



City of Nedlands

Minutes

Audit & Risk Committee Meeting

10 August 2017

ATTENTION

These Minutes are subject to confirmation

This is a committee which has only made recommendations to Council. No action should be taken on any recommendation contained in these Minutes. The council resolution pertaining to an item will be made at the Ordinary Council Meeting next following this meeting.

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City of Nedlands

Minutes of a meeting of the Audit & Risk Committee held in the Meeting Room at the City of Nedlands on Thursday 10 August 2017 at 5:30pm.

Audit & Risk Committee Agenda

Declaration of Opening

The Presiding Member declared the meeting open at 5:30pm and drew attention to the disclaimer below.

(NOTE: Council at its meeting on 24 August 2004 resolved that should the meeting time reach 11.00 p.m. the meeting is to consider an adjournment motion to reconvene the next day).

Present and Apologies and Leave Of Absence (Previously Approved)

Councillors	Councillor I S Argyle	Dalkeith Ward (Presiding Member)
	His Worship the Mayor	R M C Hipkins
	Councillor B G Hodsdon	Hollywood Ward
	Mr K Eastwood	Community Member
	Mr P Setchell	Community Member

Staff	Mr G K Trevaskis	Chief Executive Officer
	Mrs L M Driscoll	Director Corporate & Strategy
	Mr A D Melville	Manager Health & Compliance
	Ms V Jayaraman	Acting Manager Finance
	Mrs S C Gibson	Administration officer

Also in attendance	Mr T Macri	Macri Partners
	Mr S Herathmudalige	Macri Partners
	Mr A Hillbeck	BDO

Public There were no members of the public present.

Press There were no members of the press present.

Leave of Absence (Previously Approved) Nil.

Apologies	Councillor G A R Hay	Melvista Ward
	Councillor L J McManus	Coastal Districts Ward

Absent Nil.

Disclaimer

Members of the public who attend Council meetings should not act immediately on anything they hear at the meetings, without first seeking clarification of Council's position. For example by reference to the confirmed Minutes of Council meeting. Members of the public are also advised to wait for written advice from the Council prior to taking action on any matter that they may have before Council.

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1. Public Question Time

Nil.

2. Addresses By Members of the Public (only for items listed on the agenda)

Nil.

3. Disclosures of Financial Interest

The Presiding Member to reminded Councillors and Staff of the requirements of Section 5.65 of the Local Government Act to disclose any interest during the meeting when the matter is discussed.

There were no disclosures of financial interest.

4. Disclosures of Interests Affecting Impartiality

The Presiding Member to reminded Councillors and Staff of the requirements of Council's Code of Conduct in accordance with Section 5.103 of the Local Government Act.

There were no disclosures affecting impartiality.

5. Declarations by Members That They Have Not Given Due Consideration to Papers

Nil

6. Confirmation of Minutes

6.1 Audit & Risk Committee Meeting 20 February 2017

Moved –Mr K Eastwood
Seconded – Councillor Hodsdon


The minutes of the Audit & Risk Committee held 20 February 2017 be confirmed.

**CARRIED 4/-
Mr P Setchell Abstained**

7. Items for Discussion

Note: Regulation 11(da) of the *Local Government (Administration) Regulations 1996* requires written reasons for each decision made at the meeting that is significantly different from the relevant written recommendation of a committee or an employee as defined in section 5.70, but not a decision to only note the matter or to return the recommendation for further consideration.

7.1 Insurance Review

Owner	City of Nedlands
Officer	Shelley Mettam – Manager Human Resources
Director	Lorraine Driscoll – Director Corporate & Strategy
Director Signature	
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachments	1. Confidential Attachments

Moved – Councillor Hodsdon
 Seconded – Mr K Eastwood

Committee Recommendation / Recommendation to the Audit & Risk Committee

Council receives the Insurance Review.

CARRIED UNANIMOUSLY 5/-

Overview

Following our transition to new insurance brokers Marsh Pty in September 2016, the City achieved total insurance savings in excess of 30%. In addition to brokering services Marsh have provided additional initiatives at no additional cost to the City.

Additional services included;

Property Risk Review

- Which included a risk engineering program review of the City's main buildings
 - Administration Building, 71 Stirling Highway,
 - Depot, Carrington Street
 - 97-99 Waratah Avenue (Nedlands Community Care and Dalkeith Hall)

Professional Indemnity Review

A workshop was held with Marsh Pty Ltd and the Executive Team to review coverage and risk exposure in relation to professional indemnity.

Occupational Safety and Health and Workers' Compensation

Audit of the City's workplace injury-risk based around four key elements:

- safety management;
- injury management;
- claims management
- Insurance managemnt

The outcome of these reviews were very positive with a number of initiatives being identified with many being implemented over the last few months

7.2 BDO Internal Audit Plan

Applicant	City of Nedlands
Owner	BDO
Officer	Andrew Melville
Director	Lorraine Driscoll – Director Corporate & Strategy
Director Signature	
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachment	1. Annual Audit Plan 2017/18

Moved – Councillor Hodsdon
 Seconded – Mr P Setchell

Committee Recommendation / Recommendation to the Audit & Risk Committee

The Audit and Risk Committee receive the Internal Audit Plan 2017/18

CARRIED UNANIMOUSLY 5/-

Background

BDO Audit (WA) Pty Ltd are the City’s appointed internal Auditors.

BDO Audit (WA) Pty Ltd have been engaged to undertake the internal audit process for the City.

The Plan attached has been developed in accordance with the three year strategic plan and in conjunction with; BDO, the CEO, Internal Audit Manager & the Director Corporate & Strategy.

