annual financial statements;
- iv. 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
- v. 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)].

Table of Contents

1. Declaration of Opening	6
2. Acknowledgement of Country	6
3. Attendance, Apologies and Members on Leave of Absence	6
3.1 Attendance	6
3.2 Apologies	6
3.3 Members on Leave of Absence	6
4. Confirmation of Minutes	7
5. Correspondence	7
6. Disclosures of Interests.....	7
7. Reports	8
7.1 Internal Audit and Risk Action Plan and Internal Audit Plan 2020-21	8
7.2 Internal Audit Plan 2021/22 – Tenders Process Audit.....	16
7.3 Outstanding Audit Recommendations – January 2021	19
7.4 Office of the Auditor General Performance Audits	24
7.5 Response to 2019-20 Independent Auditor’s Report	29
7.6 2020 Compliance Audit Return and Audit Report.....	34
8. Matters for which the meeting may be closed.....	38
9. Motions of which Previous Notice has been Given	38
10. General Business.....	38
10.1 Office of the Auditor General – Local Government Grant Acquittals.....	38
10.2 Capital Works Budget	38
10.3 Capital Works Committee.....	38
10.4 Register of Complaints for Minor Breaches.....	38
10.5 Internal Audit Update – Standing Agenda Item.....	38
11. Items for Consideration at a Future Meeting.....	38
12. Closure	38

1. Declaration of Opening

The Presiding Member declared the Audit and Risk Committee meeting for the City of Perth open at 5.00pm.

2. Acknowledgement of Country

I respectfully acknowledge the Traditional Owners of the land on which we meet, the Whadjuk (Whad-juk) Nyoongar people of Western Australia, and pay my respects to Elders past and present. It is a privilege to be standing on Whadjuk Nyoongar country.

3. Attendance, Apologies and Members on Leave of Absence

3.1 Attendance

Members in attendance

Deputy Lord Mayor	Sandy Anghie
Councillors	Brent Fleeton (Presiding Member)
	Rebecca Gordon
Independent Member	Robert Maurich

Officers in attendance

Chief Executive Officer	Michelle Reynolds
General Manager Corporate Services	Bill Parker
Acting General Manager Infrastructure and Operations	Nathan Ahern
Alliance Manager Internal Audit and Risk	Bronwyn Rose
Coordinator Information and Communications Technology	Anthony Sharpe
Governance Officer	Sarah Hingston

Observer

Councillor	Liam Gobbert
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3.2 Apologies

Councillor Catherine Lezer

3.3 Members on Leave of Absence

Nil

4. Confirmation of Minutes

Committee Resolution (ARC-21/02-001)

Mover: Deputy Lord Mayor Sandy Anghie
Seconder: Councillor Rebecca Gordon

That the Committee CONFIRMS the minutes of the Audit and Risk Committee meeting held on 7 December 2020, as true and correct record.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and
Independent Member Robert Maurich
Against: Nil

5. Correspondence

Nil

6. Disclosures of Interests

Nil

7. Reports

7.1 Internal Audit and Risk Action Plan and Internal Audit Plan 2020-21

Responsible Officer	Michelle Reynolds, Chief Executive Officer
Voting Requirement	Simple Majority
Attachments	Attachment 7.1A – Internal Audit and Risk Action Plan January 2021 Attachment 7.1B – Inquiry Report and Deloitte Review linkages to the Internal Audit and Risk Action Plan January 2021 Confidential Attachment 7.1C - Internal Audit and Risk Action Plan January 2021 – Estimated Cost Attachment 7.1D – Proposed Internal Audit Plan 2020-21

Purpose

To present an Action Plan for the Audit and Risk Function and revised Internal Audit Plan 2020-21 to address the recommendations of the City of Perth Inquiry Report, and the Deloitte ‘Review of the Internal Audit and Risk Management Functions’.

Recommendation

That the Audit and Risk Committee recommends to Council that it:

1. ENDORSES the Internal Audit and Risk Action Plan, as per Attachment A
 2. ENDORSES the revised Internal Audit Plan 2020-21, as per Attachment D and
 3. NOTES that the required funding for the Action Plan has been included in the statutory mid-year budget review due to be considered by Council at its February Ordinary Meeting
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Background

1. The City of Perth has actively been progressing improvements as recommended in the City of Perth (the Inquiry) Report. An Implementation Plan was developed to demonstrate commitment to addressing the recommendations.
2. At the Ordinary Council Meeting 15 December 2020, Council Resolution (1512/18) was passed as follows:

“That Council:

1. *ENDORSES the Inquiry into the City of Perth Recommendation Implementation Plan included in Attachment 15.3A”*
3. 48 of the Inquiry recommendations relate to Internal Audit and Risk.
4. The City engaged Deloitte to perform a review of the Internal Audit and Risk Management functions. The review came as a result of the City’s desire to obtain independent external advice on the effectiveness of the functions’ operating models and in response to a recommendation from the City of Perth Inquiry Report.
5. Relevant City of Perth Inquiry Recommendations are:

#245 “The City’s risk, audit and assurance management frameworks be comprehensively reviewed and a report to Council prepared by an independent consultant with expertise in current industry best practice, working collaboratively with a senior employee designated responsibility by the CEO, providing a schedule of actions to improve the City’s maturity in risk, audit and assurance.”

