



TOWN OF CLAREMONT

**AUDIT AND RISK MANAGEMENT
COMMITTEE**

MINUTES

25 MAY, 2018


Liz Ledger
Chief Executive Officer

Date 29-5-2018

DISCLAIMER

Persons present at this meeting are cautioned against taking any action as a result of any Committee recommendations until such time as those recommendations have been considered by Council and the minutes of that Council meeting confirmed.

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AUDIT AND RISK MANAGEMENT COMMITTEE

MINUTES

1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

Cr Haynes welcomed everyone and declared the meeting open at 8:02AM.

2 RECORD OF ATTENDANCE/APOLOGIES

Mayor Jock Barker
Cr Bruce Haynes

Town of Claremont
East Ward

Mr Andrew Cuthbertson
Ms Marguerite Anklesaria

Community Representative
Community Representative

Mr Les Crichton

Executive Manager Corporate and
Governance

Ms Danielle Uniza

Senior Governance and Risk Advisor

APOLOGIES

Cr Paul Kelly
Cr Peter Edwards

South Ward
West Ward

3 DISCLOSURE OF INTERESTS

NIL

4 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

Moved Mr Cuthbertson, seconded Mayor Barker.

The Minutes of the Audit and Risk Management Committee, held on 9 February 2018 be confirmed.

CARRIED(04/18)
(NO DISSENT)

5 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING

5.1 INTEGRATED RISK MANAGEMENT FRAMEWORK

File Ref:	RSK/00168
Attachments:	Risk Management Framework (Attachment 1)
Responsible Officer:	Les Crichton Executive Manager Corporate and Governance
Author:	Danielle Uniza Senior Governance and Risk Advisor
Proposed Meeting Date:	25 May 2018

Purpose

To present the draft Integrated Risk Management Framework ('IRMF') for review by the Audit and Risk Management Committee (the 'Committee').

Background

Following an external review of its risk management practices in December 2014, Council adopted its formal Risk Management Framework. The adopted framework provided the foundations for designing, implementing, monitoring and reviewing risk management throughout the organisation. In line with Council's adoption of its Strategic Community Plan (SCP), *Claremont Ahead 2027*, the need to do a full review of its current Risk Management Framework has been identified to better align with the SCP and other informing documents.

The first version of the draft Integrated Risk Management Framework was presented to the Committee at its meeting held on 9 February 2018, where it resolved the following –

That the item be deferred until the next meeting of the Audit and Risk Management Committee.

The reason for deferral was to enable the Town to review the scoring within its proposed Risk Level Matrix, and to give due consideration to further comments regarding the Town's Risk Appetite and categories.

Discussion

Since the IRMF was last presented to the Committee, several rounds of review and consultation have occurred, as follows:

Date	Action
March 2018	Revision of the IRMF based on comments received from ARMC
March 2018	Meeting with LGIS (the Town's insurers) to provide draft IRMF

	and discuss the Town's next steps for implementation
April 2018	IRMF reviewed by LGIS and comments (as included in Attachment 2) provided back to the Town
April 2018	IRMF is revised based on feedback received from LGIS
April 2018	Workshop with Executive Management Team (EMT) to review proposed 'Risk Appetites'
April 2018	Workshop with EMT to discuss and identify the Town's 'Risk Appetite Statements'
May 2018	Final revision of IRMF with Risk Appetite Statements

Whilst most elements of the Draft IRMF have remained the same, there are a few major changes which have been made as follows:

1. Alignment of risk ratings across the different matrices within the IRMF to ensure standardisation across the board
2. Replacement of the numeric 'Risk Appetite/ Risk Tolerance' approach with qualitative 'Risk Appetite Statements' to ensure the Town's boundaries and parameters for risk-taking are clearly outlined.

In addition to ensuring compliance with the International Risk Management Standard AS/NZS ISO 31000: 2009, the revised framework specially aims to:

- Ensure that the Town achieves its strategic objectives as set out in the *Claremont Ahead 2027*
- Highlight areas of the Town's risk profile that have the capacity to deliver the maximum benefit or maximum harm, and to identify those areas which should receive priority action
- Establish a reliable basis for decision making and ensure that risk is included as a fundamental component in the planning process
- Ensure the effective allocation of resources
- Determine how risk should be reported to Council, the Audit Committee and Risk Management Committee, and external auditors
- Foster an organisational culture which promotes proactive behaviour regarding the identification and treatment of risk
- Identify and prepare for emerging risks, future events and change
- Improve stakeholder confidence and trust.

Upon Council's adoption of the Integrated Risk Management Framework, the Town will complete its 'Risk Register' by identifying and assessing its strategic and operational risks. With this process requiring stakeholder engagement and consultation, it is anticipated that the Risk Register will be ready for presentation to the Committee at its next scheduled meeting on 10 August 2018.

