

Review of Risk Management,
Legislative Compliance and
Internal Controls

Shire of Wyndham East Kimberley

December 2018

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1.0 Engagement Overview

1.1 Scope of Services

The Shire of Wyndham East Kimberley engaged Moore Stephens to provide the following services in relation to the requirements of Regulation 17 of the *Local Government (Audit) Regulations 1996*.

- A high-level review of the risk management systems policies, procedures and plans in place at the Shire;
- Evaluate the financial internal control systems and procedures at the Shire;
- Evaluate the operational internal control systems and procedures at the Shire;
- Assess systems and processes for maintaining legislative compliance;
- Report on gaps identified during the review and provide suggestions for improvements; and
- Prepare a report of matters identified during the review to assist the Chief Executive Officer to assess the appropriateness and effectiveness of the relevant systems and procedures in accordance with *Local Government Audit Regulation 17*.

Our staff were onsite 15 - 19 October 2018 for the review.

1.2 Review Required by Legislation

The *Local Government (Audit) Regulations 1996, Regulation 17*, 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 no less than once every three (3) financial years (with effect 28 June 2018).*
3. *The CEO is to report to the audit committee the results of that review.*

This review was undertaken in response to the above requirements and our report has been prepared for the CEO to assist in meeting statutory obligations.

In accordance with Regulation 16(c) of the *Local Government (Audit) Regulations 1996*, the Audit Committee is required to review a report prepared by the CEO, and subsequently report to the Council the results of the Committee's review, while at the same time, attaching a copy of the CEO's report to the Audit Committee.

Operational Guidelines prepared by the Department of Local Government, Sport and Cultural Industries (Audit in Local Government, number 09 September 2013) provides background to the intended outcomes of the review. An extract of the relevant content of the Operational Guidelines has been reproduced at Appendix C.

