



AGENDA

Audit and Risk Management Committee Meeting Friday, 29 May 2020

I hereby give notice that an Audit and Risk Management Committee Meeting will be held on:

Date: Friday, 29 May 2020

Time: 08.00am

**Location: Town of Claremont
Claremont Council Chambers
308 Stirling Highway, Claremont**

**Liz Ledger
Chief Executive Officer**

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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1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

2 RECORD OF ATTENDANCE / APOLOGIES

3 DISCLOSURE OF INTERESTS

4 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

That the minutes of the Audit and Risk Management Committee Meeting held on 7 February 2020 be confirmed.

That the minutes of the Audit and Risk Management Committee Meeting held on 8 May 2020 be confirmed.

5 PRESENTATION

Nil

6 REPORTS OF THE CEO

6.1 REGULATION 17 AUDIT - REPORT OF FINDINGS

File Number: GOV/00054, D-20-16786

Author: Bree Websdale, Director Governance and People

Authoriser: Liz Ledger, Chief Executive Officer

Attachments: 1. Avant Edge - Regulation 17 Report TOC

PURPOSE

To present a report on the findings from an audit in line with Regulation 17 of the *Local Government (Audit) Regulations 1996*.

BACKGROUND

Local Government (Audit) Regulations 1996, Regulation 17 prescribes a number of matters that are to be reviewed by a local governments Audit and Risk Management Committee.

Regulation 17 provides:

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

DISCUSSION

The review was conducted during April and May 2020 by consultant, Avant Edge Consulting.

The review is to enable the CEO to review the appropriateness and effectiveness of the Town of Claremont's systems in regard to risk management, internal control, and legislative compliance.

The report prepared of the review is provided at Attachment 1.

There were no critical (i.e. legislative compliance) issues raised in the review. The attached report outlines, 16 improvement opportunities. Management comments have been provided in response outlining how the Town proposes to see the improvements recommended, progressed and finalised.

A number of the areas for improvement had been identified by the Town already and are in progress (Finding 1, 2, 6, 14).

A number of findings require a more formalised process or improvements in relation to procurement (Finding 3, 4, 5), accounts payable (Finding 7) and purchase orders (Finding 8, 9, 10, 11).

Finding 12 and 13 suggest a review of security around cash in transit.

The report is presented for consideration with the findings and recommendations.

It is proposed that further reports will be presented to the Audit and Risk Management Committee on a biannual basis to provide updates on the progress in relation to the recommendations.

PAST RESOLUTIONS

Audit and Risk Management Committee 1 May 2019,

That the Audit and Risk Management Committee:

- Notes the recommendations and agreed management action within the Procurement and Delegation Internal Audit Review - April 2019, and
- Recommends Council receive the Delegations of Authority and Procurement Internal Audit Review.

Audit and Risk Management Committee 16 June 2015,

That Council;

- Receives the 'Strategic Risk Report - June 2015' and 'Operational Risk Report - June 2015': and
- Notes the results of the Chief Executive Officer's review of the appropriateness and effectiveness of the Town's systems and procedures in relation to risk management, internal control and legislative compliance.

CARRIED (107/15)

(NO DISSENT)

FINANCIAL AND STAFF IMPLICATIONS

Resource requirements are currently in accordance with existing budgetary allocation however may require further resources in the 20/21 budget.

The recommendations that require additional resources are noted in Attachment 1 (i.e. Finding 3, 4 5).

POLICY AND STATUTORY IMPLICATIONS

Regulation 17 *Local Government Audit Regulations 1996* requires the following:

1. The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:

- a) risk management;*
- b) internal control; and*
- c) legislative compliance.*

2. The review may relate to any or all of the matters referred to in sub regulation (1) (a), (b) and (c), but each of those matters is to be the subject of a review at least once every three financial years.

3. The CEO is to report to the Audit Committee the results of that review.

COMMUNICATION / CONSULTATION

Avant Edge Consulting consulted with the Manager Governance & Risk, Manager Finance and Manager Human Resources. The Director Corporate & Compliance and Director Governance & People were also involved in the review.

Attachment 1 has been provided to the Executive Management Team.

STRATEGIC COMMUNITY PLAN

Leadership and Governance

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

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

- Manage our finances responsibly and improve financial sustainability.
- Continually assess our performance and implement initiatives that drive continuous improvement.

URGENCY

In order to meet the statutory deadlines, the report needs to be presented at the next available Ordinary Council Meeting prior to 30 June 2020.

VOTING REQUIREMENTS

Simple majority decision required.

OFFICER RECOMMENDATION

That the Audit and Risk Management Committee with respect to the Review of Risk Management, Legislative Compliance and Internal Controls recommend Council to:

- 1. Note the Chief Executive Officer (CEO)'s Report (as per Attachment 1); and**
- 2. Request the CEO to present the progress of the recommendations on a biannual basis.**



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21 May 2020

CEO
Town of Claremont
Number One Claremont
308 Stirling Highway
CLAREMONT WA 6010

Dear Ms Ledger

Please find attached our final review report on the Regulation 17 review of the Town of Claremont.

As per Regulation 17(1), (2) and (3) of the Local Government (Audit) Regulations 1996, the CEO is required to undertake a review, at least once every 3 financial years, of the following processes:

- Risk Management;
- Internal Control;
- Legislative Compliance.

Our review report details our findings and recommendations which includes management comments in regards to our findings and recommendations.