Past Resolutions

Ordinary Council Meeting 9 December 2014, resolution 193/14.

That Council adopt the:

1. *Draft Risk Management Framework*
2. *Draft Risk Categories*

3. *Draft Audit Committee of Terms of Reference as presented.*

Financial and Staff Implications

Resource requirements are in accordance with existing budgetary allocation.

Policy and Statutory Implications

Local Government Act 1995

Local Government (Audit) Regulation – cl.17

Communication / Consultation

Draft to be reviewed by the ARMC prior to adoption by Council

Strategic Community Plan**Governance and Leadership**

We are an open and accountable local government that encourages community involvement and strives to keep its community well informed.

- Provide and maintain a high standard of governance, accountability, management and strategic planning.

Urgency

N/A

Voting Requirements

Simple majority decision of Council required.

OFFICER RECOMMENDATION

Moved Mr Cuthbertson, seconded Mayor Barker.

That the Audit and Risk Management Committee recommend Council adopt the draft Risk Management Framework, as amended in Attachment 1.

**CARRIED(05/18)
(NO DISSENT)**

6 REPORTS OF THE CEO**6.1 PROGRESS OF RECOMMENDATIONS FOR IMPROVEMENT - COMPLIANCE AUDIT RETURN 2017**

File Ref:	FIM/0070-02
Attachments:	Compliance Audit Return Report (Attachment 1)
Responsible Officer:	Les Crichton Executive Manager Corporate and Governance
Author:	Danielle Uniza Senior Governance and Risk Advisor
Proposed Meeting Date:	25 May 2018

Purpose

To present the Audit and Risk Management Committee with an update on the progress of recommendations for improvement resulting from the Compliance Audit Return.

Background

At its meeting held on 9 February 2018, the Audit and Risk Management Committee considered the Town's responses to the Compliance Audit Return (CAR) for submission to the Department of Communities. The CAR is a statutory reporting tool that seeks to evaluate that Town's compliance with targeted sections of the *Local Government Act 1995* over the past calendar year.

In line with Regulation 14 of the *Local Government (Audit) Regulations 1996*, the completed Compliance Audit Return (CAR) was reviewed by the Town's Audit and Risk Management Committee and adopted by Council at its meeting held on 20 February 2018, before being officially submitted to the Department through SmartHub on 25 February 2018.

Discussion

In completing the Compliance Audit Return, an audit of the Town's activities, practices and procedures in line with the *Local Government Act 1995* and its associated regulations was conducted.

Whilst the audit revealed the Town's full compliance with the CAR, a few areas have been identified as having opportunities for improvement, such as: Delegation of Power/Duty, Disclosure of Interest, Integrated Planning & Reporting, and Tenders for Providing Goods and Services. There were a total of seven recommendations.

At its meeting held on 9 February 2018, the Committee resolved the following:

That the Committee receive a further report regarding the completion of 'Recommended Actions' as outlined in Attachment 2 at its next meeting.

In line with this Resolution, an updated regarding the progress of the recommendations has been included in this report as Attachment 1.

With most recommendations for improvement relying on the Town's review of its Delegated Authority Register, most action items will be completed following this review in June/July 2018.

Past Resolutions

Audit and Risk Management Committee Meeting 9 February 2018, Resolution 02/18:

That the Committee

- 1. Recommend Council adopt the Compliance Audit Return 2017 as presented.*
- 2. Receive a further report regarding the completion of 'Recommended Actions' as outlined in Attachment 2 at its next meeting.*

CARRIED

Financial and Staff Implications

Resource requirements are in accordance with existing budgetary allocation.

Policy and Statutory Implications

Local Government (Audit) Regulations 1996 cls. 13-16

Consultation

The CAR is completed in consultation with various business units, reviewed by the Governance unit, and overseen by the Executive Leadership Team.

Strategic Community Plan

Governance and Leadership

We are an open and accountable local government, a leader in community service standards.

- Demonstrates a high standard of governance, accountability, management and strategic planning.

Urgency

NIL

Voting Requirements

Simple majority decision of Council required.

OFFICER RECOMMENDATION

Moved Mayor Barker, seconded Mr Cuthbertson.

That the Committee receive a further report regarding the progress of 'Recommended Actions' resulting from the Compliance Audit Return, as outlined in Attachment 1.

**CARRIED(06/18)
(NO DISSENT)**

6.2 FINANCIAL MANAGEMENT REVIEW – MAY 2018

File Ref:	FIM/00070
Attachments:	Moore Stephens Report – Financial Management Review May 2018 (Attachment 1) Corporate Credit Cards – Auditor General Report May 2018 (Attachment 2)
Responsible Officer:	Les Crichton Executive Manager Corporate and Governance
Author:	Hitesh Hans Manager Finance
Proposed Meeting Date:	25 May 2018

Purpose

To present the Financial Management Review ('FMR') report for May 2018 for review by the Audit and Risk Management Committee.

