

Review of Risk Management, Legislative Compliance and Internal Controls

Town of Port Hedland

December 2017

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1.0 Background

1.1 Scope of Services

The Town of Port Hedland engaged Moore Stephens to provide the following services in relation to the requirements of Regulation 17 of the *Local Government (Audit) Regulations 1996*.

- To undertake a high-level review of the risk management policies, procedures and plans in place at the Town;
- To evaluate the financial internal control systems and procedures at the Town;
- To evaluate the operational internal control systems and procedures at the Town;
- To assess systems and processes for maintaining legislative compliance;
- To provide a list of any improvements identified during the review; and
- To provide in our report recommendations, identified during our assessment of the systems and procedures, relating to risk management, internal audit and legislative compliance to assist the Chief Executive Officer (CEO) to assess the appropriateness and effectiveness of these systems and procedures.

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 at least once every 2 calendar years.*
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 the position with the task of achieving legislative compliance.

In accordance with Regulation 16(c) of the same Audit Regulations, 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 and Communities (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 D.

2.0 Introduction

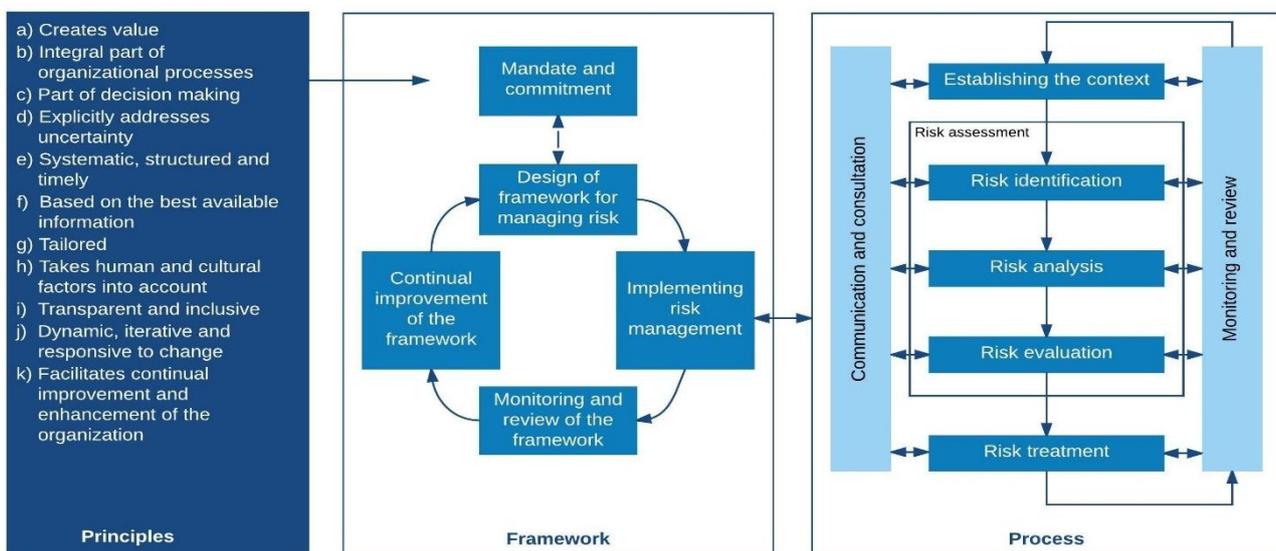
2.1 Review Methodology

The primary goal of this review is to assist the CEO of the Town of Port Hedland to establish the appropriateness and effectiveness of the Town of Port Hedland'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 that would usually be identified as a consequence of applying a risk management process.

The Australian Standard for Risk Management (ISO 31000) 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: Standards Australia/Standards New Zealand, 2009)

In undertaking our review, we have applied the three ISO 31000 framework components, as set out above, to the review topics (risk management, internal controls and legislative compliance). This involves a process that incorporates the five framework components, being *mandate and commitment, framework design, implementation, monitoring and continuous improvement* as follows:

- Identify the extent of commitment and mandate to the principles;
- Establish an appropriate framework for the review topics (risk management, legislative compliance and internal controls) after considering the overall context in which the review occurs;
- Assess the appropriate framework against the current framework;
- Assess the implementation of the current framework;
- Assess the degree of monitoring of the current framework and its effectiveness;
- Assess the gaps (if any) between the current framework and the identified appropriate framework and document improvements; and
- Report on the appropriateness and effectiveness of current systems and procedures.