We would like to thank your staff for their positive cooperation provided to us during the conduct of this review especially in light of the COVID 19 distancing restrictions which applied throughout this review process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Casilli', is enclosed in a rectangular box.

Santo Casilli FCPA MIIA (Aust.)
Director

Avant Edge Consulting

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Town of Claremont

Regulation 17 Review

21 May 2020

Final Review Report

(Review in Confidence)

Avant Edge Consulting
Certified Practising Accountant

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Executive Management Summary

As per Regulation 17(1), (2) and (3) of the *Local Government (Audit) Regulations 1996*, the Chief Executive Officer (**CEO**) is required to undertake a review, at least once every 3 financial years, of the following processes:

- Risk Management;
- Internal Control; and
- Legislative Compliance.

The Town of Claremont (**the Town**) uses Council First as its accounting system and has a Policy Manual (last updated 18 December 2018 but currently undergoing a review) governing its operational processes.

SCOPE AND METHODOLOGY

Our review was conducted in accordance with ASAE 3500 – Assurance Engagement Other Than Audits or Reviews of Historical Financial Information.

The review undertook the following approach:

- Discussions were held with relevant staff to understand the processes and the management controls currently in place. Communications were held with the Manager Governance, Manager Finance and Manager Human Resources throughout the review process.
- Assessed the adequacy of key management controls currently in place over the risk management, accounts payable, cash receipting, payroll, staff recruitment and procurement functions and evaluated those controls to determine their appropriateness and also to identify areas for control process improvement.
- Due to the COVID 19 Government imposed social distancing rules and the subsequent closure of the Town's administration and out centres such as the Library and Aquatic Centre and staff working from home, all information was requested and received via email and via phone contact.

OUR WORK PROGRAM

Our work incorporated the following areas for review as required under Regulation 17:

1. RISK MANAGEMENT

- a. Governance Framework is in place and endorsed by the Audit and Risk Management Committee.
- b. A formal governance unit exists.
- c. Risk Management and governance policies are in place and have been endorsed by the Audit and Risk Management Committee/Council.
- d. An Operational and Strategic Risk Register is in place and is constantly reviewed and updated.
- e. Regular development of risk reports and actions to address risks are identified and actioned.

Regulation 17 Review**Town of Claremont**

- f. Fraud Risk Identification and Prevention policies are in place including a Whistle Blower policy.
- g. An effective Audit and Risk Management Committee exists and proper Committee processes are followed.

2. INTERNAL CONTROL

- a. Delegation of Authority is in place, up to date and reviewed regularly.
- b. Proper and formal documented policies (guidelines and procedures) are in place and are kept up to date.
- c. Internal assessment of control processes exists e.g. via an internal audit function or by the Town's Governance area.
- d. Assessed the work undertaken by the Town's external Auditors re the review of the town's control environment.
- e. Proper segregation of duties and management controls exist in relation to the following key accounting processes:
 - o Accounts payable;
 - o Cash collection, receipting and reconciliation;
 - o General Ledger reconciliation and checking functions;
 - o Payroll;
 - o Staff recruitment and staff performance appraisals;
 - o Procurement.

3. LEGISLATIVE COMPLIANCE

- a. The Compliance Audit Return (CAR) is properly completed each year and any non-compliance matters are investigated promptly.
- b. Legislative compliance is monitored and regularly reviewed to ensure compliance.

CONCLUSION

Based on our assessment of the management controls and processes that exist at the Town in regards to the above 3 key areas of the Regulation 17 review, we noted a number of areas that require process improvement. We believe that management implementation of the process improvements that we have identified as part of our review will strengthen existing management controls currently in place and will also improve overall governance within the Town's operations.

We are happy to report that there were no high risk matters that would require immediate attention by the Town Management.

The matters raised in this report are only those which came to our attention during the course of performing our review and may not necessarily be a comprehensive statement of all the possible process improvement options that may be made in relation to the Risk Management, Internal Control and Legislative Compliance matters.

Our review report is provided to the Town in order for the Town to meet their statutory obligations under Regulation 17 and as such we do not encourage this report to be used for any other purpose.

In relation to the above areas that formed part of our review, we wish to provide a summary of our findings. Our proposed recommendations in regards to each finding, including management comments as to action to be taken against each of the findings and

recommendations, have been included in the "Detailed Findings and Recommendations" section of this report:

RISK MANAGEMENT

The Town currently does have in place a final and endorsed Risk Management Framework which outlines the Town's risk identification systems and policies and outlines how the Town will manage its risks. The Town has in place a risk management system (a process by which both strategic and operational risks are identified for ongoing management and review) via the establishment of an integrated risk register. However, the risk register was last updated in August 2018 and needs to be updated. The Town's governance position became vacant in late 2018 with the new incumbent commencing early 2020.

The Town does not currently have in place a "Fraud Prevention Policy" and a "Whistle Blower Policy". We understand these two policies are being drafted by the Town as they were identified as required as part of the policy manual review being undertaken. Such policies outline the importance and responsibility that all staff in the Town have in ensuring that fraud is prevented through proper adherence and compliance with existing management controls and that where fraud is suspected that it is reported for investigation.

INTERNAL CONTROL

Procurement

The Town's procurement process requires improvement. The following should be considered by management:

1. Monitoring the Town's procurement process.

The Town's procurement process is decentralised and as such all procurement decisions and actions are managed by the various operational areas based on their procurement needs. Although the Town's procurement policy is outlined in the Town's Policy Manual (LG509, "Procurement") and in process maps, other than the policy there is no formal centralised procurement team or area whose sole role is to provide procurement guidance to the various operational areas nor is there any formal monitoring role set up to ensure proper procurement policy and processes are being consistently complied with.