1.0 Engagement Overview (Continued)

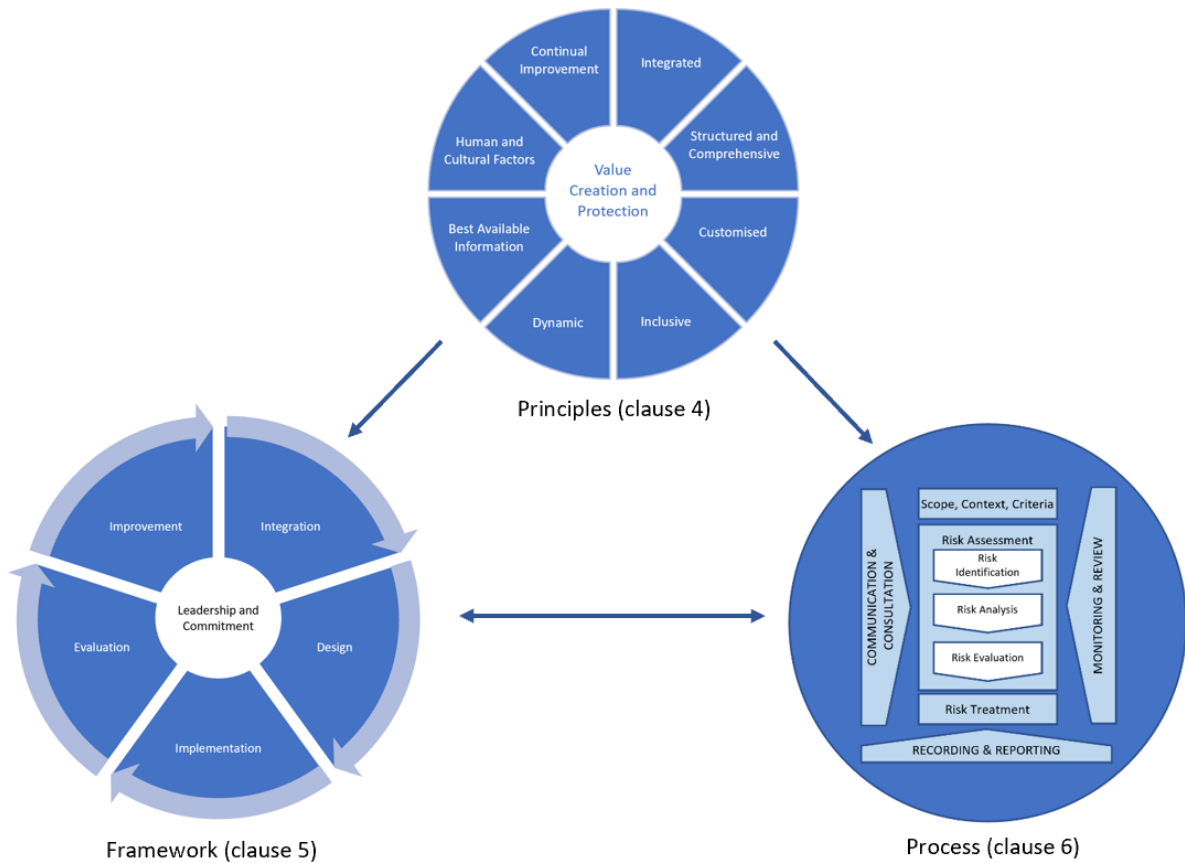
1.3 Review Methodology

The primary goal of this review is to assist the CEO of the Shire of Wyndham East Kimberley to establish the appropriateness and effectiveness of the Shire of Wyndham East Kimberley's systems and procedures in relation to risk management, legislative compliance and internal controls.

Internal controls are designed to treat risks and form part of the risk management process. Non-compliance with legislation is one of the risks usually identified as a consequence of applying a risk management process.

The Australian Standard for Risk Management (ISO 31000:2018(E)) identifies three components in the application of risk management, being *Principles*, *Framework* and *Process*, as set out in Diagram 1 below.

Diagram 1. Risk Management Principles, Framework and Process



Source: Australia/New Zealand Standard ISO 31000:2018

This evaluation is based on interviews with key staff, review of requested documentation, listed at the Appendix A, and reference to any external audit reports or reviews previously conducted.

2.0 Review Context

2.1 Review Context - Shire of Wyndham East Kimberley

This review has been conducted with consideration for external and internal influences in which the Shire of Wyndham East Kimberley operates relevant to risk, the internal control environment and its legislative compliance obligations.

Key factors considered are outlined below:

External Influences	Internal Influences
Remote location which creates challenges in: <ul style="list-style-type: none">• Attracting and retaining staff in specialist areas;• Accessibility to skilled trades personnel; and• Limited access to supplies, often delaying project timetables.	Focus on corporate governance (eg. induction and training for elected members) following reinstatement of Council in October 2017.
Environmental conditions (eg. wet season) creating challenges for service delivery of infrastructure projects.	Focus on occupational health and safety and developing culture of workplace safety in higher risk areas such as depot and working in remote areas.
Increased compliance requirements due to Government Policy and Legislation.	Maintenance of aging assets such as swimming pool and town leisure centre. Landfill sites nearing capacity.

3.0 Review Summary

3.1 Risk Management

Effective risk management contributes to the achievement of the Shire's objectives through continuous review of its processes and systems. A key element of risk management includes a governance framework integrated into strategic and operational plans.

Considering the size, resources, operations and environment the Shire of Wyndham East Kimberley operates in, a documented risk management strategy to provide for the management of risk in a holistic, systematic, structured and pro-active manner is considered appropriate. A sustainable risk management process requires transparent and formal risk reporting and monitoring, both bottom up and top down.

The Shire's formal risk management documentation consists of the Risk Management Policy, adopted in July 2017, and a draft Risk and Opportunity Management Framework, currently under review.

3.1.1 Summary Assessment

Review of the Shire's Risk Management Policy and draft Risk and Opportunity Management Framework, including discussions with senior staff responsible for risk management, indicated the Shire has yet to fully implement a formal risk management strategy.

During the review, it was evident informal processes are in place within the respective Directorates to manage operational risks through regular management team meetings, standing agenda items on project risks and updates to Executive Leadership Team on areas of emerging risk. The level of risk management was primarily due to the skill set of the incumbents in the supervisory and management roles which have integrated risk management processes into daily operational activities for their staff.

Noted some staff have limited knowledge of risk management due to lack of training and formal procedures to instil and embed a risk mindset. Some of these shortcomings were identified prior to the review and several initiatives undertaken to implement effective risk management processes throughout the organisation.