3.0 Review Context

3.1 Review Context - Town of Port Hedland

It is important to understand the external and internal context in which the Town of Port Hedland operates relevant to risk, the internal control environment and its legislative compliance obligations. That is, to understand the environment in which the Town seeks to achieve its overall strategic objectives.

The external and internal influences identified during the course of the review are set out below:

External Influences	Internal Influences
Increasing community expectations in relation to service levels and service delivery.	The objectives and strategies contained in the Council's current Strategic Community Plan.
Rapid changes in information technology changing the service delivery environment.	The timing and actions contained in the Council's Corporate Business Plan.
Increased compliance requirements due to Government Policy and Legislation.	The current organisational size, structure, activities and location.
Cost shifting by the Federal and State Government.	The current human resourcing levels and turnover rate.
Reducing external grant funding for infrastructure and operations.	The current financial capacity of the Town. The maintenance of corporate records.

3.2 Risk Appetite - Town of Port Hedland

A number of the above influences are factors in the Town's appetite for risk; being the level of risk the organisation is willing to accept or pursue through the setting of risk criteria and policy.

Understanding risk appetite helps determine the level of acceptable/unacceptable risk in relation to breaches of legislation or controls and the extent to which additional controls are required to treat risk.

As a public body, there is an expectation the Town will maintain an inherent low appetite for the risk of legislative non-compliance and as a consequence adopted policy in order to maintain the organisation's reputation and to protect public funds from loss or misappropriation.

The appetite for risk in relation to service delivery, finance, health, safety and the environment is considered to be 'low to medium', requiring treatment with effective controls. Where the level of risk is considered 'high' or 'extreme', additional controls are required to reduce the risk level. In circumstances where the level of risk cannot be reduced below that of 'high', close monitoring of risk controls is required to ensure the relevant internal controls remain effective.

4.0 Review Summary

4.1 Risk Management

The Town of Port Hedland initially developed its formal risk management processes with the adoption of a Risk Management Policy in 16 December 2015 (OCM 201516/109) and subsequently reviewed at the Ordinary Council Meeting on 27 April 2016 (OCM 201516/226). A supporting Risk Management Framework has been established

4.1.1 Appropriateness

Currently, a documented entity wide Risk Management Policy and Framework is in existence to guide the implementation of risk management throughout the organisation. Considering the size, resources, operations and the context in which the Town of Port Hedland operates, a single documented risk management strategy is considered appropriate as a means of uniformly supporting decision making and documenting the organisation's response to risks.

4.1.2 Effectiveness

Elements of risk management processes, such as a risk register and documented risk assessments, are not consistently applied. The current risk management policy reflects the Town is committed to organisation wide risk management principles, systems and processes that ensure consistent, efficient and effective assessment of risk in all planning, decision making and operational processes. Whilst significant improvements in the risk management systems and processes has occurred over the last 4 years, they are not considered to have been fully implemented and as such are not fully effective and require further development and application.

4.1.3 Improvements

Improvements to risk management practices and policies are set out later within this report, with key matters summarised as follows:

- Further develop and apply risk management practices to management practices in accordance with risk management framework;
- The risk assessment and acceptance criteria, as defined within the draft Risk Management Policy, should be modified to make it relative to the context of the risk assessment. This would enable the same criteria to be utilised for both entity level risk assessments and all other risk assessments avoiding the need to redefine the risk assessment framework for each level of risk assessment undertaken;
- Risk assessments undertaken should be recorded in a Risk Register along with assessments of residual risk; and
- Implementation of an appropriate, efficient and effective records management system is viewed as critical to the overall management of the organisation and management of risks, internal controls and legislative compliance.

4.0 Review Summary (Continued)

4.2 Internal Control

4.2.1 Appropriateness

Considering the size, resources, operations and the internal/external context in which the Town of Port Hedland operates, the internal control framework, procedures and systems as described to us display a number of weaknesses. In relation to the identified areas of operations these control weaknesses are not considered to be appropriate.

4.2.2 Effectiveness

A number of weaknesses have been identified where internal controls are not considered effective, some of these have been reported in previous reports to Council and are reproduced within the improvement plan provided if they are still considered to require action.