As part of our review and our discussions with two contract managers we were unable to be satisfied that conflict of interest declarations were being provided by selection panel members at all times, supplier contracts were being effectively managed throughout the contract period and that RFQ or RFT processes were being properly complied with at all times when seeking quotations.

The current tender register is set up correctly but as procurement is not centralised it requires each operational area to complete and document each part of the procurement process as required under the Part 4 *Local Government (Functions and General) Regulations* 1996. However, on review, the tender register has not been completed in full by each operational area. We recommended that the Town follow up each operational area and establish whether these are instances of non-compliances or failure to complete the tender register.

In addition, we believe that consideration should also be given to include, even though these requirements may not be applicable to the Town, in the Towns Policy Manual (under the procurement policy) the requirements of Section 20(1) and (2) and 21A.

Regulation 17 Review**Town of Claremont****2. Implementing end of contract supplier performance appraisals work procedures**

The establishment of Contract Management procedural guidelines is an important and essential element in ensuring that contracted suppliers comply with their contractual obligations, provide goods and services to a high quality and charge for such goods and services in accordance with the agreed and quoted price rate. Further, end of contract supplier performance appraisals allows the Town to evaluate the quality of services provided and to determine whether the supplier should be sought again for future work for the Town.

3. Establishing work procedures

The Town does not have in place formal written procurement work procedures that would provide greater guidance to officers within operational areas responsible for procurement of the Town's goods and services. For example, there are no work procedures or work guidelines governing contract management process relating to the need to ensure supplier insurances are sought annually for each of the contract terms, end of contract supplier performance appraisals, panel selection team members signing off the final tender assessments, the need for conflict of interest declarations to be signed by each panel member and the tender opening process.

The Town has recently required all staff to complete a WALGA training module on Procurement and staff have access to the WALGA procurement tool kit.

Accounts Payable

The Town's accounts payable process requires improvement. The following should be considered by management:

1. Policies to reference work procedures

The Town Policy Manual does not reference key accounts payable work procedures relating to new supplier creation and maintenance of supplier details as below:

- a. Creation of a new supplier process;
- b. Changing a supplier's legal name and bank account details process;
- c. Managing inactive suppliers;
- d. Independent checking of modifications made to the supplier database.

2. Purchase Orders

The Town is required to initiate an approved purchase order at the time a supplier is contracted to provide goods and services. Our review found that in many cases the purchase order is being initiated and approved at the stage the Town receives a supplier invoice for payment processing. Issuing of an approved purchase order at the time of receiving the supplier's invoice undermines the management control effect of using purchase orders. Purchase orders provide the necessary authorisation to commit the Town to a future payment and therefore its use is more effective at the time of awarding a supplier contract.

The Town Policy Manual should also make it clear as to when a purchase order should or should not be raised. Purchase Orders are an effective control mechanism for the approval of purchases relating to goods and services. However, purchase orders are not required for administrative type payments such as Synergy bills, Water Corporation bills, staff

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reimbursements etc. or for regular ongoing payments such as loan payments. In most cases these are ongoing operational day to day payments.

The Town's Policy Manual does not clearly provide for the process to follow where there is a purchase order/supplier invoice matching variance. Although, we understand, at present any variations between the approved \$ value of a purchase order and the matching supplier invoices requires further authorisation prior to payment, there is no variance tolerability. That is, should there be a variance of say 5% or up to \$100 between the purchase order approved value and the supplier invoice value, the invoice can be paid without further authorisation.

3. Creating Purchase Invoices process

When the Finance area is required to create a purchase invoice (loan repayments and other similar administrative type payments) which requires payment via a direct deposit, we understand that the Finance Officer creates a Direct Deposit Request Form which is signed by the Manager Finance and also by the Director Corporate & Compliance. If the direct deposit amount is over \$150,000 (as per the authority limits) the Form is also required to be authorised by the CEO. The purchase invoice is then created electronically and is again also required to be authorised by the Manager Finance and the Director Corporate & Compliance (based on their Delegated \$ limits) or the CEO if over \$150,000.

We assessed this process as part of our review and have formed a conclusion that the process is inefficient and incorporates too many unnecessary approval levels.

Cash receipting

The Town's cash receipting and control over cash handling process requires improvement. The following should be considered by management:

1. Cash Receipting and security

The Town currently has cash receipting facilities at the Administration building, Library and the Aquatic Centre. We understand that all banking of cash and cheques is undertaken by staff at these centres and the Town does not use armed guard security services. We consider that staff carrying cash directly to the bank is highly risky and puts the Town staff under unnecessary risk during cash in transit.

Security over point of sale systems for the receipting of cash is essential not only for the safeguarding of cash but for the overall safety of staff who operate those systems. As such all point of sale systems where cash is receipted should be protected by CCTV cameras and duress alarms. During our review we were unable to physically visit the Library and the Aquatic Centre in order to sight the existence of these security features due to the closure of these sites as part of the COVID 19 social distancing restrictions. I have been advised that:

- The Library has two duress alarms at the point of sale. The CCTV is on the outside of the Library.
- The Aquatic Centre has a duress alarm in the reception office. The centre is also fitted with CCTV cameras on the main tills, safe and counting station. Further, the Town has applied for a grant to cover additional CCTV to cover the front and entrance of the Aquatic Centre.