3.1.2 Summary Conclusion

The Shire's current Risk Management Policy and draft Risk and Opportunity Management Framework need updating to align with the latest Risk Management Standard (ISO 31000:2018) and fully implemented before risk management can be considered appropriate and effective. This is because the Shire's current risk management processes are largely informal and dependent on risk practices established by individual managers and team leaders.

Alignment to ISO 31000:2018 will ensure the Shire's Risk Management Policy and Risk and Opportunity Management Framework clearly articulate key stakeholder roles and responsibilities and provides a consistent approach throughout the risk management processes (i.e. risk identification, assessment, risk mitigation and formal reporting and communication).

A total of seven suggestions for improvement within risk management and governance have been detailed in Section 4.0 Review Objectives, Assessment and Improvements.

3.0 Review Summary (Continued)

3.2 Internal Controls

Internal controls are systems of policies and procedures to mitigate risks including, but not limited to, safeguarding of assets and people, ensuring accurate and reliable reporting, promoting compliance with laws and regulations and achieving effective and efficient operations.

An effective and strong system of internal control requires a high level of integrity and ethical behaviour, documented policies and procedures and clear accountability and oversight.

3.2.1 Summary Assessment

The Shire's internal control framework was reviewed and found to be well understood and adhered to by staff. The internal control framework consists of:

- Policies and documented work procedures;
- IT systems and controls; and
- Formal management review processes.

The review noted consistent practices by finance and operational staff to ensure key controls undergo an independent review process by Supervisors and Managers. Walkthroughs conducted of the Shire's financial processes revealed appropriate segregation of duties in most cases (refer to below for exceptions), and trained staff familiar with internal control procedures and a culture of ethical behaviour and integrity.

The review identified the following gaps:

- The Shire currently does not have an internal audit function, nor independent process to assess the operational effectiveness and robustness of its internal controls;
- The CEO's credit card expenses are approved by the Shire President; and
- Access to ABA files containing banking instructions is not restricted, resulting in the potential for unauthorised access.

3.2.2 Summary Conclusion

Review of the Shire's internal control framework indicated internal controls are considered generally appropriate and operating effectively, based on the walkthroughs conducted of the key financial controls (i.e. purchasing, accounts payable, payroll, month-end accounting close and sample testing of transactions).

Recommendations to address the gaps identified are outlined in Section 4.0 and summarised as follows:

- Consideration for independent health-checks on key financial and operational controls be carried out on a cyclical basis to provide the CEO with assurance of the effectiveness of the Shire's internal control framework;
- The CEO's credit card expenses and reconciliation should be presented to Council for noting as items authorised by the CEO, relating to the CEO; and
- Implement appropriate controls in relation to ABA files.

3.0 Review Summary (Continued)

3.3 Legislative Compliance

An organisation's adherence to compliance obligations are dependent on a robust compliance culture, stemming from organisational values emphasizing commitment to legal and regulatory compliance, integrity and business ethics.

Systems and processes for adherence to legislative requirements and those supporting a compliance culture are partially reliant on the maturity of the risk management and internal control frameworks. To ensure compliance obligations are met on a timely basis, compliance responsibilities need to be embedded into operational plans and day-to-day procedures.

3.3.1 Summary Assessment

The review of the Shire's management systems and processes to support compliance with legislative requirements indicated good practices in place upon commencement of the Senior Governance Officer in February 2018. The maturity of the internal control framework also contributes to the Shire's compliance culture.

This review did not identify any non-compliance issues through our walkthroughs and inspection of supporting documentation.

3.3.2 Summary Conclusion

The Shire has appropriate and effective systems and processes in place to help minimise the risk of non-compliance with legislative requirements.

4.0 Review Objectives, Assessment and Improvements

4.1 Detailed Results

The Shire's systems and processes were evaluated based on:

- Review of the Shire's documented policies, procedures and work instructions;
- Interviews and walkthroughs with staff to confirm and validate key internal controls and procedures;
- Detailed testing on a sample basis of key financial processes for segregation of duties, authorisation/approval, accuracy and completeness of data input into accounting system and management oversight controls;
- Inspection of documentation for adherence to legislative requirements; and
- Assessment of current practices against industry standard practices.