Considering the results of the monitoring and compliance practices undertaken by the Town of Port Hedland, areas of the current internal control framework, procedures and systems whilst effective in certain circumstances are considered to be weak and not sufficiently effective across the organisation.

4.2.3 Improvements

Recommended improvements to the current internal control framework, procedures and systems are set out later within this report. The key improvements to internal controls are summarised as follows:

- Key areas for improvements to the appropriateness of internal controls are:
 - Procurement Controls;
 - Receipting; and
 - Investments.
- The development of a documented Internal Control Policy, promoting a risk based approach to the development and maintenance of documented internal controls and procedures. This suggestion is intended to support a continual assessment of appropriate controls throughout the organisation by identifying the need for new controls (based on risk) and ensuring existing outdated and unnecessary controls are discontinued;
- Key internal controls should be documented either as procedures or workflow diagrams;
- Procedures be defined to improve the management of issues surrounding changes to internal controls; and
- Measures be taken to ensure staff are fully aware of, and understand, relevant internal controls.

4.0 Review Summary (Continued)

4.3 Legislative Compliance

4.3.1 Appropriateness

Considering local governments generally maintain a low risk appetite for breaches of legislation, a documented legislative compliance policy is considered appropriate to reflect Council's low risk appetite in relation to legislative breaches. The Town is yet to establish a legislative compliance policy to address internal legislative compliance.

4.3.2 Effectiveness

Maintaining legislative compliance is heavily reliant on the knowledge, experience and commitment of senior staff to identify and prevent breaches of legislation. As a consequence, staff turnover, competing priorities and variations in workloads can have a significant negative impact on legislative compliance. Therefore, one of the most effective controls in maintaining legislative compliance is a motivated, stable, experienced and knowledgeable senior management group.

A number of compliance matters have previously been identified through various reviews and also by staff. With the exception of the noted breaches of legislation, and in the instances where the effectiveness was able to be assessed, the current legislative compliance control procedures and systems, although largely informal, were considered effective.

There were also breaches of the *Local Government Act 1995* identified in the Annual Compliance Audit Return 2016 as reviewed. It is important to note; the Return was not independently prepared or verified.

4.3.3 Improvements

Improvements to the current framework, procedures and systems for legislative compliance are set out later within this report and summarised as follows:

- The development of a legislative compliance policy;
- Further development and approval of authorised checklists for functions which require a high level of legislative compliance; and
- The development of a risk based training matrix to help ensure senior staff with the responsibility for preventing, identifying and reporting breaches of legislation are offered relevant training to ensure their knowledge of legislative requirements is maintained.

5.0 Appropriate Framework

5.1 Risk Management, Internal Control and Legislative Compliance

The following framework was identified as being appropriate for risk management, internal control and legislative compliance for the Town of Port Hedland, after consideration of the current internal and external influences.

Diagram 2. Risk Management, Internal Control and Legislative Compliance Framework



A high-level review of risk management systems, internal controls and legislative compliance was undertaken which precluded detailed testing of all internal controls and legislative compliance.

The results of our review are detailed on the following pages, set out with reference to the structure of the above framework.

6.0 Framework Design

6.1 Strategic Plans

The Town of Port Hedland has adopted two key strategic documents, the Strategic Community Plan 2014-2024 and the Corporate Business Plan 2015-2019. These plans identify the Council's organisational objectives and key outcomes as the Town progress on its stated vision "A vibrant and inviting agricultural, heritage and tourist town and Town, and a community that is focused on and works collaboratively to improve and promote the town and the Town of Port Hedland as a destination and wonderful place to live"

There are no strategies within the Town of Port Hedland Strategic Community Plan 2014-2024 which directly reference risk management. The Strategic Community Plan recognises the community's aspirations and values through the following key themes:

- Community Wellbeing
- Economy
- Environment
- Leadership

In seeking to achieve its objectives, the Town of Port Hedland faces both inherent and business risks. Whilst striving to fulfil expectations, it is also expected to meet compliance with numerous legislative requirements. To manage these risks, the Town has established various processes, systems and controls.

This review examines the appropriateness and effectiveness of the organisation's risk management systems, internal controls and legislative compliance in the context of the Town striving to achieve its stated objectives.