Background

The *Local Government Act 1995* and associated regulations requires the Chief Executive Officer to review the appropriateness and effectiveness of the Town's financial systems. This review is to be undertaken no less than once in every four financial years, with the outcomes of the review to be reported to the Council.

In addition to the annual audit, the Town has engaged its Auditors to undertake an annual Financial Management Review for each year of its appointed three years (2015-16 to 2017-18). The previous FMR review under this arrangement was completed in May 2017 and presented, with management's response, to the Audit and Risk Management Committee on 6 October 2017, and at the Ordinary Council Meeting held on 17 October 2017.

The Auditor conducted the FMR for the period 1 July 2017 to 28 February 2018, and the findings are now being presented to the Audit and Risk Management Committee (Attachment 1).

Discussion

As detailed within the conclusion of the independent reviewer's report, the auditors confirmed that the Town maintains appropriate and effective financial management systems and procedures.

The review examined the following 22 areas as required by the scope of review:

- Bank Reconciliations and Petty Cash
 - Trust Funds
 - Receipts and Receivables
-

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- Rates
 - Fees and Charges
 - Purchases, Payments and Payables (Including Purchase Orders)
 - Payroll
 - Fixed Assets (Including acquisition and disposal of property)
 - Credit Card Procedures
 - Costs and Administration Allocations
 - Minutes and Meetings
 - Financial Reports
 - Budget
 - Plan for the Future
 - Registers (Including Annual and Primary Returns)
 - Delegations
 - Audit Committee
 - Insurance
 - Storage of Documents/ Record Keeping
 - Investments
 - General Journals
 - IT General Environment.

Of the areas examined five had matters noted for improvement with varying risk assessments.

A summary of each finding, including the Auditor's recommendations, is provided together with management's response below:

1. Purchases, Payments and Payables (Including Purchase Orders)

Purchase orders were raised after the supplier invoices on four occasions (Risk Rating - Moderate)

All authorised officers should be 'reminded' of the need to ensure purchase orders are raised prior to the time of authorising works/ services or ordering goods. This will help to ensure goods/ services have been appropriately ordered and authorised, and also assists ensuring a responsible budget.

Management Comment -

The process for each of the four items was in accordance with the Town's Procurement Policy LG509. Three were approved through the tender process and one through the Request for Quote process RFQ and as such approved prior to the invoice date. In these instances, purchase orders (PO's) were issued after the invoice date with Officer's on the understanding that the award of a tender or formal quote was sufficient authorisation.

Regular reminders to staff on the issuing of PO's has been updated to clarify the need to issue a PO irrespective of a tender or formal quote being accepted and advised.

2. Credit cards

The number of credit cards issued is considered excessive (Risk Rating – Moderate)

The Town has 20 credit cards on issue. Given the size of the Town and the sensitivities surrounding credit cards, we consider this number to be excessive.

We are aware of increased concerns over the usage of credit cards within the Local Government industry in Western Australia (including by the Department of Local Government). As a consequence, we have had a specific focus on credit cards.

Whilst we acknowledge that the Town's existing controls and policies surrounding credit cards appear to be adequate, having twenty cards on issue compromises the level of payment controls.

To help ensure stronger controls over credit card usage, the number of credit cards held should be reviewed and guidelines established to streamline the number on issue.

Management Comment -

The Auditors have also acknowledged the Town's processes and controls issue and use of purchase cards is satisfactory. The number of credit cards allocated is determined by the need to:

- Ensure all small purchases are properly accounted for through a transparent system,
- Reduce the reliance on petty cash systems (petty cash removed from five locations with introduction of credit cards), and
- Increased efficiency of smaller purchases through purchase cards instead of accounts payable system.

The Town currently has 18 purchase cards (1 has recently been cancelled and 1 belongs to the social club). The credit cards system requires each payment to be authorised by the employee's manager/supervisor and all credit card purchases are presented to Council as part its monthly submissions of payments.

Currently, the monthly credit card limit for the CEO, Executive's and other Manager's is set at \$10,000, \$5,000 and up to \$3,000 respectively. As a measure of reducing risk, each purchase card carries a transaction limit of \$500 and requires pre-approval for purchases over \$500.