The tables on the following pages summarise the results by respective area.

4.0 Review Objectives, Assessment and Improvements (Continued)

4.2 Risk Management

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.2.1 Risk Management Policy	<p>A Risk Management Policy is in place and communicated to staff for their awareness and compliance.</p> <p>Staff are provided with formal risk training.</p> <p>Staff understand their risk management roles and responsibilities.</p>	<p>The Risk Management Policy adopted by Council in July 2017 covers the commitment and rationale for risk management.</p> <p>This Policy does not clearly articulate the purpose and desired outcomes of an entity wide risk management strategy in line with the Standard for Risk Management, ISO 31000:2018.</p> <hr/> <p>Improvement:</p> <p>Review and update the Risk Management Policy to help the Shire to:</p> <ul style="list-style-type: none"> • Align risk management with its objectives, strategy and culture; • Communicate the value of risk management to the organisation and stakeholders; and • Promote systematic monitoring of risks.
4.2.1 Risk Framework	<p>The Shire's Risk and Opportunity Management Framework consists of formal procedures, work instructions and templates and provides guidance around key risk management processes.</p>	<p>The Shire's Risk and Opportunity Management Framework is currently in draft and does not appear to have been fully implemented throughout the Shire.</p> <p>A review of the draft document indicates key risk management processes such as risk identification and ongoing risk reporting and monitoring are not described as an integrated risk management process.</p> <hr/> <p>Improvement:</p> <p>Update, finalise and implement the Shire's Risk and Opportunity Management Framework, utilising the principles, framework and process of the ISO 31000:2018 Standard for Risk Management.</p>

4.0 Review Objectives, Assessment and Improvements (Continued)

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.2.2	Risk Management Process A formal process for the identification, review, analysis and treatment of risks.	<p>A formal risk management process is yet to be fully implemented across the Shire.</p> <p>Discussions with several Directors indicate respective teams have developed their own processes to identify, manage and monitor risks. Currently, no process to formally communicate and manage entity wide risks is in place.</p> <p>The Shire's draft Strategic Risk Register, dated February 2018, is currently being update, with focus to incorporate current key risks facing the Shire and ensure a consistent risk assessment approach.</p> <p>Our review of the draft Strategic Risk Register noted the following gaps:</p> <ul style="list-style-type: none"> Listed risks are a compilation of generic risks and do not reflect risks which have been identified through operational activities; and Risks which could significantly impact on the Shire's ability to deliver on its strategic objectives or essential services are not recorded in the register. <p>Improvement:</p> <p>Following update of the Shire's Risk Management Policy and Risk and Opportunity Management Framework, the risk management process should be implemented throughout the Shire.</p> <p>Staff training on principles of risk management should be provided to embed a risk awareness culture.</p>

4.0 Review Objectives, Assessment and Improvements (Continued)

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.3.1	Risk Monitoring Risks are regularly monitored to ensure appropriate attention is given to risk mitigation activities.	<p>There are currently no formal processes to formally review risks.</p> <hr/> <p>Improvement: Routine monitoring of identified risks should be undertaken to ensure risks are reduced to an acceptable level.</p>
4.2.3	Risk Reporting Formal risk reports are presented to the Audit (Finance & Risk) Committee and the Executive Leadership Team.	<p>Risk Reports have not been provided to the Audit (Finance & Risk) Committee.</p> <p>Risk reporting requirements / procedures have also not been clearly stated in the Shire's Risk and Opportunity Management Framework.</p> <hr/> <p>Improvement: Risk reporting requirements to the Audit (Finance & Risk) Committee should be included in the Risk Management Policy and Risk and Opportunity Management Framework.</p>
4.2.4	Council Policies Council Policies exist and form the Shire's governance framework.	<p>Council Policies provide a framework for decision-making and support the Shire's objectives of good governance.</p> <p>The review indicated some policies, such as the IT Security Policy and Social Media Policy, have not been formally adopted but have the benefits of mitigating risks if implemented.</p> <hr/> <p>Improvement: To support good governance, suggest policies such as an IT Security Policy and Social Media Policy, be considered for adoption by Council.</p>