#246 “The report described in Recommendation 245 be submitted by the CEO to Council within 12 months of this Report.”

6. The Deloitte ‘Review of the Internal Audit and Risk Management Functions’ Report (the Deloitte Review) was presented to the 7 December 2020 Audit and Risk Committee meeting. The following resolution (0712/05) was passed:

“That the Audit and Risk Committee:

1. *NOTES the review report conducted by Deloitte (an independent external consulting firm) providing an assessment of the effectiveness of the internal audit and risk management functions’ operating models and in response to a recommendation from the City of Perth Inquiry Report as detailed in Confidential Attachment 8.1A.*
2. *NOTES that an Audit and Risk Action Plan will be developed (including the revision of the 2020-21 Internal Audit Plan) to address the findings of the report (Confidential Attachment 8.1A) and City of Perth Inquiry Report and will be submitted at the next Audit and Risk Committee meeting for consideration.”*

Discussion

Proposed Internal Audit and Risk Action Plan

7. A proposed 'Internal Audit and Risk Action Plan' has been developed that addresses the recommendations of the Inquiry Report and Deloitte Review in order to provide a considered approach to the management of and reporting of internal audit and risk activities within the organisation.
8. The following is a summary of the proposed Action Plan including time critical additional audits identified by the Internal Audit and Risk Manager.

Summary of Actions

- Independent Functional Review of Internal Audit and Risk (complete)
- Chief Audit Executive Role (complete)
- Internal Audit Charter
- Audit and Risk Committee (ARC) Terms of Reference
- ARC Forward Plan
- ARC Performance Review
- ARC Reporting
- Professional Development
- Strategic and Annual Internal Audit Planning
- Internal Audit Resource Plan
- Internal Audit Manual
- Annual Reporting to the ARC
- Inquiry Directed Audits 2020-21:
 - Owners and Occupiers Roll (complete)
 - Procurement and Contracting
 - Misconduct and Fraud and
 - Complaints and Grievance Process
- Inquiry Directed Audits 2021-22:
 - Council, Committee and CEO Decision making
 - Expenditure, Interests and Gifts Register
 - Owners and Occupiers Roll
 - Human Resource Management
 - Discretionary Grant Funding Arrangements and
 - Procurement and Contracting
- Inquiry Directed Audits 2021-22
 - Council, Committee and CEO Decision making
 - Expenditure, Interests and Gifts Register
 - Owners and Occupiers Roll
 - Human Resource Management
 - Discretionary Grant Funding Arrangements
 - Procurement and Contracting
- Additional Audits approved by the ARC for 2020-21:
 - Limited Review of Procurement (sample 50)
- Additional Audits Recommended for 2020-21
 - IT Governance
 - Payroll
- Risk Culture Improvement Plan
- Risk Management Strategy

Summary of Actions

- Fraud and Corruption Risk Assessment and Plan
- Emergency Management Framework

9. Attachment 7.1A provides further detail on the timing and scope of the above.
10. Attachment 7.1B provides excerpts of recommendations from the Inquiry Report and Deloitte Review and linkages to the Internal Audit and Risk Action Plan.
11. Confidential Attachment 7.1C provides an estimate of cost applicable to each action.

Proposed Revision to Annual Internal Audit Plan 2020-21

12. The Internal Audit Plan 2020-21 as approved in May and June 2020 requires revision as a result of:
 - a. the commitments made at the Ordinary Council Meeting 15 December 2020 with regard the City of Perth Recommendation Implementation Plan;
 - b. recommendations from the Deloitte Review; and
 - c. the new Internal Audit and Risk Manager having identified corporate risks that require immediate review.
13. A revised Internal Audit Plan 2020-21 has been provided at Attachment 7.1D in line with the proposed Action Plan discussed above.

Stakeholder Engagement

14. Deloitte's Senior Manager Operational Risk was interviewed to discuss the Deloitte Report.

Decision Implications

15. The decision supports the Internal Audit and Risk unit working towards compliance with the Institute of Internal Auditors Standards and aligns with best practice risk management, as per ISO 31000 2018 Risk Management Standard.

Strategic, Legal and Policy Implications

Strategic	
Strategic Community Plan Aspiration:	Performance A city led by a Council and supported by an administration that is committed to sound strategy and governance, excellence in customer service and effective and sincere engagement with all stakeholders.
Strategic Community Plan Objective:	Objective 5.6 Decision-making that is ethical, informed and inclusive.
Issue Specific Strategies and Plans:	The Internal Audit and Risk Management Action Plan will provide the basis for ethical and informed decision making.