We have recommended that the Town ensure that wherever cash is being receipted that there exists a working CCTV camera and duress alarms in place.

Regulation 17 Review**Town of Claremont****2. Policy Manual**

There are some key policies that are not included in the Town's Policy Manual. The policy manual does not provide appropriate policy guidance in regards to the following key processes:

- a. Complaints Management (We note the Town has a Customer Experience Charter);
- b. Risk Management;
- c. Cash Receipting and Banking; and
- d. Legislative Compliance.

LEGISLATIVE COMPLIANCE**1. Compliance Checklist**

The Town has a comprehensive compliance calendar which is in the process of being updated by the Governance & Risk and Finance teams. This tracks all activities and actions required to ensure compliance with all legislative requirements associated with the *Local Government Act 1995*, the *Local Government (Functions & General) Regulations 1996* and the *Local Government (Audit) Regulations 1996*.

The annual Compliance Audit Return (**CAR**) is undertaken by the Governance unit (in consultation with all relevant operational areas as required) and reported through the Audit and Risk Management Committee prior to being tabled at Council.

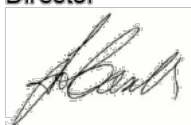
Although the CAR and the comprehensive compliance calendar are appropriate to assess legislative compliance, it does not cater for all the legislative areas that require compliance. We have recommended the Governance unit develop various legislative compliance program checklists which can be distributed to the relevant operational areas for them to undertake a self-compliance assessment, say on an annual basis. Once completed the legislative compliance program compliance checklists should be signed-off by the relevant Managers and their Director as evidence that they have undertaken the compliance checks.

2. Internal Audit Activity

The Town does not have in place a dedicated Internal Audit Activity which is able to undertake routine internal control assurance work. Such an activity would be responsible for reporting their assurance findings and recommendations directly to the Audit and Risk Management Committee to provide comfort to the Committee in meeting their responsibilities and obligations. The establishment of an Internal Audit Activity would also allow the Town to meet its legislative obligations in regards to the *Local Government (Financial Management) Regulations 1996*, 5(2) (c) review and *Local Government (Audit) Regulation 1996*, Regulation 17 review requirements. The Internal Audit Activity can be established either as an inhouse function or outsourced via a reputable accounting/audit firm who specialise in providing Internal Audit services.

Santo Casilli FCPA
Director

21 May 2020

**Avant Edge Consulting**

Regulation 17 Review

Town of Claremont

Detailed Findings and Recommendations

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Town of Claremont

Audited Area: Risk Management
Audited Activity: Risk Management Process

Finding	Implication	Recommendation	Management Comments
1.0 Need to Update the Town's Risk Register <p>The Town has in place a risk management system (a process by which both strategic and operational risks are identified for ongoing management and review) via the establishment of an integrated risk register. However, the risk register was last updated in August 2018 and is not fully completed and now requires updating.</p>	<p>Risk: Medium</p> <ul style="list-style-type: none"> In the absence of an up to date and regularly reviewed risk register process the Town's risks would not be able to be effectively mitigated and any new risks identified. The integrated risk register in the absence of identified risk actions may not be effective in mitigating risk. 	<p>We recommend that:</p> <ul style="list-style-type: none"> The Town's integrated risk register be updated and completed as soon as possible and regularly reviewed to ensure any new strategic and operational risks to the Town can be identified and appropriate actions put in place to mitigate such risks. Also, that the updated and completed integrated risk register should be presented at the Audit and Risk Management Committee for approval on an annual basis. 	<p>Responsibility: Director Governance & People</p> <p>Management Comments: Agree</p>

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Town of Claremont

Audited Area: Risk Management
Audited Activity: Risk Management Policies

Finding	Implication	Recommendation	Management Comments
<p>2.0 Need to Develop a Fraud Prevention Policy</p> <p>The Town does not currently have in place a "Fraud Prevention Policy" or a "Whistle blower Policy. Such a policy would outline the importance and responsibility that all staff have in the Town have in ensuring that fraud is prevented through proper adherence and compliance with existing management controls.</p> <p>"</p> <p>We understand that the Town is currently in the process of developing such policies</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> In the absence of a fraud prevention policy and process the Town staff would not be empowered to report where possible fraud is suspected and reported for investigation. 	<p>We recommend that:</p> <ul style="list-style-type: none"> the Town develop a formal "Fraud Prevention Policy" and guidelines to empower staff prevent the occurrence of fraud and to report suspected fraud. the Town also give consideration to developing a "Whistle Blower Policy" and guidelines in order to protect staff confidentiality when staff need to report suspected fraudulent activity. 	<p>Responsibility: Director Governance & People Director Corporate & Compliance</p> <p>Management Comments: Agree</p>