4.0 Review Objectives, Assessment and Improvements (Continued)

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.2.5 Code of Conduct Training	<p>Formal Code of Conduct training is required for all new staff.</p> <p>Refresher Code of Conduct training is provided to re-enforce the Shire's expectations of ethical conduct by its staff.</p>	<p>The Shire has recently implemented formal training for selected staff to help ensure they understand their responsibilities under the Local Government Act. For example:</p> <ul style="list-style-type: none"> • New staff undergo Code of Conduct training as part of their induction; and • Officer inductions include training on legislative requirements around ethics, integrity and potential disciplinary action for breaches. <p>Refresher Code of Conduct training is not provided to existing staff.</p> <p>Improvement:</p> <p>Code of Conduct refresher training for all staff be conducted at least annually.</p>
4.2.6 Disaster Recovery Plan	<p>A current Disaster Recovery Plan is in place and tested as required.</p>	<p>The Shire is in the process of developing a Disaster Recovery Plan.</p> <p>Improvements:</p> <ul style="list-style-type: none"> • Finalise Disaster Recovery Plan; and • Test Disaster Recovery Plan at least once a year.
4.2.7 Business Continuity Plan	<p>A Business Continuity Plan is in place and reviewed when significant changes to the systems and processes at the Shire occur.</p>	<p>The Shire is in the process of developing a Business Continuity Plan.</p> <p>Improvement:</p> <p>The Business Continuity Plan should be developed as planned.</p> <p>The Plan should identify and outline key business continuity risks, along with the risk mitigation strategies required to reduce risks to an acceptable level.</p> <p>Upon review and approval, the Plan should be communicated to relevant key stakeholders.</p>

4.0 Review Objectives, Assessment and Improvements (Continued)

4.3 Internal Control Environment

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.3.2 Internal Audit	An Internal Audit Plan is in place with audit recommendations tracked for corrective action.	<p>There is currently no Internal Audit Plan or audit program in place.</p> <hr/> <p>Improvement:</p> <p>To provide the CEO with assurance of the effectiveness of the Shire's internal control framework, consideration be given to conducting routine independent planned reviews over key financial and operational controls.</p> <p>The review program can be performed by internal staff where they are not responsible for the area under review.</p>
4.3.3 Segregation of Duties – System Access	System user access privileges are reviewed to ensure access is authorised and granted on a 'needs basis'.	<p>User access privileges in the IT system were reviewed as a one-off exercise in 2018. The review resulted in access privileges amended to align with job roles.</p> <hr/> <p>Improvement:</p> <p>For good practice, undertake review at least annually.</p>
4.3.4 Work Procedures	Documented policies and procedures are available to guide staff and ensure internal controls are performed as required.	The Shire has documented procedures such as detailed checklists and work instructions to help staff perform their key financial / operational controls (as required).

4.0 Review Objectives, Assessment and Improvements (Continued)

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.3.5	<p>Review of Financial Processes</p> <p>Supervisory and management controls are part of the control environment to:</p> <ul style="list-style-type: none"> • Ensure independent review of key financial processes; • Detect unusual, unauthorised and inappropriate transactions; • Ensure key tasks are performed as required (eg. bank reconciliations, account reconciliations, rate reconciliations and pay run control checks). 	<p>Controls assessed during the walkthroughs of key financial processes indicated:</p> <ul style="list-style-type: none"> • Sufficient segregation of duties; • Evidence of supervisory and management reviews; • Use of checklists / prescribed templates ensuring procedures followed; and • Evidence of approvals, with one exception regarding credit card expenditure.
4.3.6	<p>Credit Card</p> <p>Credit card expenses are approved and reconciled on a monthly basis. A listing of credit card expenditure is provided to Council for noting.</p>	<p>The CEO's monthly credit card statements are approved by the Shire President.</p> <p>Elected Members do not have any administrative authority to authorise transactions in their individual capacity.</p> <p>It was noted credit card expenses are presented to Council as part of the review of Monthly Financial Reports.</p> <hr/> <p>Improvement:</p> <p>The CEO's credit card expenses and reconciliation should be presented to Council for noting as items authorised by the CEO, relating to the CEO.</p>