Legal and Policy	
Legislation:	Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i> : <i>The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —</i> <i>(a) risk management; and</i> <i>(b) internal control; and</i> <i>(c) legislative compliance.</i> This report addresses the desire to improve the Audit and Risk management functions within the organisation.
Legal advice:	Not applicable.
Policy	19.1 – Risk Management This report proposes the acceptance of an Action Plan to improve the reporting in relation to Risk Management.

Financial Implications

16. The proposed Action Plan will cost an additional \$219,000 for the 2020-21 financial year. Of this, \$144,000 is unbudgeted. However, the required funding for the Action Plan has been included in the statutory mid-year budget review which is due to be considered by Council at its February Ordinary Meeting
17. The proposed Action Plan will cost at least an additional \$193,800 for the 2021-22 financial year. Audits and required resourcing for 2021-22 will be considered in the Three Year Strategic Internal Audit Plan, to be presented prior to 30 June 2021.

Relevant Documents

- City of Perth Inquiry Report and
- Review of the Internal Audit and Risk Management Functions.

Further Information

Not applicable.

Committee Resolution (ARC-21/02-002)

Mover: Councillor Brent Fleeton
Seconder: Deputy Lord Mayor Sandy Anghie

That the Audit and Risk Committee CLOSE the meeting to the public to consider Confidential Attachment 7.1C, in accordance with section 5.23(2) of the *Local Government Act 1995*.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich
Against: Nil

5:07pm *The meeting was closed to the public.*

5:07pm *The Information and Communications Technology Coordinator left the meeting.*

Amendment

Mover: Councillor Rebecca Gordon
Seconder: Councillor Brent Fleeton

That Point 2 of the officer recommendation be amended as follows:

2. ENDORSES the revised Internal Audit Plan 2020-21, as per Attachment D with the exception of the Owners and Occupiers Roll, which should be audited by an independent qualified Auditor as per the City of Perth Inquiry recommendation and

Reason: To apply good governance in relation to the City of Perth Inquiry report.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie, Councillor Brent Fleeton, Councillor Rebecca Gordon and Robert Maurich
Against: None

The Amendment was carried and formed part of the substantive motion, as follows:

Committee Recommendation (ARC-21/02-003)

Mover: Councillor Rebecca Gordon
Seconder: Councillor Brent Fleeton

That the Audit and Risk Committee recommends to Council that it:

1. **ENDORSES** the Internal Audit and Risk Action Plan, as per Attachment A
2. **ENDORSES** the revised Internal Audit Plan 2020-21, as per Attachment D with the exception of the Owners and Occupiers Roll, which should be audited by an independent qualified Auditor as per the City of Perth Inquiry recommendation and
3. **NOTES** that the required funding for the Action Plan has been included in the statutory mid-year budget review due to be considered by Council at its February Ordinary Meeting

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich
Against: Nil

Committee Resolution (ARC-21/02-004)

Mover: Councillor Brent Fleeton
Seconder: Councillor Rebecca Gordon

That the Audit and Risk Committee OPEN the meeting to the public.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich
Against: Nil

5.20pm *The meeting was re-opened to the public.*

5.20pm *The Information and Communications Technology Coordinator left the meeting*

7.2 Internal Audit Plan 2021/22 – Tenders Process Audit

Responsible Officer	Michelle Reynolds, Chief Executive Officer
Voting Requirement	Absolute Majority
Attachments	Confidential Attachment 7.2A – Tenders Process Report: January 2021

Purpose

Approval of the Tenders Process Audit January 2021 completed in accordance with the Internal Audit Plan 2020-21.

Recommendation

That the Audit and Risk Committee NOTES the Tenders Process Audit Report, as part of the Internal Audit Plan 2020-21.

Background

1. A Tenders Process Audit has been included within the Internal Audit Plan 2020-21. This plan was approved by the Audit and Risk Committee (ARC) and Council in May and June 2020 respectively.
2. In accordance with the abovementioned plan, this fieldwork was completed October 2020 with drafting of the report November 2020 to January 2021.

Discussion

3. The results of this review are detailed in Confidential Attachment 7.2A.

Stakeholder Engagement

No engagement with external stakeholders was undertaken in the completion of this Tenders Process Audit.

Decision Implications

4. If Council does not adopt the recommendation of this report there will be no formal acceptance by Council of the Tenders Process Audit January 2021 and recommendation contained within the report on this review completed in accordance with the Internal Audit Plan 2020-21.

Strategic, Legal and Policy Implications

Strategic	
Strategic Community Plan Aspiration:	Performance A city led by a Council and supported by an administration that is committed to sound strategy and governance, excellence in customer service and effective and sincere engagement with all stakeholders.
Strategic Community Plan Objective:	Objective 5.5 A financial business model underpinned by a culture of cost management, best value and strategic financial analysis that is subject to ongoing oversight, transparency and accountability.
Issue Specific Strategies and Plans:	Not applicable.