An analysis of the Town's credit card transactions for the last 12 months has been completed and shows:

- There were 1,398 purchase cards transactions
- The combined purchase card total was \$160,021 (average purchase of \$115 per transaction)
- 1,312 (95%) of all transactions were below \$500 and 1,007 (73%) under \$100.
- Corporate credit cards are regularly used by most of the staff members
- The average number of transaction/ purchases for all the card holders is 70 for the period
- Use of credit card system:
 - assists a faster receipt of goods and services

-
- reduces need for staff to incur minor business expenditure using their own funds (and seeking reimbursement through petty cash systems)
 - provides a more cost and time effective purchase mechanism than cheque, eft or reimbursement methods for low value transactions
 - provides a central and auditable record all transactions and approval.

This was further enhanced in October last year with the system capturing and retaining with the transaction record a digital image of the tax invoice/receipt. This also reduces printing costs and removes the requirement to hold paper records.

The Office of the Auditor General (OAG) recently completed a focus area audit on controls over corporate credit cards within the local government sector. They audited 8 local governments (big, small, regional and metropolitan) and presented their findings in a report to Parliament (Attachment 2).

While the report outlined that the OAG found that overall policies and administrative systems for managing corporate credit cards were appropriate, they provided the following recommendations in response to their findings.

Local governments should:

- a) *ensure policies specify requirements for all key credit card processes*
- b) *keep adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval*
- c) *cancel redundant cards in a timely manner to avoid loss and/or misuse of cards*
- d) *regularly monitor outstanding transactions to identify and follow up on long outstanding un-acquitted transactions*
- e) *ensure senior management periodically review credit card use, to confirm compliance with policies and to identify any abnormal trends. The results of these reviews should be documented and retained.*

Administration has reviewed its policies and processes against the recommendation and confirm:

- Council policies and work procedures detail the Town's requirements on provision and use of cards, transaction coding and detail, and transaction approvals.
- The credit card system holds all records for each transactions, requires transaction description and coding for acquittal, and segregates transaction makers from transaction approvers, including the CEO.
- Card list is reviewed by two card administrators each month to ensure redundant cards are cancelled. HR exit procedures include return of cards to the Town.
- Outstanding accounts are monitored each month to ensure transaction description, coding and approval is finalised. This is required to capture within the Town's financial system to provide monthly financial reports to Council

- A review of credit card use was provided to the Audit and Risk Management Committee at its November 2017 meeting and again in response to this item. Further reviews will be undertaken in September and March of each year.

It was interesting to note the OAG's report made no recommendation as to the number of cards issued.

3. Minutes and Meetings

The Minutes of the Council meetings were not always signed when confirmed (Risk Rating – Minor)

The minutes of the Ordinary Council meetings held on 12th December was not signed by the person presiding at the next meeting at which the minutes were confirmed as required by Section 5.22(3) of the *Local Government Act 1995*.

Management Comment -

A checklist has been implemented within the Governance unit to ensure the minutes are signed once confirmed by Council.

4. Register (Including Annual and Primary Returns)

Annual Return contained blank section (Risk Rating – Minor)

One Councillor's return (the responsibility of which rests with the individual completing them) contained sections which were left blank.

Management Comment -

Additional reminders will be issued to all persons who are required to complete a Primary or Annual Return on the need to leave no blanks.

5. IT General Environment

No documented business continuity and recovery procedures in place (Risk Rating – Minor)

The Town does not have documented procedures relating to business continuity and recovery in the event of a disaster in place.

Management Comment -

Preparation of the plan is continuing for completion by 30 June 2018.

Past Resolutions

Ordinary Council Meeting 17 October 2017, Resolution 147/17:

That Council

1. *Receives Financial Management Review April 2017 Report, and*
2. *Notes:*
 - a) *the results of the Chief Executive Officer's and staff review of the appropriateness and effectiveness of the Town's financial management systems and procedures.*

- b) *management's response and action to address those areas identified for improvement.*

Financial and Staff Implications

Nil

Policy and Statutory Implications

*Local Government Act 1995: Division 4 - General Financial Provisions
Local Government (Financial Management) Regulations 1996: Part 2 - 5(2)c -
Financial Management Review.*

Communication / Consultation

Nil

Strategic Community Plan

We are an open and accountable local government that encourages community involvement and strives to keep its community well informed.

- Provide and maintain a high standard of governance, accountability, management and strategic planning.
- Provide responsive and responsible leadership.

Urgency

Nil

Voting Requirements

Simple majority decision required.

OFFICER RECOMMENDATION

Moved Mayor Barker, seconded Mr Cuthbertson.

That the Audit and Risk Management Committee:

- 1. Receives Financial Management Review April 2018 Report, and**
- 2. Recommends Council**
 - a) Notes the results of the Chief Executive Officer's review of the appropriateness and effectiveness of the Town's financial management systems and procedures, and**
 - b) Notes management's response and action to address identified improvement areas.**

**CARRIED(07/18)
(NO DISSENT)**