All parties involved are satisfied that the internal audit programme will assist the City to mitigate risk.



CITY OF NEDLANDS

Annual Internal Audit Plan 2017 / 18

April 2017



28 April 2017

Greg Trevaskis
Chief Executive Officer
City of Nedlands
71 Stirling Highway
Nedlands WA 6009

Dear Greg

Internal Audit Plan - 2017 / 18

Further to your request and discussions with Lorraine Driscoll and Andrew Melville on 26 April 2017, we have developed an internal audit plan for 2017 / 18. Factors considered when developing the proposed plan included:

- Results of internal audits performed in 2014 / 15, 2015 / 16 and 2016 / 2017
- Evolving maturity of the control environment
- Consideration of emerging risks relevant to the City of Nedlands
- Level of assurance that the City is willing to accept.

We have provided the plan for 2017 / 18 on the following pages that includes proposed scope and objectives to ensure the City of Nedlands receive (at a minimum) limited assurance for each scope audit. When a detailed Terms of Reference is developed prior to each audit, the scope may change as a result of the detailed audit planning and further input from the City's personnel.

We now seek your written approval of the 2017/18 proposed audit plan.

Yours sincerely

**Andrew Hillbeck**
Principal Risk Advisory

APPROVAL OF THE INTERNAL AUDIT PLAN



Approved for Implementation by:

Signature:

Date:

Greg Trevaskis
City of Nedlands
Chief Executive Officer

2 August 2017

Andrew Melville
City of Nedlands
Manager Health & Compliance

2 August 2017

Andrew Hillbeck
Partner BDO

3 AUGUST 2017

PROPOSED AUDIT PLAN

2017 / 2018



Audit area	Budgeted Cost	Audit Objective and Scope	Lead	Commencement Date
Human Resource - Payroll	\$8,500	<ul style="list-style-type: none"> - Perform control gap analysis and walkthrough of policies, processes and procedures (design efficiency and effectiveness). - Based on outcomes of the gap analysis, perform sample testing to ensure compliance with policies, processes and procedures (operational efficiency and effectiveness) 	Manager HR	Q1
Financial Application Control Review	\$8,500	Review and evaluation of key application controls including - Authorisation, Integrity, Availability, Confidentiality and Segregation of Duties. <ul style="list-style-type: none"> - Perform control gap analysis (design efficiency and effectiveness). - Based on outcomes of the gap analysis, perform sample testing to ensure compliance (operational efficiency and effectiveness) 	Manager Finance	Q2
Financial Processes - Accounts Payable, including Contracting and Procurement	\$8,500	<ul style="list-style-type: none"> - Perform control gap analysis and walkthrough of policies, processes and procedures (design efficiency and effectiveness). - Based on outcomes of the gap analysis, perform sample testing to ensure compliance with policies, processes and procedures (operational efficiency and effectiveness) 	Manager Finance	Q3
Total	\$25,500			

ABOUT BDO

LOCAL KNOWLEDGE, GLOBAL REACH

BDO Australia is one of the nation's largest associations of independently owned full-service audit, tax and advisory practices, with offices in Adelaide, Brisbane, Cairns, Darwin, Hobart, Melbourne, Perth, Sunshine Coast and Sydney

In Australia, BDO has over 1,278 staff, including 166 partners working in all states and territories, offering audit, taxation and advisory services to thousands of clients nation-wide

Our deep expertise spans multiple specialist services including:

- Strategic and Management Consulting
- Corporate Finance
- Fraud and Forensic Services
- Corporate & International Tax
- Indirect Tax
- Private Client Services
- Risk Advisory and Internal Audit
- External Audit

Our Advisory division has five Partners and is one of the largest in Perth providing expert insight on a range of services across Corporate Finance, Management Consulting, Risk Advisory and Forensics.

1,278
STAFF
10
OFFICES
166
PARTNERS
AS AT JULY 2015 NATIONAL TOTAL 1,444



BDO INTERNATIONAL

BDO is one of the largest full service accounting and advisory firms in the world. We have over 59,428 people from over 1,328 offices in 152 territories

All BDO firms offer comprehensive knowledge and experience within an international context. No matter where they are based, clients can draw on the skills of BDO member firms anywhere in the world

We can confirm that our BDO member firms have a very strong and well regarded market presence worldwide.

152
TERRITORIES
1,328 OFFICES
59,428 STAFF

RELATIONSHIP FOCUS

We enjoy outstanding relationships with our clients by focusing on what is important to them, adopting a partnership-style approach, being responsible and reliable, keeping our promises and maintaining open and frank communication. Our approach to relationships allows us to partner with you and really get to know you and your organisation. Using this insight, we look for innovative ways to help you maximise growth opportunities, improve processes and avoid pitfalls.

OUR SERVICE STYLE AND KEY DIFFERENTIATORS

We believe that providing a quality service is a given, but it is our approach to client service that ensures we build an effective working relationship, develop a strong understanding of your business and provide a level of attention and care that makes us easy to work with. It is this culture that attracts quality people and clients to our firm.

BDO is uniquely positioned in the market by bringing significant service breadth and capability while maintaining the service ethic of a more relationship-driven firm. We work with small, medium and large organisations and understand that they expect:


- Timely responses
- High level of partner contact time
- Hands on operating style and a practical approach
- Deep understanding of their industry
- People who understand their culture and how they operate

DELIVERING A VALUE DRIVEN SERVICE

At BDO, we focus on delivering a value-driven service that is based on long term relationships. We constantly strive to demonstrate this in everything we do with the ultimate outcome of this approach being solid growth and benefit to all stakeholders.



