



# **Standing Committee (Audit and Risk)**

# **Minutes**

Monday 22 August 2022

**BELMONT**  
CITY OF OPPORTUNITY



# CITY OF BELMONT

## Standing Committee (Audit and Risk)

### Minutes

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### **Attachments Index**

Attachment 11.1.1 – Item 11.1 refers

Attachment 11.2.1 – Item 11.2 refers

### **Confidential Attachments Index**

Confidential Attachment 10.1.1. – Item 10.1 refers

**Minutes from the Standing Committee (Audit and Risk) held in the Rivervale Room, City of Belmont Civic Centre, 215 Wright Street, Cloverdale on Monday 22 August 2022 commencing at 6.30pm.**

# Minutes

## Present

Cr J Davis (Presiding Member)	South Ward
Cr P Marks, Mayor (Ex Officio)	East Ward
Cr R Rossi (via MS Teams)	West Ward
Mr R Back	Independent Member

## In attendance

Mr J Christie (via MS Teams)	Chief Executive Officer
Mr W Loh	Acting Director Corporate and Governance
Mr B Godfrey	Internal Auditor
Ms V Govender	Manager Finance
Ms A Bird	Manager Governance, Strategy and Risk
Mr M Smith (via MS Teams)	Manager Information Technology
Mrs J Cherry-Murphy	Senior Governance Officer

## Observers

Cr D Sessions (via MS Teams)	West Ward
Cr N Carter	South Ward

# **I Official Opening**

**6.30pm The Presiding Member welcomed all those in attendance and declared the meeting open.**

The Presiding Member read aloud the Acknowledgement of Country.

## **Acknowledgement of Country**

Before I begin, I would like to acknowledge the Noongar Whadjuk people as the Traditional Owners of this land and pay my respects to Elders past, present and emerging.

I further acknowledge their cultural heritage, beliefs, connection and relationship with this land which continues today.

## **2 Apologies and leave of absence**

Cr Bass (absent)

East Ward

## **3 Declarations of interest that might cause a conflict**

### **3.1 Financial interests**

Nil.

### **3.2 Disclosure of interest that may affect impartiality**

Nil.

## **4 Announcements by the Presiding Member (without discussion)**

### **4.1 Announcements**

Nil.

## **4.2 Declarations by Members who have not given due considerations to all matters contained in the business papers presently before the meeting**

Nil.

## **5 Confirmation of Minutes**

### **5.1 Standing Committee (Audit and Risk) Meeting held 30 May 2022**

#### **Officer Recommendation**

**Marks moved, Mr Back seconded**

That the Minutes of the Standing Committee (Audit and Risk) Meeting held on 30 May 2022 be confirmed as a true and accurate record.

**Carried Unanimously 4 votes to 0**

## **6 Questions by Members on which due notice has been given (without discussion)**

Nil.

## **7 New business of an urgent nature approved by the person presiding or by decision**

Nil.

## **8 Questions by members without notice**

Nil.

## 9 Business adjourned from a previous meeting

Nil.

## 10 Information items

### 10.1 Audit Logs – Office of the Auditor General and Other Audits

#### Attachment details

Attachment No and title	
1.	CONFIDENTIAL - Audit Logs - Office of the Auditor General and Other Audits [10.1.1 - 18 pages]

The Audit Logs (refer Confidential Attachment 10.1.1) have been developed to capture and report on progress of all recommended actions from previous audit reports as requested by the Standing Committee (Audit and Risk).

The Audit Logs will be included for information on all Standing Committee (Audit and Risk) Agendas.

The Internal Auditor and Manager Information Technology gave an overview of the Audit Logs.

Questions were asked and responded to as follows:

- Some deadlines have had to be slightly extended due to contractor staff and internal staff shortages. It is anticipated the new deadlines are achievable.
- A letter has been written to the Minister to seek clarification on variations proposed to the standard model for the introduction of FOGO. Legal advice has also been sought on a variation to the current tender.

# 11 Items requiring recommendation to Council

## 11.1 Internal Audit Plan 2022 - 2023

### Attachment details

Attachment No and title	
1.	SCAR 22 August 2022 Draft Internal Audit Plan [11.1.1 - 2 pages]

Voting Requirement	:	Simple Majority
Subject Index	:	19/006
Location/Property Index	:	N/A
Application Index	:	N/A
Disclosure of any Interest	:	N/A
Previous Items	:	N/A
Applicant	:	N/A
Owner	:	N/A
Responsible Division	:	Executive Services

### Council role

- |                                     |                       |  |
|-------------------------------------|-----------------------|--|
| <input type="checkbox"/>            | <b>Advocacy</b>       | When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.   |
| <input checked="" type="checkbox"/> | <b>Executive</b>      | The substantial direction setting and oversight role of the Council eg adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.  |
| <input type="checkbox"/>            | <b>Legislative</b>    | Includes adopting local laws, local planning schemes and policies.   |
| <input type="checkbox"/>            | <b>Review</b>         | When Council reviews decisions made by Officers.   |
| <input type="checkbox"/>            | <b>Quasi-Judicial</b> | When Council determines an application/matter that directly affect 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 local 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. |

### Purpose of report

The purpose of this report is to present the Draft Internal Audit Plan 2022 - 2023 to the Standing Committee (Audit and Risk) for approval and recommendation to Council for endorsement.