Legal and Policy	
Legislation:	Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i> Under regulation 17 of the <i>Local Government (Audit) Regulations 1996</i> , the Chief Executive Officer is to review certain systems and procedures including risk management, internal control and legislative compliance.
Legal advice:	Not applicable.
Policy	19.1 – Risk Management This report aligns with the abovementioned policy as it seeks to mitigate risks of the City.

Financial Implications

There are no direct financial implications relating to the recommendation within this report.

Relevant Documents

Not applicable.

Further Information

Not applicable.

Committee Resolution (ARC-21/02-005)

Mover: Deputy Lord Mayor Sandy Anghie

Seconder: Councillor Brent Fleeton

That the Audit and Risk Committee NOTES the Tenders Process Audit Report, as part of the Internal Audit Plan 2020-21.

CARRIED UNOPPOSED BY ABSOLUTE MAJORITY (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich

Against: Nil

7.3 Outstanding Audit Recommendations – January 2021

Responsible Officer	Michelle Reynolds, Chief Executive Officer
Voting Requirement	Simple Majority
Attachments	Attachment 7.3A – Internal Audit Log as at 20 January 2021 Attachment 7.3B – External Consultancy Audit Log as at 20 January 2021 Attachment 7.3C – Office of the Auditor General Audit Log as at 20 January 2021

Purpose

Provide a summary on the progress of the implementation of outstanding Audit recommendations as at 20 January 2021 to the Audit and Risk Committee.

Recommendation

That the Audit and Risk Committee RECEIVES the report Outstanding Audit recommendations – January 2021 and ACCEPTS the extended timeframe for completion of actions.

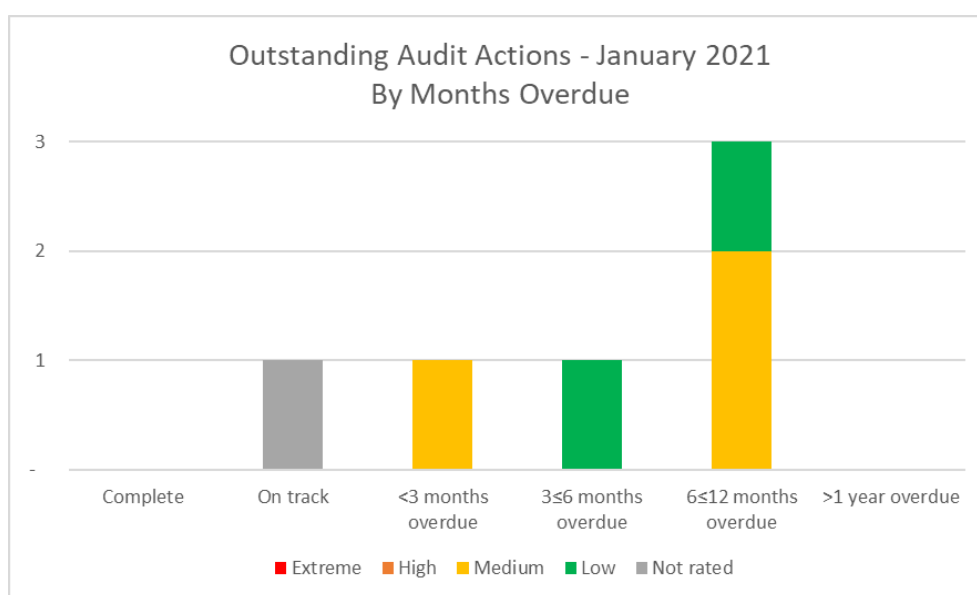
Background

1. This report is a standard item on the agenda for the Audit and Risk Committee (ARC). It provides a status of implementation of outstanding Audit recommendations from prior audits carried out by the City's Internal Auditors or by external parties.
2. The approved Risk and Audit Response Matrix (the Matrix) 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. These timeframes are agreed by management when the individual audit reports are submitted for acceptance by the ARC.

Discussion

Outstanding Audit Actions

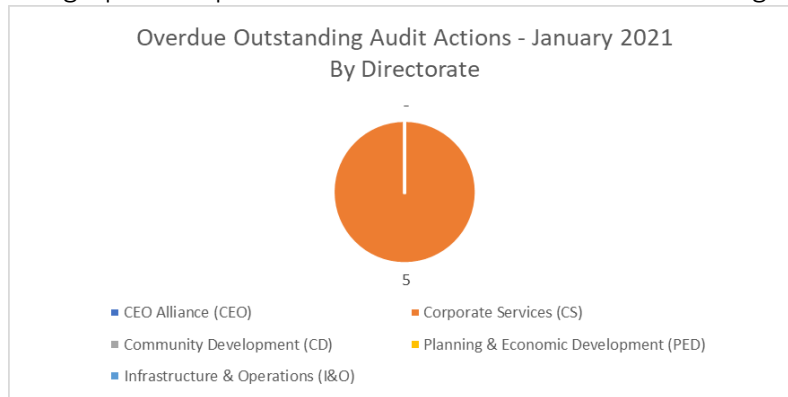
3. A summary of the progress of the implementation of outstanding actions are provided within the table below. The months overdue relate to the original date agreed by management at time of audit report finalisation.