7.3 Macri – External Audit Plan for the Year Ending 30 June 2017

Applicant	City of Nedlands
Director	Lorraine Driscoll – Director Corporate & Strategy
Director Signature	
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Attachment	1. Macri Audit Plan 2017 2. Signed Interim Management Letter

Moved – Councillor Hodsdon
Seconded – Mr P Setchel

Committee Recommendation / Recommendation to the Audit & Risk Committee

The Audit & Risk Committee receives the External Audit Plan for the Year ended 30 June 2017.

CARRIED UNANIMOUSLY 5/-

Background

Macri Partners are the City's appointed Auditors in relation to the statutory audit for the year ending 30 June 2017.

As part of the statutory audit, Macri Partners have provided an External Audit Plan. The plan has been prepared to inform the officers and the Audit and Risk Committee of the City of Nedlands about Macri Partners responsibilities as external auditors and how Macri Partners plan to discharge them.

The plan focuses on:

- Documenting the audit approach, including:
 - Audit process
 - Materiality;
 - Approach to auditing key financial statement risk issues; and
 - Completion;
- Presenting the audit engagement team
- Highlighting relevant independence and governance matters; and
- Providing a preliminary assessment of timing.

The External Audit Plan is presented to the Audit and Risk Committee for their information.



Certified Practising Accountants



City of Nedlands

External Audit Plan For the Year Ending 30 June 2017

22 June 2017

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1. Purpose of the Audit

The purpose of this audit plan is to summarise our external audit approach in relation to the statutory audit of the City of Nedlands for the financial year ending 30 June 2017.

Our Audit Plan has been prepared to inform the officers and the Audit Committee of City of Nedlands about our responsibilities as your external auditors and how we plan to discharge them.

The plan focuses on:

- Documenting our audit approach, including:
 - audit process;
 - materiality;
 - approach to auditing key financial statement risk issues; and
 - completion;
- Presenting our audit engagement team;
- Highlighting relevant independence and governance matters;
- Providing a preliminary assessment of timing;

Our audit approach is focused on assessing and responding to the risk of misstatement in the financial statements.

We are committed to audit quality and the requirements of independence based on Macri Partners' and the accounting profession's strict rules and policies. We have made our initial assessment of potential threats to independence and have adopted appropriately robust safeguards to address those risks and protect independence.

2. Scope of the Audit

We will conduct an independent audit of the financial statements in order to express an opinion on it to the ratepayers of the City of Nedlands.

Our audit will be conducted in accordance with Australian Auditing Standards with the objective of reducing the level of material misstatement in the financial statements to an acceptably low level. These standards have been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2016/17 accounts.

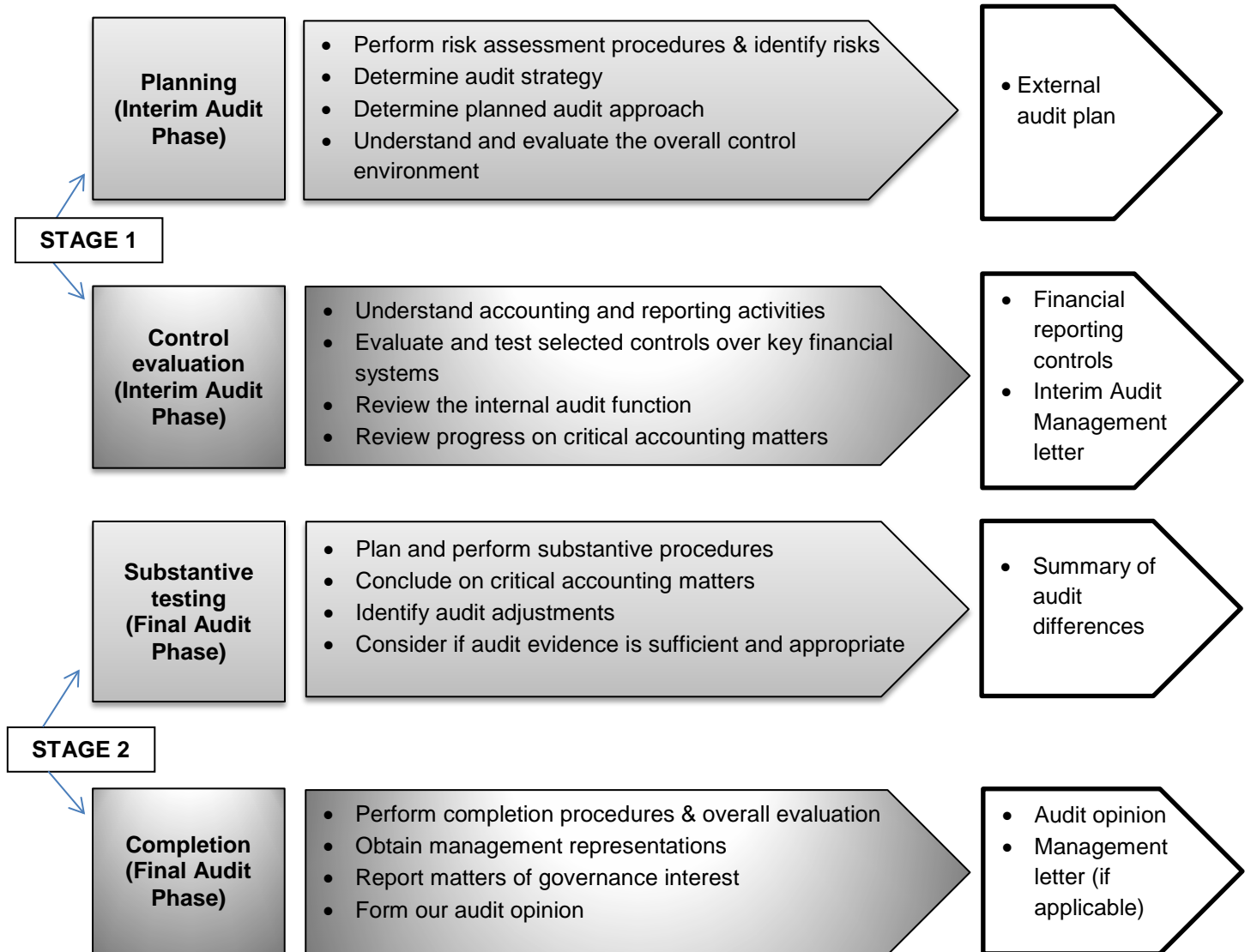
We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