4.0 Review Objectives, Assessment and Improvements (Continued)

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.3.7	<p>Access to ABA files</p> <p>ABA files should be restricted on a 'need to know' basis to prevent unauthorised changes to banking instructions.</p>	<p>ABA files are located in a folder accessible to a wide range of staff, including:</p> <ul style="list-style-type: none"> • Finance Team; • Payroll Officer; • IT; and • External IT contractors. <p>The risk exists that banking details can be changed directly in ABA files without detection.</p> <hr/> <p>Improvement:</p> <p>Review the current access privileges and grant access only to those requiring it for their role.</p> <p>Implement controls to ensure bank account details loaded to the bank agree to supplier or employee records.</p> <p>Access to external contractors should be removed and an approval process be established to control folder access (as required).</p>
4.3.8	<p>Purchasing Controls</p> <p>Purchase orders are approved prior to receipt and/or commitment to purchase goods and services.</p> <p>Contracts are in place for purchase of goods and/or services.</p> <p>Thresholds for purchasing outlined in the Purchasing Policy are complied with.</p>	<p>Interviews and walkthroughs of key purchasing controls indicated good processes are in place, ensuring staff compliance with Purchasing Policy and work instructions.</p> <p>Sample testing did not reveal any exceptions.</p>

4.0 Review Objectives, Assessment and Improvements (Continued)

4.4 Legislative Compliance

Category	Objectives/Desired Outcomes	Assessment / Improvements
4.4.1	<p>Legislative Compliance - Framework</p> <p>Systems and processes in place to help ensure compliance to legislative requirements.</p> <p>Notification of changes is from reliable sources and timely.</p> <p>Dissemination of information to staff is a formalised process.</p>	<p>The Shire utilises several online systems to update staff on legislative changes or notices: Emails are also sent to staff by the Governance Team and/or received directly by Directors.</p>
4.4.2	<p>Legislative Compliance - Maintenance of Registers</p> <p>System and processes in place to help ensure staff and elected members report:</p> <ul style="list-style-type: none"> • Receipt of gifts / travel; and • Related party disclosures. <p>The Shire maintains Registers required under the Act.</p>	<p>No exceptions were noted in our review of the following Registers:</p> <ul style="list-style-type: none"> • Delegations Register; • Tender Register; • Contracts Register; • Complaints (Elected Members); • Investments Register; • Gift and Travel Register; and • Financial Interests Register.
4.4.3	<p>Review and Submission of Reports</p> <p>The Shire reviews and submits the required informing plans and budgets to the Department of Local Government, Sport and Cultural Industries by the required deadlines.</p>	<p>The following were reviewed and submitted on a timely basis (where required):</p> <ul style="list-style-type: none"> • Adopted Annual Budget 2018-19; and • Annual Report 2016-17.
4.4.4	<p>Operational Compliance</p> <p>Systems and procedures are in place to comply with legislative requirements for a number of areas of operations covered by legislation other than the <i>Local Government Act 1995</i>.</p> <p>Detailed testing of compliance with other legislation was not within the scope of this review.</p>	<p>Processes to support evidence of compliance by the Shire to various other legislative requirements were reviewed at a high level and found to be operating effectively with management oversight.</p>

5.0 Other Matters

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Conflicts of Interest

The firm currently provides audit and advisory services to local governments and is appointed external auditor for the Shire of Wyndham East Kimberley however, we do not believe the provision of the services covered in the scope of this report and under the responsibility of a different engagement partner compromise our objectivity in the conduct of the Audit.

During the engagement no matters were raised.

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Document Management

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Appendix A – Document List

The following documents were examined during the review:

Document Name	Status
Governance Policies Documentation	
Council Policies	
Code of Conduct	
Compliance Audit Return	
Annual Returns - Employees/Elected Members	
Primary Returns – New Employees/Elected Members	
Risk Management Framework	
Risk Management Policy	
Risk and Opportunity Framework	Under Review
Strategic Register	February 2018 – Under Review
Kununurra/Wyndham – Local Recovery Plan	2016
Kununurra Office Emergency Evacuation Plan	
Strategic Plans	
Adopted Budget	2018-19
Strategic Community Plan	2017 - 2027
Corporate Business Plan	2018 – 2022
Asset Management Plans	2017 - 2027
Workforce Plan	2017
Long Term Financial Plan	2017 - 2027
Registers	
Register of Delegated Authority	2018
Related Party Register	
Register of Gifts and Contributions to Travel	
Contracts Register	
Tender Register	
Register of Financial Interests	
Investment Register	
Complaints Register	2018