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Town of Claremont

Audited Area: Internal Control**Audited Activity: Procurement**

Finding	Implication	Recommendation	Management Comments
<p>3.0 Need for Centralised Procurement Monitoring</p> <p>The Town's procurement process is decentralised and as such all procurement decisions and actions are managed by the various operational areas based on their procurement needs. Although the Town's procurement policy is outlined in the Town's Policy Manual, other than the Manual, there is no formal centralised procurement team or area to provide procurement guidance to the various operational areas nor is there any formal monitoring role set up to ensure proper procurement policy and processes are consistently complied with.</p> <p>we were also unable to conclude that all procurement activity at the Town is strictly adhering to a proper process in line with the Town's Policy Manual and or in line with the <i>Local Government Act 1995 and the Local Government (Functions and General) Regulations 1996 requirements</i>.</p> <p>For example, we were unable to be satisfied of the following:</p> <ul style="list-style-type: none"> • conflict of interest declarations was provided by selection panel members at all times, 	<p>Risk: Medium</p> <ul style="list-style-type: none"> • No effective process in place to monitor whether goods and services procured from a supplier were properly procured via an RFQ or RFT process could lead to possible non-compliance or inconsistencies in the procurement process. 	<p>We recommend that:</p> <ul style="list-style-type: none"> • the Town, via possibly the Governance area, give consideration to developing a "Supplier Expenditure > \$50,000" report. This cumulative report should be obtained from the Council First system, each month, listing the names of all suppliers used by the Town that have accumulated greater than \$50,000 in payments from the supply of goods and services. • all suppliers with an accumulated amount greater than \$50,000 should be investigated to determine how such services were procured either via an RFQ, RFT or via a WALGA supplier panel in line with Town policy and legislative requirements. • that a "Procurement Quality Checklist" document be developed by the Town to be completed by each officer within each operational area responsible for procurement of the Towns goods and services via RFQ's and RFT's. • the Checklist should include a listing of all key procurement stages that are required to be complied with when procuring 	<p>Responsibility: Executive Team</p> <p>Management Comments:</p> <p>Agree. This will require resources and training to perform this function effectively. Future action will depend on budget and resource availability.</p>

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Finding	Implication	Recommendation	Management Comments
<ul style="list-style-type: none">supplier contracts were being effectively managed throughout the contract period,RFQ's and RFT's were being properly advertised and enacted on a timely basis once supply contracts had ended.		goods and services via RFQ's and RFT's. The Checklist should be signed off by both the relevant procurement officer and the relevant Delegated officer as evidence that proper procurement process was followed in line with the Town's procurement policy and Local government Act and Regulation requirements	

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Audited Area: Internal Control

Audited Activity: Procurement

Finding	Implication	Recommendation	Management Comments
4.0 Need for Contract Management Guidelines to be Established Although the Town's Policy Manual outlines the procurement policies, the Town Policy Manual does not reference any formal guidelines in regards to Contract Management process.	Risk: Medium <ul style="list-style-type: none"> no guarantee that contracted suppliers comply with their contractual obligations, provide goods and services to a high quality and charge for such goods and services in accordance with the agreed and quoted price rate. 	We recommend that: <ul style="list-style-type: none"> contract management guidelines be developed and referenced within the Town Policy Manual. Incorporate end of contract supplier performance appraisals. 	Responsibility: Executive Team Management Comments: Agree that contractor management guidelines should be drafted. Agree that contractor supplied performance appraisals should be conducted.

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Town of Claremont

Audited Area: Internal Control**Audited Activity: Procurement**

Finding	Implication	Recommendation	Management Comments
<p>5.0 Need for Detailed Work Procedures and Guidelines to be Established.</p> <p>The Town does not have in place formal written procurement work procedures that would provide greater guidance to officers within operational areas responsible for procurement of the Town's goods and services.</p> <p>For example, there are no work procedures or work guidelines governing:</p> <ul style="list-style-type: none"> • panel selection team signing off the final tender assessments and supplier recommendations, • signed conflict of interest declarations by each panel member, • tender opening process. We have recommended that the Town give consideration to creating formal written procedures and guidelines in regards to all elements of the procurement activity 	<p>Risk: Medium</p> <ul style="list-style-type: none"> • inconsistency in the procurement practices adopted by various operational areas. 	<p>We recommend that:</p> <ul style="list-style-type: none"> • the Town give consideration to creating formal written work procedures and guidelines in regards to all elements of the procurement activity 	<p>Responsibility: Executive Team</p> <p>Management Comments:</p> <p>Agree, this will require dedicated resources. Future action is dependent on resourcing and budget availability.</p>

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control
Audited Activity: Procurement

Finding	Implication	Recommendation	Management Comments
<p>6.0 Need for Tender Register Information to be Compliant.</p> <p>The current tender register does not comply with some of the information requirements as outlined under Part 4 of the Local Government (Functions and General) Regulations 1996.</p> <p>These include Sections 17(2) (c) (iii) and 17(2) (d) & (e).</p> <p>17(2) (c) (iii) – relates to reporting a list of acceptable tenders that submitted a tender and were assessed as part of the tender process</p> <p>17(2) (d) & (e) – relates to reporting in the tender register a copy of the notice of invitation to tender and the name of each tender whose tender has been opened.</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> non-compliance with Local Government (Functions and General) Regulations 1996 	<p>We recommend that:</p> <ul style="list-style-type: none"> the Town investigate these non-compliances and ensure the tender register is adjusted accordingly in regards to the requirements of Sections 17(2) (c) (iii), 17(2) 9D) and (e). consideration should also be given to include Section 20(1) and (2) and 21A of Part 4 of the Local Government (Functions and General) Regulations 1996. 	<p>Responsibility: Director Governance & People</p> <p>Management Comments: Agree an investigation of non-compliance is required and the register to be adjusted.</p>

Regulation 17 Review

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Audited Area: Internal Control
Audited Activity: Accounts Payable