3. Financial Reporting Responsibilities

Management	External Audit	Audit Committee
<ul style="list-style-type: none"> • Prepare financial statements and notes in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Design, implement and maintain effective internal control over financial reporting processes • Risk management • Exercise sound judgement in selecting and applying critical accounting policies • Safeguard assets • Prevent, detect and correct errors • Prevent and detect fraud • Provide representations to external auditors • Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements • Confirm the effective operations of financial reporting controls and disclosures in the annual financial statements 	<ul style="list-style-type: none"> • Conduct audit in accordance with professional standards and applicable financial reporting framework (i.e. Auditing Standards and Australian Accounting Standards) • Express an opinion on whether the financial statements present a true and fair view in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Plan and perform the audit to obtain reasonable assurance (not absolute assurance) as to whether the accounts are free of material misstatements, whether caused by error or fraud • Maintain audit independence 	<ul style="list-style-type: none"> • Create a culture of honesty and ethical behaviour; set the proper tone and emphasise fraud prevention • Oversee management, including ensuring that management establishes and maintains internal control to provide reasonable assurance regarding integrity and reliability of financial reporting • Oversee management activities which ensure appropriate risk management and controls are in place for monitoring risk and compliance with policies, procedures and laws • Review the Council's performance • Liaise with the external auditors to facilitate external audit • Review annual financial statements and recommend approval to the Council

4. Audit Approach

Our objective is to provide an independent auditor's opinion on the financial report of the City of Nedlands for the year ending 30 June 2017. Our audit methodology is split into two stages and is applied uniquely to your circumstances. It involves the following activities.



Our audit procedures will focus on those areas of the City of Nedlands' activities that are considered to represent the key audit risks identified in our planning memorandum and through discussions with management and the Audit Committee during the course of our audit.

Internal Control Environment

In accordance with the Australian Auditing standards, we have performed a review of the design and operating effectiveness of the City's significant financial recording and reporting processes. Our audit was designed to obtain a degree of audit comfort from independent testing of management's internal controls. This approach of understanding and evaluating controls is risk based and structured on a foundation of the City having a strong control environment.

Our audit approach was also based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wished to place reliance on them. This work was supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

A Report on Control Findings was provided to management after the interim audit, outlining our findings, significant deficiencies and our recommendations on where improvements can be made. We revisited the 2016 year audit findings to check if management's responses have been implemented during the year as agreed.

Key Financial Statement Processes

The following areas were covered for risk assessment during the interim audit:

- Treasury management cycle – Bank reconciliations and investment of surplus funds
- Procurement and Payments cycle – Purchases, Payments and Creditors Management
- Revenue cycle – Rates & ESL, Other revenue (fees and charges, etc.) and Debtors Management
- Payroll cycle
- Fraud risk assessment - Journals
- IT Controls assessment

Compliance Matters

An examination of some compliance matters (including registers, minutes and other legislative matters) under:

- Part 6 of the Local Government Act 1995 (as amended);
- the Local Government (Financial Management) Regulations 1996 (as amended); or
- applicable financial controls of any other written law

was carried out and no non compliance matters were identified other than what is reported in our Interim Audit Management Report for management information.

Audit Requirements Schedules

To assist the City in gathering and collating the necessary information for our final audit visit:

We will forward an Audit Requirements Schedule shortly. As the requested information will form the basis of our audit working papers, the information must be made available to us at the commencement of our audit visit. This assists us in delivering an efficient audit and minimising interruptions to the Town's staff.

5. Significant Risks Identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty".

In this section, we outline the significant risks of material misstatement which we have identified.

Risk of Material Misstatement	Financial Statement Impact and Consequence	Planned Audit Approach
1. Fair Value Assessment and Revaluation of Land and Buildings, Roads, Footpaths and Drainage		
<p>Regulation 17A of the LG (Financial Management) Regulations 1996 requires Land and Buildings or Infrastructure assets to be measured at fair value for the year ending 30 June 2017, which may be based on significant estimations and use of valuer/management's judgements and assumptions. The City will be having its land and buildings asset classes revalued this financial year.</p>	<p>The value of land and buildings may be materially misstated.</p> <p>The accuracy of the asset revaluation surplus and/or impairment expense may be materially misstated.</p>	<p>Review the basis of the asset revaluations (at fair value) undertaken and in doing so consider:</p> <ul style="list-style-type: none"> • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the appropriateness of valuations undertaken including the expertise of your external valuer. <p>➤ We will review other significant additions and disposals of assets during the year.</p> <p>➤ Review appropriateness of depreciation against the estimated useful life in the Council's accounting policies</p> <p>➤ Perform procedures to obtain assurance that valuations have been appropriately recorded in the fixed asset register and general ledger.</p>