4. These findings are further detailed at Attachment 7.3A to C.

Overdue Actions

5. The below provides a graphical representation of the number of outstanding actions by Alliance.



6. The medium risk overdue outstanding Audit recommendations as at 20 January 2021 are:

- a. Fraud and Corruption Control Plan (CS)
- b. Council Policy 9.3 Management of Investments (CS) and
- c. ICT Disaster Recovery Plan (CS)

7. The low / unrated risk overdue outstanding Audit recommendations as at 20 January 2021 are:

- a. Receipts and Receivables (CS) and
- b. Excessive Annual Leave Entitlements (CS)

Proposed Extension of Timeframes

8. The 'ICT Disaster Recovery Plan' action is delayed, and a new date of February 2021 has been proposed, extended from December 2020. The reason given was lack of staff availability.

Stakeholder Engagement

No engagement with external stakeholders was undertaken in the completion of this report.

Decision Implications

This report is submitted to the ARC for information.

Strategic, Legal and Policy Implications

Strategic	
Strategic Community Plan Aspiration:	Performance A city led by a Council and supported by an administration that is committed to sound strategy and governance, excellence in customer service and effective and sincere engagement with all stakeholders.
Strategic Community Plan Objective:	Objective 5.5 A financial business model underpinned by a culture of cost management, best value and strategic financial analysis that is subject to ongoing oversight, transparency and accountability. Objective 5.6 Decision-making that is ethical, informed and inclusive.
Issue Specific Strategies and Plans:	Not applicable.
Legal and Policy	
Legislation:	The Audit and Risk Committee is to oversee the implementation of any action that Council is required to take or has accepted should be taken following receipt of an audit report (regulation 16 of the <i>Local Government (Audit) Regulations 1996</i>).
Legal advice:	Not applicable.
Policy	19.1 – Risk Management This report aligns with the abovementioned policy via provision of a means of monitoring actions to improve controls to mitigate risks.

Financial Implications

- Each audit recommendation may have a financial implication; however, this is highlighted when the individual audit reports are submitted for acceptance by the ARC.

Relevant Documents

Not applicable.

Further Information

Not applicable.

Committee Resolution (ARC-21/02-006)

Mover: Independent Member Robert Maurich

Seconder: Councillor Brent Fleeton

That the Audit and Risk Committee RECEIVES the report Outstanding and Audit recommendations – January 2021 and ACCEPTS the extended timeframe for completion of actions.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich

Against: Nil

7.4 Office of the Auditor General Performance Audits

Responsible Officer	Michelle Reynolds, Chief Executive Officer
Voting Requirement	Simple Majority
Attachments	Nil

Purpose

To provide information to the ARC on the Office of the Auditor General's performance audit activity, with a focus on audits involving the City of Perth.

Recommendation

That the Audit and Risk Committee NOTES the Office of the Auditor General's performance audits currently being undertaken.

Background

1. The Office of the Auditor General (OAG) conduct performance audits, which primarily focus on the effective management and operation of public sector programs and activities. They cover compliance and/ or operational topics.
2. The *Local Government Amendment (Auditing) Act 2017* made legislative changes to the *Local Government Act 1995* to provide for the auditing of local governments by the Auditor General.

Discussion

3. The following OAG local government related performance audits are currently in progress. The City of Perth has been selected for inclusion in both reviews.

State of Cyber Security in Local Government Entities

4. In September the City was advised of its inclusion in this audit and that a report is planned to be tabled by the OAG in Parliament in the second quarter of 2021. It is understood the audit fieldwork is nearing completion. The report will be provided to the ARC for noting upon finalisation by the OAG.
5. The OAG states in the advice:

“The Office of the Auditor General will be undertaking this performance audit in local government entities, focusing on cyber security controls and capacity to appropriately respond to cyber threats.

It is important that LGs are proactive and implement effective controls to manage cyber threats.”

6. The OAG audit objective is stated as being:

“The objective of this audit is to determine if local government entities are effectively managing cyber security.

Our criteria will include, but not be limited to:

- *Do local government entities appropriately respond to cyber threats?*
- *Do local government entities have effective security awareness programs for staff?”*

Safe and Viable Cycling in the Perth and Peel Region

7. The City of Perth was advised of inclusion in this audit in January 2021 and that the report is planned to be tabled in the second quarter of 2021. The entrance meeting is to be held early February 2021 with fieldwork to be conducted February-March 2021.