Finding	Implication	Recommendation	Management Comments
<p>7.0 Need for Accounts Payable Policies to be revamped and improved.</p> <p>The Town Policy Manual does not clearly reference key accounts payable work procedures relating to:</p> <ol style="list-style-type: none"> Creation of a new supplier process Changing a supplier's legal name and bank account details process Managing inactive suppliers Independent checking of modifications made to the supplier database 	<p>Risk: Medium</p> <ul style="list-style-type: none"> Provides for inconsistency in dealing with supplier creation and changes to supplier data base information 	<p>We recommend that the Town Policy Manual be updated to reference the following:</p> <ol style="list-style-type: none"> work procedures for new supplier creation and changes to supplier legal name and bank account details New suppliers can only be created upon receipt of a "New Supplier Creation Approval Form" which details the supplier's legal name and trading name, ABN, bank account details and signed by the supplier. User access in Council First for creating a new supplier, should be restricted to only finance staff excluding bonds refund recipients) and to be approved by the Manager Finance and/or Director Corporate & Compliance. Where the Manager Finance has created the new supplier then, for proper segregation of duties, the new supplier creation should be approved by the Director Corporate & Compliance. All requests for change of a supplier's legal name and/or bank account must be provided in writing and signed, either from the supplier's email (clearly showing their company/business logo and/or name) or by post on the supplier's business letterhead and supported with evidence of new legal name and/or new bank account details as an additional control measure that the 	<p>Responsibility: Director Corporate & Compliance</p> <p>Management Comments:</p> <p>Agreed for points 1-4 including a new form to comply with segregation of duties prior to the Finance Team adding/amending.</p> <p>A supplier modification report is currently provided on a weekly basis on the EFT payment, reviewed by MF.</p>

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Town of Claremont

Finding	Implication	Recommendation	Management Comments
		Town establish from Council First system, a monthly "Supplier Modification Report" which lists all modifications/changes that have occurred to a supplier, in a given month, which should be independently checked on a sample basis and signed off by the Director Corporate & Compliance	

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control**Audited Activity: Procurement/Accounts Payable**

Finding	Implication	Recommendation	Management Comments
8.0 Need to Ensure Proper Use of Purchase Orders. <p>The Town is required to initiate an approved purchase order at the time a supplier is contracted to provide goods and services.</p> <p>Our review found that in most cases the purchase order is being initiated and approved at the stage the Town receives a supplier invoice for payment processing.</p> <p>Purchase orders provide the necessary authorisation to commit the Town to a future payment and therefore its use is more effective at the time of awarding a supplier contract.</p>	<p>Risk: Medium</p> <ul style="list-style-type: none"> Issuing of an approved purchase order at the time of receiving the supplier's invoice undermines the management control effect of using purchase orders and the proper authorisation of purchase orders at the time a supplier is contracted. Increases the possibility of fraudulent action. 	<p>We recommend that:</p> <ul style="list-style-type: none"> the Town clarify its policy and guidelines in regards to the proper use and approval of purchase orders to ensure that all purchase orders are initiated and approved at the date a supplier quote is accepted and/or a supplier contract for the supply of goods and services is enacted. A copy of the approved purchase order should be issued to the supplier at date of accepting their quote clearly stating that the supplier is required to state the purchase order number on their invoices. 	<p>Responsibility: Director Corporate & Compliance</p> <p>Management Comments:</p> <p>Agree. LG509 Procurement Policy is currently under review due to recent legislative changes.</p> <p>Finance procedures to be reviewed and updated.</p>

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Town of Claremont

Audited Area: Internal Control**Audited Activity: Procurement/Accounts Payable**

Finding	Implication	Recommendation	Management Comments
<p>9.0 Purchase Orders not Required for Administrative Type Payments.</p> <p>The Town Policy Manual should make it clear as to when a purchase order should or should not be raised.</p> <p>Purchase Orders are an effective control mechanism for the approval of purchases relating to goods and services. However, we do not consider that purchase orders are required for administrative type payments such as Synergy bills, Water Corporation bills, staff reimbursements etc or for regular ongoing payments such as loan payments. In most cases these are ongoing operational day to day payments.</p> <p>We understand that purchase orders are at times also being requested by Finance for these administrative type payments.</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> Raising of purchase orders for day to day administrative type payments do not provide any additional control benefit. 	<p>We recommend that:</p> <ul style="list-style-type: none"> the Town Policy Manual also include, as part of the policy in regards to proper use of purchase orders, clarification as to types of administrative payments where purchase orders are not required for the payment of such invoices. 	<p>Responsibility: Director Corporate & Compliance</p> <p>Management Comments:</p> <p>Agree. To be implemented into Finance Procedures.</p>

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control**Audited Activity: Procurement/Accounts Payable**

Finding	Implication	Recommendation	Management Comments
<p>10.0 Need to Establish Purchase Order/Invoice Matching Variance Tolerance Levels.</p> <p>The Town's Policy Manual does not clearly provide for the process to follow for the matching of an approved purchase order and a supplier invoice nor where there is a purchase order/supplier invoice matching variance.</p> <p>Although, we understand, at present any variations that is determined between the approved \$ value of a purchase order and the matching supplier invoice \$ value requires further authorisation prior to payment, there is no variance tolerability.</p> <p>That is, should there be a variance of say 5% or up to \$100 between the purchase order approved value and the supplier invoice value, the invoice can be paid without further authorisation.</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> provides a more efficient process based on risk management principles. 	<p>We recommend that:</p> <ul style="list-style-type: none"> In order to make the process more efficient, the Town should give consideration to establishing a suitable \$ and % variance that if met as part of the matching process, would not require further approval prior to payment. The Town Policy Manual should also clearly incorporate this variance policy and ensure the following processes are also clearly defined: Matching process between purchase order and supplier invoice Approval of supplier invoice variations 	<p>Responsibility: Director Corporate & Compliance.</p> <p>Management Comments:</p> <p>Agree and to be explored with new system. Preference for this to be incorporated into a Finance Work Procedure as opposed to a policy.</p> <p>Process of purchase order and invoice to be updated in existing Finance Procedures.</p>