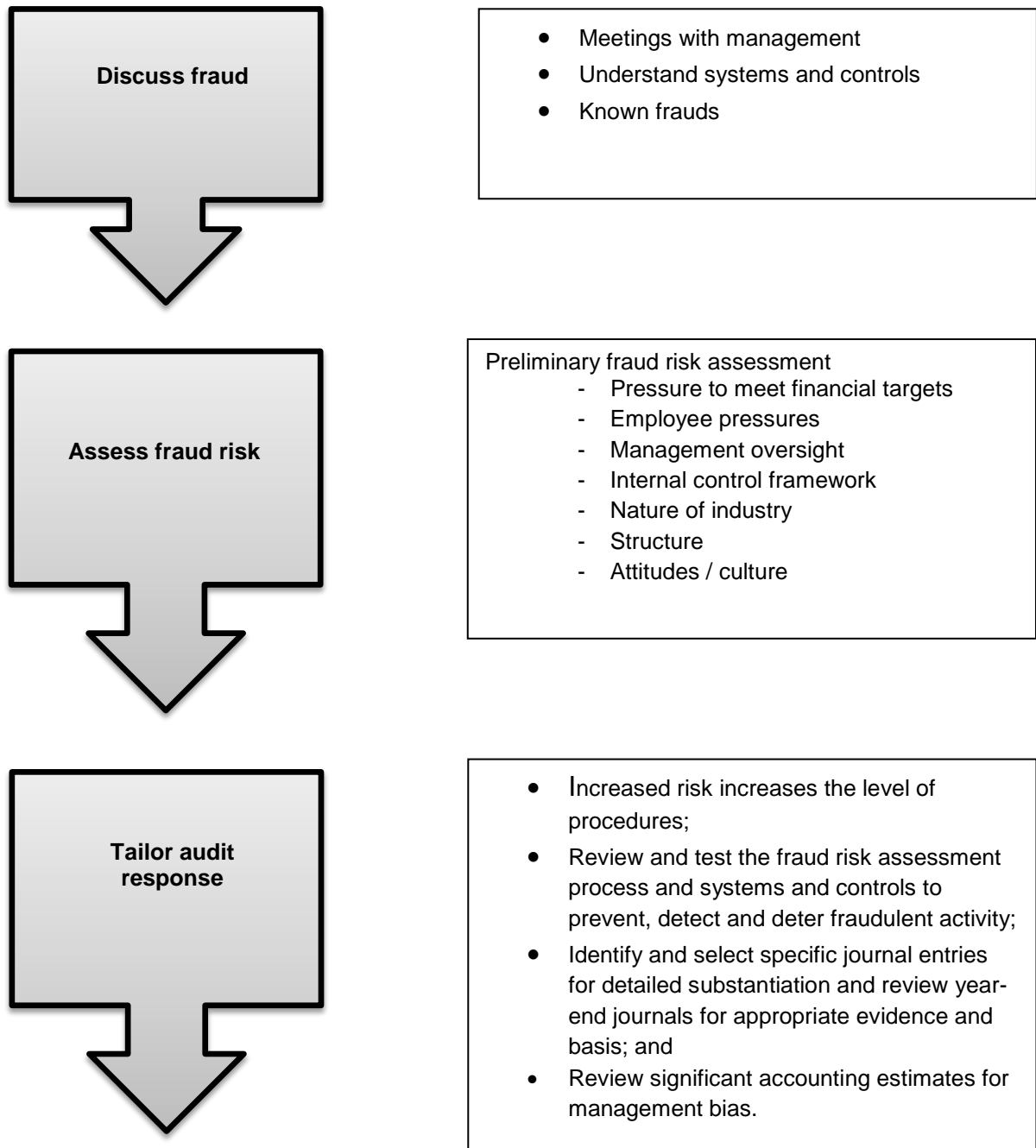
Risk of Material Misstatement	Financial Statement Impact and Consequence	Planned Audit Approach
2. Risk of Fraud through Management Override of Controls		
<p>Australian Auditing Standard ASA 240 – <i>The auditor’s responsibility to consider fraud in an audit of financial statements</i> requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud.</p> <p>In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>Assertions, account balances and operating results may be materially misstated.</p>	<p>We will assess the processes in place to prevent and detect fraud. Auditing Standard ASA 240 imposes specific audit procedures, including:</p> <ul style="list-style-type: none"> ➤ Testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements ➤ Reviewing material accounting estimates for bias ➤ Reviewing significant unusual transactions outside the normal course of business

Risk of Material Misstatement	Financial Statement Impact and Consequence	Planned Audit Approach
3. Revenue Recognition		
<p>In accordance with Australian Auditing Standard ASA 240 – <i>The auditor’s responsibility to consider fraud in an audit of financial statements</i>, we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period.</p> <p>The standard allows the presumption to be rebutted but, given a local government’s range of revenue sources, we have concluded that there are insufficient grounds for rebuttal. This does not imply that we suspect actual or intended manipulation, but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>Budgetary pressures and performance targets may influence the revenue recognition.</p> <p>Revenue may be materially misstated due to the failure to correctly recognise and measure it in accordance with the applicable accounting standards.</p>	<ul style="list-style-type: none"> ➤ Substantiate verification of cut-off procedures to mitigate the risk of income being recognised in the wrong period. ➤ In addition, undertake a range of substantive procedures including: <ul style="list-style-type: none"> • testing receipts to ensure they have been recognised in the correct year; • testing adjustment journals; and • obtaining direct confirmation of year-end bank balances and testing bank reconciliations to the general ledger. ➤ Assess whether treatment of revenue is consistent with Accounting Standards AASB 118 <i>Revenue</i> and AASB 1004 <i>Contributions</i>
4. Financial Ratios		
<p>The Department of Local Government and Communities launched a website www.mycouncil.wa.gov.au where all key financial ratios for every Council are reported to allow the public to view the financial health score of local governments.</p>	<p>There may be a higher level of scrutiny of the results in the financial statements and the key financial ratios.</p> <p>The financial ratios may not be calculated in accordance with legislative requirements.</p>	<ul style="list-style-type: none"> ➤ Check the calculations of the financial ratios ➤ Assess the reasonableness of explanations provided for any significant variations

Additional risks may emerge over the course of the audit. These factors will be considered in our reporting to you and the design of our audit procedures.