The OAG states in the advice:

“Cycling is a viable alternative mode of transport to motor vehicles in many cities. It can help reduce traffic congestion, air pollution and greenhouse gas emissions, and improve cyclists’ general health and wellbeing, potentially reducing the burden on our health system.

The Department of Transport (DoT) is responsible for the development and coordinating implementation of the Western Australia Bicycle Network Plan. Local Government entities (LG entities) are responsible for the design, installation and maintenance of most recreational shared paths and on-road cycling facilities.”

8. The OAG audit objective is stated as being:

“The objective of the audit is to assess the effectiveness of LG entities in improving the Perth and Peel cycling network and follow-up recommendations from our 2015 performance audit Safe and Viable Cycling in the Perth Metropolitan Area.

The criteria are:

- *Has DoT worked to improve cycling infrastructure and support to LG entities to make it a viable mode of transport in the Perth and Peel regions?*
- *Have LG entities provided well-connected and safe cycling facilities for their communities?”*

Stakeholder Engagement

9. No engagement with external stakeholders was undertaken in the completion of this report.

Decision Implications

10. This report is submitted to the ARC for information.

Strategic, Legal and Policy Implications

Strategic	
Strategic Community Plan Aspiration:	Performance A city led by a Council and supported by an administration that is committed to sound strategy and governance, excellence in customer service and effective and sincere engagement with all stakeholders.
Strategic Community Plan Objective:	Objective 5.5 A financial business model underpinned by a culture of cost management, best value and strategic financial analysis that is subject to ongoing oversight, transparency and accountability. Objective 5.6 Decision-making that is ethical, informed and inclusive.
Issue Specific Strategies and Plans:	Not applicable.

Legal and Policy	
Legislation:	The Audit and Risk Committee is to oversee the implementation of any action that Council is required to take or has accepted should be taken following receipt of an audit report (regulation 16 of the <i>Local Government (Audit) Regulations 1996</i>).
Legal advice:	Not applicable.
Policy	Not applicable.

Financial Implications

There are no financial implications as a result of this report.

Relevant Documents

Not applicable.

Further Information

Not applicable.

Committee Resolution (ARC-21/02-007)

Mover: Deputy Lord Mayor Sandy Anghie

Seconder: Councillor Rebecca Gordon

That the Audit and Risk Committee NOTES the Office of the Auditor General's performance audits currently being undertaken.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich

Against: Nil

7.5 Response to 2019-20 Independent Auditor's Report

Responsible Officer	Michael Kent, Project Director Strategic Finance (CFO)
Voting Requirement	Simple Majority
Attachments	Attachment 7.5A – Independent Auditor's Report 30 June 2020

Purpose

To present matters identified as significant within the 2019-2020 Independent Auditor's Report, together with actions taken or intended to be taken by Management for the ARC's review and acceptance.

Recommendation

That the Audit and Risk Committee RECEIVES the report on the adverse trend in the Asset Sustainability Ratio over the past three years and NOTES the actions to be taken to improve the ratio.

Background

1. Under the *Local Government Act 1995 (Act)*, Local Governments are required to prepare an Annual Financial Report each financial year and that report is to be the subject of an independent audit. The City's 2019-20 audit was conducted by the Office of the Auditor General and their report, received on 10 December 2020, is attached (Attachment 7.5A).
2. The 2019-2020 Independent Auditor's Report identified a significant adverse trend in the in the Asset Sustainability Ratio, which has been below the Department of Local Government, Sport and Cultural Industries' basic standard of 0.9 for the last three financial years.
3. Section 7.12A of the Act requires the local government to do the following relating to significant matters raised in the Auditor's Report:
 - a. *"prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
 - b. *give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*
 - c. *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website."*

4. Asset Sustainability Ratio

- a. This ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation expense.
- b. Asset sustainability ratio is as reported, within the City's 2019-2020 annual financial report:

Department's basic standard	2020	2019	2018
0.9	0.48	0.55	0.72

- c. The asset sustainability ratio as listed above indicates the City is deferring the renewal of existing assets.
- d. The impact of prolonged deferment of capital renewal expenditure leads to additional asset maintenance cost and significant increase in asset replacements costs in the future.
- e. This in turn, creates an adverse impact within the Asset consumption ratio, which highlights the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost, and the magnitude of capital expenditure required in future to preserve their service potential.
- f. Given the ratio is calculated based on actual renewal expenditure within a financial year, the asset sustainability ratio can only be improved if the budgeted capital renewal projects are completed within the financial year.