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control
Audited Activity: Accounts Payable

Finding	Implication	Recommendation	Management Comments
<p>11.0 Need to Address Overuse of Authorisation Controls when Creating Purchase Invoices.</p> <p>When the Finance area is required to create a purchase invoice (loan repayments and other similar administrative type payments) which requires payment via a direct deposit, we understand that the Finance Officer creates a Direct Deposit Request Form which is signed by the Manager Finance and also by the Director Corporate & Compliance. If the direct deposit amount is over \$150,000 (as per the authority limits) the Form is also required to be authorised by the CEO.</p> <p>The purchase invoice is then created electronically and is again also required to be authorised by the Manager Finance and the Director Corporate & Compliance (based on their Delegated \$ limits) or the CEO if over \$150,000.</p> <p>After subsequent approvals have been given the purchase invoice is included in the payment run, which again requires approval by the Manager Finance or the Director Corporate & Compliance (based on their Delegated \$ limits as cheque signatories) or the CEO if over \$150,000.</p> <p>We assessed this process as part of our review and have formed a conclusion that the process is inefficient and incorporates too many unnecessary approval levels.</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> Inefficient and unnecessary over use of authorisation control. 	<p>We recommend that the town give consideration to adopting the following authorisation process when dealing with creation of purchase invoices:</p> <ul style="list-style-type: none"> Requesting Officer - creates direct deposit request form Supervisor/Manager of Requesting Officer - authorises the direct deposit request form which gives authority for the Finance Officer to create a purchase invoice, regardless of the \$ amount. Finance Officer - creates the purchase invoice in Council First system Relevant position - provides electronic authorisation of the purchase invoice in Council First system based on financial authority levels. 	<p>Responsibility: Director Corporate & Compliance</p> <p>Management Comments:</p> <p>Agree need to simplify this process and the Town will implement this new suggested process into its internal work procedures as well as disseminate to all staff.</p>

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control**Audited Activity: Cash Handling**

Finding	Implication	Recommendation	Management Comments
12.0. Need Safer Process for Cash in Transit The Town currently has cash receipting facilities at the Administration building, Library and the Aquatic Centre. We understand that all banking of cash and cheques is undertaken by staff at these centres and the Town does not use armed guard security services to collect and deliver cash and cheques to the Town's bank.	Risk: Medium <ul style="list-style-type: none"> staff carrying cash directly to the bank is highly risky and puts the Town staff under unnecessary potential risk during cash in transit. 	We recommend that <ul style="list-style-type: none"> the Town reassess the potential risk associated with staff carrying cash to the bank versus the associated cost of using armed security services. 	Responsibility: Director Corporate & Compliance Management Comments: Agree. Risks to be considered by the Town as against cost implications.

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control**Audited Activity: Cash Handling**

Finding	Implication	Recommendation	Management Comments
<p>13.0 Use of CCTV and Duress Alarms</p> <p>Security over point of sale systems for the receipting of cash is essential not only for the safeguarding of cash but for the overall safety of staff who operate those systems.</p> <p>As such all point of sale systems where cash is receipted should be protected by CCTV cameras and duress alarms.</p> <p>During our review we were unable to physically visit the Library and the Aquatic Centre in order to sight the existence of these security features due to the closure of these sites as part of the COVID 19 social distancing restrictions nor were we able to determine whether these devices, if fitted, were operational.</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> Inactive or non-existent CCTV and duress alarms could put Town staff at risk. 	<p>We recommend that</p> <ul style="list-style-type: none"> the Town ensure that wherever cash is being receipted that there exists a working CCTV camera and duress alarms in place. 	<p>Responsibility: Director Corporate & Compliance</p> <p>Management Comments:</p> <p>Agree. Risks to be considered by the Town as against cost implications.</p>

Regulation 17 Review

Town of Claremont

Audited Area: Internal Control

Audited Activity: General

Finding	Implication	Recommendation	Management Comments
<p>14.0. Need to Update the Town Policy Manual</p> <p>The policy manual does not provide appropriate policy guidance in regards to the following key processes:</p> <ul style="list-style-type: none"> ○ Complaints Management ○ Risk Management ○ Cash Receipting and Banking ○ Legislative Compliance <p>The Town does have in place a Customer Experience Charter.</p>	<p>Risk: Low</p> <ul style="list-style-type: none"> • Inappropriate guidelines for staff to follow. 	<p>We recommend that</p> <ul style="list-style-type: none"> • the Town, via the Governance unit review the Town's Policy Manual to include the following processes and any other policies that have been identified as part of this review report that need to be included in the Town's Policy Manual. <ul style="list-style-type: none"> ○ Complaints Management ○ Risk Management ○ Cash Receipting and Banking ○ Legislative Compliance 	<p>Responsibility: Director Governance & People</p> <p>Management Comments:</p> <p>Agree. Review of Policy Manual is in progress</p>