Appendix A – Document List (Continued)

Document Name	Status
Other Documents	
Annual Report	2016–17
Annual Financial Report	2016-17
Financial Management Review	2018
Monthly Financial Report	August 2018
Municipal Bank Reconciliation	August 2018
Trust Funds Bank Reconciliations	August 2018
Reserve Investments Bank Reconciliation	August 2018
Register of Annual Grants	
Myosh Inspection Register	
CASA Safety Finding Acquittal	22 August 2018
Pool Inspections	2018
Avadata Account Statement	July/August 2018
Avadata Customer Statement	July/August 2018
Avadata Tax invoices 409408, 409409,409410	

Appendix B – Interview List

The following Shire of Wyndham East Kimberley staff were interviewed during the site visit:

Name	Position
Stuart Dyson	Director, Infrastructure
Nicholas Kearns	Director, Planning and Community Development
Vernon Lawrence	Director, Corporate Services
Kourtney Williams	Governance Officer
Nicola Lennon	Communication and Marketing Officer
Katherine Gilpin	Planning Officer
Lauren Tunbridge	Human Resources Manager
Mark Knight	Manager, Operations
Gary Wright	Coordinator, Airport Operations and Compliance
Martin Goodey	Team Leader, Records Management and Customer Services
Jesse Johnson	Senior Procurement and Contracts Officer
Niroshini Nandasiri	Coordinator, Financial Management
Victoria Nakamya	Creditors Officer
Nick Allen	Coordinator, Recreation and Leisure

Appendix C – Operational Guidelines

Risk Management

Good audit committee practices in monitoring internal control and risk management programs typically include:

- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- Reviewing whether the local government has a current and effective Business Continuity Plan (including disaster recovery) which is tested from time to time;
- Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:
 - *potential non-compliance with legislation, regulations and standards and local government's policies*
 - *important accounting judgements or estimates that prove to be wrong*
 - *litigation and claims*
 - *misconduct, fraud and theft*
 - *significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government*
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and
- Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

Appendix C – Operational Guidelines (Continued)

Legislative Compliance

Audit committee practices regarding monitoring compliance programs typically include:

- a) Monitoring compliance with legislation and regulations*
- b) Reviewing the annual Compliance Audit Return and reporting to Council the results of that review*
- c) Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary*
- d) Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints*
- e) Obtaining assurance that adverse trends are identified and review management's Plans to deal with these*
- f) Reviewing management disclosures in financial reports of the effect of significant compliance issues*
- g) Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their Audit Plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee*
- h) Considering the internal auditor's role in assessing compliance and ethics risks in their Plan;*
- i) Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements*
- j) Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest*

Appendix C – Operational Guidelines (Continued)

Internal Controls

An effective and transparent internal control environment is built on the following key areas:

- a) *integrity and ethics;*
- b) *policies and delegated authority;*
- c) *levels of responsibilities and authorities;*
- d) *audit practices;*
- e) *information system access and security;*
- f) *management operating style; and*
- g) *human resource management and practices.*

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Aspects of an effective control framework will include:

- a) *delegation of authority;*
- b) *documented policies and procedures;*
- c) *trained and qualified employees;*
- d) *system controls;*
- e) *effective Policy and process review;*
- f) *regular internal audits;*
- g) *documentation of risk identification and assessment; and*
- h) *regular liaison with auditor and legal advisors.*

The following are examples of controls that are typically reviewed:

- i) *separation of roles and functions, processing and authorisation;*
- j) *control of approval of documents, letters and financial records;*
- k) *comparison of internal data with other or external sources of information;*
- l) *limit of direct physical access to assets and records;*
- m) *control of computer applications and information system standards;*
- n) *limit access to make changes in data files and systems;*
- o) *regular maintenance and review of financial control accounts and trial balances;*
- p) *comparison and analysis of financial results with budgeted amounts;*
- q) *the arithmetical accuracy and content of records;*
- r) *report, review and approval of financial payments and reconciliations; and*
- s) *comparison of the result of physical cash and inventory counts with accounting records.*

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