6. Impact of Fraud on the Financial Report

In accordance with Auditing Standard ASA 240 “*The Auditor’s responsibility to consider fraud in an Audit of a Financial Report*”, we will undertake specific procedures and report findings to the Council in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.



We have forwarded a [Fraud and Error Assessment Form](#) which is required to be completed by management and Audit Committee of all our local government clients prior to our final audit visit.

The form allows us to make enquiries of management and the Audit Committee, to obtain their understanding on the risk of fraud within their local governments and to determine whether management have knowledge of fraud that has been perpetrated on or within the local government.

7. Highlights – 2016/17 Financial Year

Related Party Transactions and Disclosures

Background

From 1 July 2016, local governments must disclose related party relationships, transactions and outstanding balances, including commitments, in the annual financial statements in accordance with Accounting Standard AASB124 *Related Party Disclosures*.

Related parties include Key Management Personnel (KMP), their close family members and any entities that they control or jointly control. Any transactions with these parties, whether monetary or not, will need to be identified and may need to be disclosed. Disclosure will only be made if a transaction has occurred and the disclosure may be in aggregate. Key Management Personnel will include all Councillors, Directors and all Senior Staff as determined by the Local Government Act 1995.

The impact of this standard will be disclosure in nature only – there is no impact to reported financial position or performance. The implementation guidance reminds Councils that materiality still exists in this context.

Approach

We will review the process of the City's implementation of the following items during the course of the audit to ensure that management can fully comply with the requirements of the accounting standard:

- Creation of a Related Party Disclosure Policy
- Establishment of a system to identify and record:
 - related parties and related party relationships
 - related party transactions and related terms and conditions
- Identify ordinary citizen transactions that will not be disclosed by Council
- Implement declaration forms by Key Management Personnel
- Creation of a Related Party Register

8. Materiality

Materiality drives the scope of our audit and is determined in accordance with the auditing standard requirements. We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Type of Materiality	What is it used for?	Amount for 2017 Year
Overall materiality	Our overall materiality for the Council is calculated as a percentage of gross operating expenditure; this represents the level at which we would consider qualifying our audit opinion and is consistent with the prior year.	\$669,000 2% of Total Expenditure (2016/2017 Budget) \$33.4 m
Performance materiality	We determine performance materiality (from overall materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures. This is the level to which we plan our audit work and identify significant accounts.	\$501,750 which has been set at 75% of Overall Materiality
Trivial error threshold	Auditing Standard ASA 450 <i>Evaluation of Misstatements Identified during the Audit</i> requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial are those which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We determine a trivial error threshold (from materiality) in order to accumulate misstatements identified during the audit. We will not report misstatements below the threshold level unless we believe that the nature of the misstatement should be of concern. We will include a summary of any uncorrected misstatements identified during our audit in our year-end Audit Completion Report to the Audit Committee.	\$33,450 which has been set at approximately 5% of overall materiality

We will reassess materiality based on year-end results or new information to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

9. Audit Engagement Team

The audit team consists of the key members listed below:

Engagement Role	Name	Responsibilities
Audit Partner	Anthony Macri	Engagement leader responsible for the audit, including: <ul style="list-style-type: none"> liaison with the Chief Executive Officer and audit committee members signing of external audit opinion and other relevant reports
Senior Audit Manager	S Menon	Responsible for: <ul style="list-style-type: none"> overall quality control of the audit engagement overall review of audit outputs
Audit Manager	Suren Herathmudalige	Responsible for: <ul style="list-style-type: none"> key contact for operational audit matters ensuring delivery to timetable management of targeted work

10. Communications Plan and Timetable

Auditing Standard **ASA 260 'Communication of audit matters with those charged with governance'** requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee.

Output	Timing
Interim Audit Field Work	24 April 2017 – 26 April 2017
Provide Interim Management Letter	On receipt of management responses to the draft Interim Management Letter.
Final Audit Field Work	6 September 2017 – 8 September 2017 (Confirmed by Management)
Present the Audit Findings Report to the Audit Committee	October 2017 – November 2017 (Management to confirm)
Provide Audit Opinion on Financial Statements	October 2017 – November 2017 (Management to confirm)

11. Independence

Independence and Objectivity Confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the Audit Engagement Partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, this is the Council.

Confirmation Statement

We confirm that as of June 2017 in our professional judgement, Macri Partners is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Engagement Partner and audit staff is not impaired.

12. Disclaimer

This audit plan has been prepared for the Audit Committee and management of the City of Nedlands only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than the City of Nedlands.

26 July 2017

Chief Executive Officer
City of Nedlands
P O Box 9
NEDLANDS WA 6909

Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDED 30 JUNE 2017

We recently carried out an interim audit of the City of Nedlands for the year ended 30 June 2017. Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Bank Reconciliations
- Investment of Surplus Funds
- Purchases
- Payments and Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tenders Register, etc.)
- Fixed Assets (Property, Plant & Equipment and Infrastructure)
- Review of Council Minutes

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.



Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Nedlands. Because of the inherent limitations of any internal control structure, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify. Accordingly, our comments in this management letter are not intended to cover all aspects of the City's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matters were noted and are brought to your attention.