## Summary and key issues

The Draft Internal Audit Plan identifies audits to be completed over the next three years. The audits are referenced to related corporate business goals and strategies.

The draft plan also identifies the City's three lines of defence, which are different functional levels with responsibility to manage risks and controls.

The draft plan also provides supporting information, regarding audit objectives.

An annual review of the Internal Audit Plan will be undertaken and an update will be presented to the Audit and Risk Committee annually for endorsement.

## Location

Not applicable.

## Consultation

The draft Internal Audit Plan 2022 - 2023 was presented to ELT on 16 March 2022 and presented to Elected Members at the Information Forum on 10 May 2022 for review and comments.

Comments provided have been considered and incorporated into the draft plan.

## Strategic Community Plan implications

In accordance with the 2020 – 2040 Strategic Community Plan:

### Goal 5: Responsible Belmont

**Strategy:** 5.2 Manage the City's assets and financial resources in a responsible manner and provide the best possible services for the community.

## Policy implications

There are no policy implications associated with this report.

## Statutory environment

### *Local Government Act 1995*

#### 7.1A Audit Committee

(1) A local Government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.

## ***Local Government (Audit) Regulations 1996***

### 16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
  - (i) its functions under Part 6 of the Act; and
  - (ii) its functions relating to other audits and other matters related to financial management.
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —
  - (i) report to the council the results of that review; and
  - (ii) give a copy of the CEO's report to the council.
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
  - (i) regulation 17(1); and
  - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- (e) to 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;
- (f) to oversee the implementation of any action that the local government —
  - (i) is required to take by section 7.12A(3); and
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
  - (iv) 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);

- (g) to perform any other function conferred on the audit committee by these regulations or another written law.

[Regulation 16 inserted: Gazette 26 Jun 2018 p. 2386-7.]

## **Background**

### **Introduction to the Internal Audit Function and Lines of Defence**

The City's Internal Auditor has undertaken a review of the internal audit function since commencing in June 2021. As a result, it was determined that based on best practice principles for internal auditing, that the implementation of the "Three Lines of Defence" would provide for greater accountability across the organisation and provide guidance to ensure effective risk management and governance controls are in place and monitored.

The Three Lines of Defence Model was developed by KPMG in the 1990s and was later adopted by the Basel Committee on Banking Supervision as a model for internal control management. The Institute of Internal Auditors followed suit and also adopted the Three Lines of Defence Model. The Office of the Auditor General WA issued a better practice guide titled "Western Australian Public Sector Audit Committee's – Better Practice Guide Report 26: 25 June 2020 which recommends that all entities regardless of their size and complexity should establish the lines of defence model.

The three lines of defence model is described as:

#### **First Line of Defence – Management**

The first line of defence is the responsibility of business and process owners. It is the responsibility of management to maintain effective internal controls, assess the control measures in place and mitigate risks.

#### **Second Line of Defence – Risk Management and Compliance**

The second line of defence supports management to ensure risk and control measures are effectively monitored and managed. The City has established various risk management and compliance functions to assist business and process owners to ensure the first line of defence is effective and is reviewed on a regular basis.

#### **Third Line of Defence - Internal Audit**

The third line of defence, provides assurance to senior management that the first and second lines of defence are in place, have been implemented and are effective. The internal audit function is responsible for ensuring independence and objectivity when assessing the effectiveness of the controls. The Internal Audit function has reporting independence to the Chief Executive Officer (CEO), the Standing Committee (Audit and Risk) and Council.

## **External Auditors**

External Auditors, such as the Office of the Auditor General (OAG) are often referred as a fourth line of defence. External Auditors are responsible for expressing their opinion on the effectiveness of the controls and a degree of materiality associated with audit findings. External Auditors provide a level of assurance to the CEO, the Standing Committee (Audit and Risk) and Council in relation to the effectiveness of controls and legislative compliance.