Regulation 17 Review

Town of Claremont

Audited Area: Legislative Compliance
Audited Activity: Compliance

Finding	Implication	Recommendation	Management Comments
<p>15.0. Need to Develop a Legislative Compliance Checklist</p> <p>The Town's current legislative compliance program could be improved. The Town currently relies on the annual Compliance Audit Return (CAR) and the Comprehensive Compliance Register to identify and monitor compliance.</p> <p>Although the (CAR) and the Comprehensive Compliance Register are appropriate to assess legislative compliance, it does not cater for all the legislative areas that require compliance under the Local government Act 1995, the Local Government (Functions & General) Regulations 1996 and the Local Government (Audit) Regulations 1996.</p>	<p>Risk: Medium</p> <ul style="list-style-type: none"> The Town may not be complying with legislative compliance without formal detection. 	<p>We recommend that:</p> <ul style="list-style-type: none"> the Governance unit give consideration to develop various legislative compliance program checklists which can be distributed to the applicable operational areas for them to undertake a self-compliance assessment, say on an annual basis of their compliance level. Once completed the legislative compliance program compliance checklists should be signed-off by the relevant operational Managers and their Director as evidence that they have undertaken the compliance checks and that any non-compliance matters have been actioned and returned to the governance area. 	<p>Responsibility: Director Governance & People</p> <p>Management Comments: To be considered further</p>

Regulation 17 Review

Town of Claremont

Audited Area: Legislative Compliance**Audited Activity: Audit Function**

Finding	Implication	Recommendation	Management Comments
16.0. Need to Establish an Internal Audit Activity for the Town <p>The Town does not have in place a dedicated Internal Audit Activity which is able to undertake routine risk management, internal control and legislative compliance audits. Such an activity, should it be established, would be responsible for reporting their findings and recommendations directly to the Audit and Risk Management Committee assisting the Audit and Risk Management Committee in meeting their governance responsibilities. Although The town's annual financial statements auditors do undertake control assessments, these relate mainly to finance related processes and are limited only in relation to such processes impacting on the accuracy of the reported financial statement figures. The Internal Audit Activity can be established either as an inhouse function or outsourced to a reputable accounting/audit firms who specialise in providing Internal Audit services.</p>	<p>Risk: Medium</p> <ul style="list-style-type: none"> In the absence of an effective Internal Audit Activity, the Town is unable to obtain assurance that management controls continue to operate satisfactorily, the Towns policies continue to be effective and complied with and that the Town's risks are being properly identified and managed. 	<p>We recommend that:</p> <ul style="list-style-type: none"> The Town CEO, through the Governance unit and the Audit and Risk Management Committee give consideration to the establishment of an Internal Audit Activity for the Town. Consideration be given to establishing a 3 year internal audit program, endorsed by the Audit and Risk Management Committee, made up of potential audits to be carried out based on the Town's identified strategic and operational risks. 	<p>Responsibility: CEO, Director Governance & People and Audit and Risk Management Committee</p> <p>Management Comments: To be considered further</p>

Regulation 17 Review

Town of Claremont

Appendix A – Risk Criteria Matrix

The following risk criteria were used to assess level of risk on findings included in the Review Report.

Risk Assessment Matrix**Likelihood of Risk:**

Rating	Description	Frequency
1	Rare – May occur, only in exceptional circumstances	< once in 15 years
2	Unlikely – Could occur at some time	At least once in 10 years
3	Possible – Should occur at some time	At least once in 3 years
4	Likely – Will probably occur in most circumstances	At least once per year
5	Almost Certain – Expected to occur in most circumstances	> once per year

Consequence of Risk:

Description	Health	Financial Loss	Operation	Compliance	Reputation	Project
1. Insignificant	No injuries or illness	<\$50,000	Little impact	Minor breach of policy, or process requiring approval or variance	Unsubstantiated, low impact, low profile or no news item.	Small variation to cost, timeliness, scope or quality of objectives and required outcomes.
2. Minor	First Aid treatment	\$50,000 to \$250,000	Inconvenient Delays	Breach of policy, process or legislation requiring attention of minimal damage control	Substantiated, low impact, low news profile.	5-10% increase in time or cost or variation to scope objective requiring approval
3. Moderate	Medical treatment required	\$250,000 to \$1 million	Significant delays to major deliverables	Breach requiring internal investigation, treatment or moderate damage control	Substantiated, public embarrassment, moderate impact, moderate news profile.	10-20% increase in time or cost or variation to scope objective requiring Senior Management approval
4. Significant	Death or extensive injuries	\$1 million to \$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in tangible loss and damage to reputation	Substantiated, public embarrassment, moderate impact, high news profile and 3 rd party actions.	20-50% increase in time or cost or significant variation to scope objective requiring restructure of project and Senior Management or Council approval
5. Severe	Multiple deaths or sever permanent disabilities	>\$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, 3 rd party actions.	>50% increase in time or cost or inability to meet project objectives requiring the project to be abandoned or redeveloped

Risk Exposure:

Risk = Likelihood x Consequence

Score	Level of Risk	Score	Level of Risk	Score	Level of Risk
1 - 8	Low	9 - 19	Medium	20 - 25	High

7 OTHER BUSINESS

8 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE PRESIDING PERSON OR BY DECISION OF MEETING

9 FUTURE MEETINGS OF COMMITTEE

Audit and Risk Management Committee Meeting, at .

10 DECLARATION OF CLOSURE OF MEETING