INVESTMENT OF SURPLUS FUNDS

We conducted a review of the investment of funds by the City of Nedlands for the period ended 31 March 2017.

An investment policy exists which provides general guidelines as to the levels of risk and exposure for the various types of investments that can be placed. Our review of the Council's "Investment Policy" indicates that the policy has been prepared to ensure that all investments are made in accordance with:

- The Local Government Act 1995 - Section 6.14,
- The Trustees Amendment Act 1997 – Part III Investments.

The policy is fairly comprehensive and appears to have satisfactorily addressed the following matters:

- Council's investment objectives.
- Diversification/Credit risk – to ensure that Council's investments are maintained within the investment parameters detailed in the policy at all times.
- Appropriate reporting arrangements - to ensure/confirm compliance i.e. documentary evidence of each investment and recording thereof.
- Periodic reporting to Council.

However, the following matters are brought to your attention.

- (i) During our review, we noted that the investment reports for the months of December 2016 and January 2017 have not been presented to the Council.

We recommend that monthly investment reports be prepared and presented to the Council in accordance with the requirements of the Investment Policy.

Management Comment:

Investment Reports for the months of December 2016 and January 2017 were prepared on a timely basis, but were inadvertently missed out in presenting it at the February Council Meeting. We have since and adopted the reports at the Council Meeting on 23 May 2017.



- (ii) We noted that the investment in Adelma Trust's Fund amounting to \$100,000 had not been included in the investment reports that were presented to the Council during the period July 2016 to November 2016. This investment has been withdrawn on 30 November 2016.

We recommend that all investments be included in the investment report presented to the Council in accordance with the requirements of the Investment Policy.

Management Comment:

The investment of the Adelma Trust Fund of \$100,000 was originally placed from the bond monies received as per the terms of the deed signed by the City of Nedlands and a property owner on 12th November 1991. Since trust monies are excluded from the City's financial statements, the term deposit placed from the monies of the trust deposit was also excluded.

PURCHASES, PAYMENTS AND CREDITORS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Professional judgement is used to assess the risk of material misstatement and to design and perform further audit procedures where necessary to reduce the risk to an acceptable low level. Our audit procedures have been designed to determine whether purchases of goods/services were in accordance with the City's Purchasing of Goods and Services Policy.

Generally the controls surrounding purchases, creditors and payments are appropriate to meet the City's requirements.

However, the following matters were noted as requiring attention:

- (i) Our review of the creditors aged trial balances from 1 July 2016 to 31 March 2017 revealed that the payments made to suppliers were not matched against the respective supplier invoices in the creditor's module in the system, and thus, fully paid creditors were included as part of the creditors ageing. Consequently, the list of creditors ageing trial balance was misleading.

We recommend that payments to creditors be matched against the relevant outstanding suppliers' invoices in the creditors' module in order to maintain an accurate creditors ageing trial balance and to evaluate the payable balances age-wise.

Management Comment:

We have investigated the issue and found that the Authority system is not performing the matching before the ageing is done. The Authority system does not provide for the matching to be done manually by us. Therefore, we have logged a call with the Authority providers, CIVICA who will be review and fix the issue in due course.



- (ii) During our testing, we noted two (2) instances (18 samples tested) where purchase orders were raised only after the goods and services have been supplied and invoices received.

The nature of the procurement for these instances was as follows:

PO Number	PO Date	Invoice No	Invoice Date	Amount \$ (Inc.GST)	Nature of procurement
525827	01/08/2016	WA20170003	22/07/2016	\$20,499.05	Feral animal monitoring study
526315	07/09/2016	00002001	01/09/2016	\$95,821.00	Supply chain mesh and concrete for Mount Claremont Lake

Such practice may increase the risk of unauthorised purchases being made. We request that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received. This will ensure that goods and services have been obtained at the most competitive prices and ensure adherence to the City's Purchasing of Goods and Services Policy.

Management Comment:

The City has with effect from 15 March 2017, introduced a new control whereby staff who raise requisitions after the date the goods and services are delivered or performed, or after the date of the invoice are to complete an explanatory note to provide adequate explanation for doing so, and this form has to be approved by their approving officer. The staff are also reminded regularly to adhere to the City's Purchasing of Goods and Services Policy.

In the sample above with PO Number 525827, the services were provided under RFQ2015/16.01 for which a PO Number 522050 was raised on 8/9/2015. However, due to financial year-end roll-over process, this PO for the services, being operational in nature, was cancelled. Hence the second PO was raised on 22nd July 2016 for the remainder of the services uncompleted as at the financial year end.

The sample with PO Number 526315 was a contract issued under RFQ2016/17.01 for which the letter of offer to the contractor was sent on 24th August 2016, although the PO was only raised after the invoice date. However, we will continue to ensure that the Purchase Orders are raised before the services are provided.

RECEIPTING

During our review of the City's receipting function at the Council Administration Office, we noted that receipts were voided by the same person who raises the receipts with no documentary evidence of a review of such cancelled receipts by a senior officer independent of the receipting function.

Lack of adequate internal controls surrounding cancellation of receipts may give rise to opportunities for misappropriation of cash.



We recommend that all cancelled receipts be checked and initialled by an independent senior officer.

Management Comment:

We agree with the recommendation. The processes are now changed to include the review of the cancellation of the receipt by a senior officer who will then initial the cancellation documents as documentary evidence.