## **Internal Audit Plan - Methodology**

The draft plan has been developed after undertaking the following steps:

1. Corporate Business Plan review.
2. Organisation charts review.
3. Operating and capital budgets review.
4. Existing risk registers review to identify residual risk ratings.
5. Previous OAG reports review.
6. Each City Department Manager was interviewed to identify their operations, key objectives, key risks, new developments and related City strategies.
7. Consequence risk levels were independently rated by the internal auditor (using City of Belmont Risk Framework).
8. The City's Coordinator Business Improvement, Planning and Risk was consulted on consequence risk level ratings.
9. Presentations to the Executive Leadership Team and to Elected Members at an Information Forum for review and comment.

The Institute of Internal Auditors (IIA) Supplemental Guidance paper "Developing a Risk Based Internal Audit Plan" was also used as a reference to develop the draft plan.

## **Officer comment**

It is considered that the draft plan provides an effective risk-based approach for reviewing the City's governance, risk and control frameworks.

After completing year's one and two of the audit plan, the lines of defence maturity levels will be better understood and the internal audit approach modified to ensure the ongoing effective management of risk and governance functions across the organisation. An annual review of the Internal Audit Plan will be undertaken and an update will be presented to the Audit and Risk Committee annually for endorsement.

## **Financial implications**

There are no financial implications evident at this time.

## Environmental implications

There are no environmental implications associated with this report.

## Social implications

There are no social implications associated with this report.

### Committee Notes

Questions asked were responded to as follows:

- The City does have the resources to implement the Internal Audit Plan in 2022-2023.
- In future years the City may consider hiring internal staff to conduct audits as has been done previously.

### Officer Recommendation

#### **Marks moved, Mr Back seconded**

The Standing Committee (Audit and Risk) approve the Internal Audit Plan 2022 - 2023 and recommend the Internal Audit Plan 2022 - 2023 be presented to Council for endorsement.

**Carried Unanimously 4 votes to 0**







## 11.2 Interim Audit Report August 2022

### Attachment details

Attachment No and title	
1.	D 22 14753 Interim Management Letter Attachment - City of Belmont - 30 June 2022 [11.2.1 - 3 pages]

Voting Requirement	:	Simple Majority
Subject Index	:	19/001
Location/Property Index	:	N/A
Application Index	:	N/A
Disclosure of any Interest	:	Nil
Previous Items	:	N/A
Applicant	:	N/A
Owner	:	N/A
Responsible Division	:	Corporate and Governance

### Council role

- |                                     |                       |  |
|-------------------------------------|-----------------------|--|
| <input type="checkbox"/>            | <b>Advocacy</b>       | When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.   |
| <input checked="" type="checkbox"/> | <b>Executive</b>      | The substantial direction setting and oversight role of the Council eg adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.  |
| <input type="checkbox"/>            | <b>Legislative</b>    | Includes adopting local laws, local planning schemes and policies.   |
| <input type="checkbox"/>            | <b>Review</b>         | When Council reviews decisions made by Officers.   |
| <input type="checkbox"/>            | <b>Quasi-Judicial</b> | When Council determines an application/matter that directly affect 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 local 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. |

### Purpose of report

This report provides the Standing Committee (Audit and Risk) with details of the outcomes of the Office of the Auditor General (OAG) interim audit conducted in July 2022.



## Summary and key issues

The interim audit is a key process in the audit of the City's 2022 Annual Financial Report. This audit commenced in July 2022 and will culminate with final audit in October 2022 as per OAG's audit plan.

## Location

Not applicable.

## Consultation

There has been no specific consultation undertaken in respect to this matter.

## Strategic Community Plan implications

In accordance with the 2020 – 2040 Strategic Community Plan:

### Goal 5: Responsible Belmont

**Strategy:** 5.2 Manage the City's assets and financial resources in a responsible manner and provide the best possible services for the community.

## Policy implications

There are no policy implications associated with this report.

## Statutory environment

Section 7.9(1) of the *Local Government Act 1995* requires an audit to be conducted to examine the accounts and annual financial report submitted for audit and to prepare a report thereon which is required to be forwarded to the Mayor, Chief Executive Officer, and the Minister for Local Government.

Section 7.9(2) of the LGA requires the auditor to report on any error or deficiency in any accounts, misapplication of funds or any matters that needs to be addressed by the Local Government.

## Background

During July 2022, the Office of the Auditor General (OAG) undertook an interim audit of the City's financial systems and processes.

The main purpose of the interim audit was to:

- examine the City's business, control environment and assess the design and implementation of key controls and risks
- review prior year's audit findings and management recommendations
- clarify significant accounting issues before the annual financial report is prepared for audit.

The OAG plans to perform the final audit in October 2022 as per the Audit Planning Summary report presented to Standing Committee (Audit and Risk) in May 2022.