5. Actions Taken or Intended to be Taken

Actions Taken

- a. In late 2019, a report on Asset Management and Financial sustainability was presented by the General Manager Corporate Services to the Executive Leadership Team and Commissioners. The report highlighted gaps within asset renewals and its impact on the City's long-term financial sustainability. The report also identified two key recommendations to minimise the identified gaps:
 - i. *Council* – to identify the importance of allocating a significant amount of funding each year for asset renewals within the budget and
 - ii. *Administration* – to ensure renewal projects that are funded within an annual budget are delivered within the financial year.
- b. The concerns addressed within this report was addressed by Council's adoption of the Long Term Financial Plan which allows for significant improvements towards attaining the Department's basic standard of the asset sustainability ratio.

The following table provides a snapshot of the asset sustainability ratio as forecasted within the Long Term Financial Plan:

Table 7 - Projected Asset Sustainability Ratio

20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
●	●	●	●	●	●	●	●	●	●
79.5%	93.6%	83.0%	86.9%	87.6%	89.8%	86.1%	93.7%	91.9%	89.6%

- c. The 2021 annual budget also allows for sufficient budget funds for renewal expenditure to improve the standard of the asset sustainability ratio.

Actions to be Taken

- d. The progress of budgeted capital projects will be monitored through a project management framework and reported to the Executive Leadership Team and Council on a regular basis. Completion of the budgeted renewal capital projects will be the key driver in improving the asset sustainability ratio.
- e. Management has also prepared a Strategic financial planning and budgeting Policy (expected to be presented to Policy Committee 8th February 2021) which sets clear principles and guidelines on budget funding priorities for capital initiatives. The policy identifies the importance of funding capital renewal projects and provides guidance on minimum funding limits for total capital renewals. This policy will provide the necessary strategic direction to improve financial sustainability going forward.

Discussion

6. The actions listed above addresses the significant matter identified within the 2019-2020 Independent Auditor's Report and ensures City's commitment towards minimising the asset renewal gap.
7. Once accepted by the ARC and Council, a copy of this report will be forwarded to the Minister.

Stakeholder Engagement

8. In determining the actions to be taken, the Executive leadership Team and all service areas that deliver capital projects were consulted and informed.

Decision Implications

9. If accepted, the City will work towards achieving the asset sustainability ratio as recommended by the Department of Local Government, Sport and Cultural Industries.

Strategic, Legal and Policy Implications

Strategic	
Strategic Community Plan Aspiration:	Performance A city led by a Council and supported by an administration that is committed to sound strategy and governance, excellence in customer service and effective and sincere engagement with all stakeholders.
Strategic Community Plan Objective:	Objective 5.5 A financial business model underpinned by a culture of cost management, best value and strategic financial analysis that is subject to ongoing oversight, transparency and accountability.
Issue Specific Strategies and Plans:	Not applicable.

Legal and Policy	
Legislation:	Section 7.12A (4) of the Local Government Act 1995
Legal advice:	Not applicable.
Policy	Not applicable.

Financial Implications

10. There are no immediate financial implications relating to the recommendation within this report; however, to improve the current adverse trend within the asset sustainability ratio, the City will require ongoing financial commitments towards funding, and more importantly to delivering asset renewal programs.

Relevant Documents

Not applicable.

Further Information

Not applicable.

Committee Resolution (ARC-21/02-008)

Mover: Councillor Brent Fleeton
Seconder: Councillor Rebecca Gordon

That the Audit and Risk Committee RECEIVES the report on the adverse trend in the Asset Sustainability Ratio over the past three years and NOTES the actions to be taken to improve the ratio.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and
Independent Member Robert Maurich
Against: Nil

7.6 2020 Compliance Audit Return and Audit Report

Responsible Officer	Michelle Reynolds, Chief Executive Officer
Voting Requirement	Simple Majority
Attachments	Attachment 7.6A – Compliance Audit Return Attachment 7.6B – Compliance Audit Return Audit Report: February 2021

Purpose

To consider the City of Perth's Compliance Audit Return for 2020 and associated Audit Report.

Recommendation

That the Audit and Risk Committee recommends that Council:

1. ADOPTS the completed 2020 Compliance Audit Return as detailed in Attachment A, in accordance with Regulation 14 of the *Local Government (Audit) Regulations 1996*;
 2. REQUESTS the Lord Mayor and Chief Executive Officer to certify the 2020 Compliance Audit Return;
 3. REQUESTS the Chief Executive Officer to submit the certified 2020 Compliance Audit Return to the Department of Local Government, Sport and Cultural Industries by 31 March 2021 in accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996*; and
 4. APPROVES the Compliance Audit Return Audit Report: February 2021 as per Attachment B.
-

Background

Compliance Audit Return

1. In accordance with Regulation 14 of the *Local Government (Audit) Regulations 1996* (the Regulations), the City is required to carry out a compliance audit for the period 1 January to 31 December in each year. The Regulations also prescribe that the City's audit committee is to review the Compliance Audit Return (CAR) and is to report to the Council the results of that review.
2. Regulation 15 requires the City to submit a certified copy of the return to the Department of Local Government, Sport and Cultural Industries by 31 March 2021.
3. The preparation of the 2020 CAR was facilitated by Internal Audit. Responses to questions contained within the CAR were mainly sourced from the CEO and Corporate Services Alliances.