PAYROLL

We examined the City's payroll system in the following areas:

- Reviewing the policies and procedures at the City in relation to the Payroll system
- Staff additions and terminations
- Changes to employees pay, including variations to pay
- Authorisation and monitoring of leave taken by employees
- Processing of payroll
- Segregation of duties

The following matters were noted and are brought to your attention:

- (i) The City's Enterprise Agreement 2013 stipulates that employees may accrue a maximum of 8 weeks (304 hours) of annual leave at any time. However, during our review of the employee annual leave entitlement balances as at 27 April 2017, we noted 14 employees with accrued annual leave balances in excess of 304 hours to a maximum of 525 hours (approximately 14 weeks).

Excess annual leave entitlements may have adverse effects on the City including:

- key staff not being rotated, a preventive control against fraud;
- health and safety concerns with staff members not taking their annual entitlements; and
- increase the City's costs given salary rises and increments over time.

We note that management have processes in place to identify and monitor annual leave balances in excess of the maximum stipulated in the Enterprise Agreement 2013. We will be pleased to receive feedback on the current status of the balances concerned.

Management Comment:

We have quarterly reports on excess leave accruals submitted to the Executive Team meeting for their review.

We have also now implemented a process for Directors and Managers to review the excess leave in detail and implement a plan to utilise the leave with a view to reduce the level of leave accrual to the maximum allowed, unless there are approved plan in place for any specific reason for the leave to be utilised at a later period. These plans are documented and approved by the Director and CEO.

- (ii) We noted that no audit trail exists for changes made to payroll master file.



We recommended that a report be generated reflecting changes made to the payroll master file on a monthly basis which needs to be reviewed and approved by senior independent officer to ensure accuracy and validity of changes.

Management Comment:

We agree with the recommendation and have implemented the review of the payroll maintenance audit report to be reviewed by the Manager Finance on a monthly basis commencing from July 2017.

- (iii) We noted that PAYG deductions for the pay period ended 2 October 2016 were incorrect. We understand that the back pay paid during this period was excluded in the PAYG deduction calculation by the system.

We recommend that management look into this matter and take appropriate action to rectify the error.

Management Comment:

Upon investigation, we found that this matter was caused by the malfunction of the Authority system. Authority's provider, CIVICA has rectified the matter and the module is working correctly now.

INFORMATION TECHNOLOGY

We discussed with the Information Systems Coordinator about the general controls operating at the Council. Generally, the controls appear to be operating satisfactorily.

However, the following matter was noted and is brought to your attention:

During our review, we noted that excessive access to system modules have been granted to the staff members of the Council. The access levels to the system modules have been given without taking the job description into consideration. This would result in significant issues in data integrity of the system.

This matter had been brought to the attention of the Council by Council's internal auditors in 2015/2016. However, at the time of our visit it appeared that no corrective action had been taken by the management in this regard.

We recommend that staff members be granted appropriate levels of access to the system in conjunction with the job description.

Management Comment:

We had addressed the access issue on the Payroll module when the matter was raised by the Internal Auditor in 2015/16.



This is a legacy issue from the time when Authority access was first set up for the various modules. We are in the process of determining the best method of matching the staff's job description to the level of access as this is a labourious job, having to review each staff's access and identifying the access required and then deleting those not required from a list of hundreds.

COMPLIANCE

In accordance with the Local Government (Financial Management) Regulations 1996 Councils are required to prepare each month, a Statement of Financial Activity as prescribed in Regulation 34 and to present this to the Council. Our review indicates that the Financial Activity Statement Reports of December 2016 and January 2017 have been prepared, but not presented to the Council.

We request that the monthly Financial Activity Statement Reports be presented to the Council in accordance with the requirements of the Regulation.

Management Comment:

The Financial Activity Statement Reports for the month of December 2016 and January 2017 were prepared on a timely basis, but were inadvertently missed out in presenting it at the February Council Meeting. We have since and adopted the reports at the Council Meeting on 23 May 2017.

We thank your staff for the assistance provided during the audit. Should you have any queries with respect to the above or any other matters please do not hesitate to contact our office.

Yours faithfully



ANTHONY MACRI
AUDIT PARTNER



8. Confidential Items

Closure of Meeting to the Public

Moved – Councillor Hodsdon

Seconded - Mr K Eastwood

That the meeting be closed to the public in accordance with Section 5.23 (f) of the Local Government Act 1995 to allow confidential discussion on the following Items:

- **Fraud Report; and**
- **Cyber Security.**

CARRIED UNANIMOUSLY 5/-

The meeting was closed to the public at 6.10 pm.

Moved - Councillor Hodsdon

Seconded - Mayor Hipkins

That the meeting be reopened to members of the public and the press.

CARRIED UNANIMOUSLY 5/-

The meeting was reopened to members of the public and the press at 6.33 pm.

In accordance with Standing Orders 12.7(3) the Presiding Member read out the motions passed by the Committee whilst it was proceeding behind closed doors and the vote of the members to be recorded in the minutes under section 5.21 of the Local Government Act 1995.

8.1 Macri Report

Confidential Report (Circulated to the Audit & Risk Committee)

Moved –Mr K Eastwood

Seconded – Mayor Hipkins

Committee Recommendation / Recommendation to the Audit & Risk Committee

The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.

CARRIED UNANIMOUSLY 5/-

8.2 Update – I.T Systems Review

Confidential Report (Circulated to the Audit & Risk Committee)

Moved – Councillor Hodsdon
Seconded – Mr K Eastwood

Committee Recommendation / Recommendation to the Audit & Risk Committee

The Committee receives the Cyber Security Report.

CARRIED UNANIMOUSLY 5/-

9. Date of next meeting

The date of the next meeting of this Committee is to be advised.

Declaration of Closure

There being no further business, the Presiding Member declared the meeting closed at 6.35 pm.