## **Officer comment**

The Interim Audit Management Letter as per Attachment 11.2.1 reflects one finding identified by the auditors together with the respective management response. This finding was identified during the 2021 Audit and the incorrect useful life was rectified; however, a full completeness check was not conducted at that time. Below is a summary of the finding identified:

### **Finding:**

The OAG identified 17 assets in the City's fixed asset register with the following anomalies:

- Two assets had incorrect residual value
- Four assets with negative written down value
- Four assets had incorrect depreciation rate
- Seven assets had incorrect useful life

The anomalies identified total to \$20,000 net variance in the written down value.

### **Management Response:**

The City's asset register has been comprehensively reviewed with all anomalies identified being rectified and depreciation adjustments being processed as required.

Existing processes have been reviewed with several improvements and additional controls being identified to ensure the likelihood of similar errors is significantly reduced. The asset register is dependent upon several manual calculations; therefore, a control report has been prepared to identify and rectify errors monthly. The control report will be prepared monthly and reviewed by the Manager Finance.

It is considered that this measure would provide sufficient mitigating controls to prevent the use of incorrect depreciation rates.

## Financial implications

The use of incorrect depreciation rates that are not reflective of the asset's useful life may lead to increased risk of a material misstatement within the financial statements and non-compliance with the relevant accounting standards. It is noted that the anomalies identified by the OAG have been updated in the 2022 financials and have no impact on the Rate Setting Statement as this is a non-cash item.

The controls implemented will ensure the asset register is accurately maintained.

## Environmental implications

There are no environmental implications associated with this report.

## Social implications

There are no social implications associated with this report.

### Officer Recommendation

#### Marks moved, Mr Back seconded

That the Standing Committee (Audit and Risk) recommend that Council note the recommendations and comments associated with the 2021-2022 Interim Audit Report as detailed in Attachment 11.2.1.

**Carried Unanimously 4 votes to 0**

**ATTACHMENT****CITY OF BELMONT****PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2022****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Fixed asset register		✓	

**KEY TO RATINGS**

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

**ATTACHMENT**

**CITY OF BELMONT**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2022**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**1. Fixed asset register**

**Finding 2022**

We identified 17 assets in the City's fixed asset register with differences between the depreciation rates and recorded useful life.

The 17 assets we have identified have the following anomalies, causing a total of \$20k net variance in the written down value:

- 2 assets had incorrect residual value
- 4 assets with negative written down value
- 4 assets had incorrect depreciation rate
- 7 assets had incorrect useful life

A similar finding was raised in the 2020-21 financial year:

We identified 52 assets in the City's fixed asset register with unexplained differences between the depreciation rates and recorded useful life, causing a net variance of \$15k.

**Management Comment**

*The depreciation rates of all asset classes will be reviewed annually to ensure assets are being consistently and accurately depreciated. This review will also ensure depreciation rates are aligned to the useful lives of assets in Finance One.*

Responsible Person: Manager Finance

Completion Date: 31 March 2022

**Rating: Moderate** (2021: Moderate)

**Implication**

Use of incorrect depreciation rates that are not reflective of the asset's useful life may lead to increased risk of a material misstatement within the financial statements and non-compliance with the relevant accounting standards.

**Recommendation**

Management should:

- review their existing fixed assets where the depreciation rates and useful lives differ and make the necessary corrections, and
- review their current processes to ensure that changes to fixed asset details are appropriately captured in the fixed asset register and independently reviewed.

**Management Comment**

*The City's asset register has been comprehensively reviewed with all anomalies identified being rectified and depreciation adjustments being processed as required.*

*Existing processes have been reviewed with a number of improvements and additional controls being identified to ensure the likelihood of similar errors is significantly reduced. The Asset Register is dependent upon several manual calculations; therefore a control report has been prepared to identify and rectify possible errors on a monthly basis. Some of these controls include:*

**ATTACHMENT**

**CITY OF BELMONT**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2022**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

*Residual value verification*

*Identifying assets with negative values*

*Theoretical depreciation rate versus actual depreciation rate*

*Theoretical useful life versus actual useful life calculations*

*These checks/controls will be prepared monthly and reviewed by the Co-ordinator or Manager Finance.*

**Responsible Person:** Manager Finance

**Completion Date:** 29 July 2022

## **I2 Next Meeting**

The next meeting of the Standing Committee (Audit and Risk) will be held on 24 October 2022 commencing at 6.30pm.

## **I3 Closure**

There being no further business, the Presiding Member thanked everyone for their attendance and closed the meeting at 6.57pm.

### **Minutes confirmation certification**

The undersigned certifies that these Minutes of the Standing Committee (Audit and Risk) held on 22 August 2022 were confirmed as a true and accurate record at the Standing Committee (Audit and Risk) meeting held on 14 December 2022:

Signed by the Person Presiding: \_\_\_\_\_

PRINT name of the Person Presiding:

**JENNY DAVIS**