Internal Audit Report

4. A Compliance Audit Return Audit was listed within the Internal Audit Plan 2020-21. This plan was approved by the Audit and Risk Committee and Council in May and June 2020 respectively.
5. In accordance with the abovementioned plan, the fieldwork and associated report was completed February 2021.

Discussion

6. The City's 2020 CAR is contained in Attachment A, with the results of the audit detailed in Attachment B.
7. Three non-compliances were identified during the completion of the 2020 CAR. These non-compliances all relate to the tenders (including procurement) section of the CAR.

Stakeholder Engagement

8. No engagement with external stakeholders was undertaken in the completion of the CAR.

Decision Implications

9. The City will be in breach of Regulation 14(3) of the *Local Government (Audit) Regulations 1996* if Council does not adopt the CAR.
10. If Council does not adopt the recommendation there will be no acceptance by Council of the Compliance Audit Return Audit February 2021.

Strategic, Legal and Policy Implications

Strategic	
Strategic Community Plan Aspiration:	Performance A city led by a Council and supported by an administration that is committed to sound strategy and governance, excellence in customer service and effective and sincere engagement with all stakeholders.
Strategic Community Plan Objective:	Objective 5.5 A financial business model underpinned by a culture of cost management, best value and strategic financial analysis that is subject to ongoing oversight, transparency and accountability.
Issue Specific Strategies and Plans:	Not applicable.
Legal and Policy	
Legislation:	Regulation 14 of the <i>Local Government (Audit) Regulations 1996</i> – a local government is required to carry out a compliance audit each year. Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i> - the Chief Executive Officer is to review certain systems and procedures including risk management, internal control and legislative compliance.
Legal advice:	Not applicable.
Policy	19.1 – Risk Management This report aligns with the abovementioned legislation as it seeks to mitigate risks of the City

Financial Implications

11. There are no direct financial implications relating to the recommendation within this report.

Relevant Documents

Not applicable.

Further Information

Not applicable.

Amendment

Mover: Councillor Rebecca Gordon
Seconder: Councillor Brent Fleeton

That a new Point 1 be added as follows and the balance of points be re-numbered accordingly:

1. AMENDS the responses in relation to the Elected Member Gift Register, Electoral Gift Register and the Procurement Policy

Reason: To correctly reflect compliance for the items.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich
Against: Nil

The Amendment was carried and formed part of the substantive motion.

Committee Recommendation (ARC-21/02-009)

Mover: Councillor Brent Fleeton
Seconder: Councillor Rebecca Gordon

That the Audit and Risk Committee recommends that Council:

1. AMENDS the responses in relation to the Elected Member Gift Register, Electoral Gift Register and the Procurement Policy
2. ADOPTS the completed 2020 Compliance Audit Return as detailed in Attachment A, in accordance with Regulation 14 of the *Local Government (Audit) Regulations 1996*
3. REQUESTS the Lord Mayor and the Chief Executive Officer to certify the 2020 Compliance Audit Return
4. REQUESTS the Chief Executive Officer to submit the certified 2020 Compliance Audit Return to the Department of Local Government, Sport and Cultural Industries by 31 March 2021, in accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996* and
5. APPROVES the Compliance Audit Return Report: February 2021, as per Attachment B.

CARRIED UNOPPOSED (4/0)

For: Deputy Lord Mayor Sandy Anghie; Councillors Brent Fleeton and Rebecca Gordon; and Independent Member Robert Maurich
Against: Nil

8. Matters for which the meeting may be closed

The Committee closed the meeting to the public during Item 7.1 of these Minutes.

9. Motions of which Previous Notice has been Given

Nil

10. General Business

10.1 Office of the Auditor General – Local Government Grant Acquittals

The Alliance Manager Internal Audit and Risk advised that when the Office of the Auditor General provides feedback to the City in relation to performance audits, if there is anything relevant a GAP analysis is undertaken with other local government authorities. She advised that a formal update will be provided to the Committee shortly.

10.2 Capital Works Budget

Questions relating to this item of business were raised throughout the meeting.

10.3 Capital Works Committee

Questions relating to this item of business were raised throughout the meeting.

10.4 Register of Complaints for Minor Breaches

A question from Councillor Brent Fleeton was taken on notice regarding the amendment of the Register of Complaints of Minor Breaches on the City's website as it refers to previous serving Elected Members, and whether or not there is a period of time it is required to be available on the website for.

10.5 Internal Audit Update – Standing Agenda Item

Independent Member Robert Maurich raised a potential standing item on future Audit and Risk Committee agendas to be Internal Audit reports at the conclusion of the meeting.

11. Items for Consideration at a Future Meeting

Nil

12. Closure

The Presiding Member declared the meeting closed at 6.14pm.