Plan	Purpose / Goal	Matters Identified / Improvements
Corporate Business Plan	A plan to guide the internal operations of the Town in delivering services to the community.	<p>The Corporate Business Plan has not been reviewed annually as required by Local Government (Administration) Regulations 1996 19DA (4).</p> <p>Improvement: To help ensure compliance and provide sound planning direction to the organisation the Corporate Business Plan should be updated annually.</p>

6.0 Framework Design (Continued)

6.2 Council Policies

Whilst the operations of the Town are the responsibility of the CEO, the Council is responsible for setting the framework for operations via adopted Council policies. These policies represent an overarching framework relevant to risk management, internal controls and legislative compliance and have been reviewed for appropriateness and effectiveness.

In general, Council policies are well formulated and provide clear guidance regarding Council's position on certain matters. A list of policies reviewed is provided in Appendix A - Council Policies Examined. The table below details areas for suggested improvement.

Policy	Purpose / Goal	Matters Identified / Improvements
3.6.2 Purchasing Policy	To provide a best practice approach and procedures for purchasing. Ensure consistency for all purchasing activities that integrates within all the Town of Port Hedland operational areas.	<p>The Policy does not provide purchasing requirements for procurement of goods or services with a contract value exceeding \$150,000 where public tenders are not invited in accordance with the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2). The Policy provides direction in relation to contract variations and extensions for contracts awarded by tender and allows for price changes on extension of the contract in accordance with the authorising officers purchasing authority. No requirements exist for variations or renewals of contracts which arose from procurements other than by tender.</p> <p>The Policy provides for the use of sole supplier exemption where the "consultants or a group of consultants have been utilised to provide a range of services initially on a complex project, it may be deemed that it is not be feasible to restart a project under tender circumstances due to the effort and cost associated with gaining the required background knowledge." This is not considered to be a valid reason for exemption of a purchase from the requirements of Part 4 of the <i>Local Government (Functions and General) Regulations 1996</i>.</p> <p>Purchasing limits for various officers are not defined within the Purchasing Policy or any other Policy. (Continued over page)</p>

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
3.6.2 Purchasing Policy (continued)	To provide a best practice approach and procedures for purchasing. Ensure consistency for all purchasing activities that integrates within all the Town of Port Hedland operational areas. (continued)	Improvements: Amend the Policy to provide the following: <ul style="list-style-type: none"> • Purchasing requirements for procurement of goods or services with a contract value exceeding \$150,000 where public tenders are not invited. • Provide requirements for authorisation of procurement of goods or services with a contract value exceeding \$150,000 where public tenders are not invited. • Prohibit price variations to existing contracts other than those provided within the original contract as required by Local Government (Functions and General) Regulations 1996 Regulation 11(2) (j) (iv). • Provide purchasing requirements for the renewal or variation of contracts which did not arise from a public tender. • Remove exemptions from regulatory requirements which are not provided for within legislation. <hr/> Define purchasing limits for officers who are able to authorise purchase orders or contracts to procure goods or services on behalf of the Town within a Council approved Policy. <hr/> Further training of officers with purchasing authority to enforce the need to adhere to purchasing procedures is recommended along with the examination of further controls to help ensure compliance with the Policy.
Internal Control Policy	A policy to evidence Council's commitment to internal controls and their importance to the organisation.	Currently, no policy on internal controls has been adopted by Council. <hr/> Improvement: Development and adoption of an Internal Control Policy will help formalise Council's commitment to internal controls, based on risk management principles.
Legislative Compliance Policy	A policy to evidence Council's commitment to legislative compliance and its importance to the organisation.	Currently, no policy on legislative compliance has been adopted by Council. <hr/> Improvement: Development and adoption of a Legislative Compliance Policy will help formalise Council's commitment to legislative compliance.

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
Risk Management Policy	Policies and procedures to set out the Town's approach to the identification, assessment, management, reporting and monitoring of risks.	<p>Risk assessment and acceptance criteria within the Policy are not dependent on the context of the risk assessment being undertaken.</p> <p>Improvement: Modification of the risk assessment and acceptance criteria within the Risk Management Policy will assist in the rating of risks relevant to the context of the assessment. This would involve use percentages rather than absolute values when assessing the potential consequences of identified risks and avoid any need to redefine the risk assessment framework for different risk assessment contexts.</p>

7.0 Implementation

7.1 Strategic and Operational Plans

The Council has several strategic and operational plans which form the basis of entity level controls and entity level risk assessments.

A list of plans reviewed is provided in Appendix B - Plans Examined. The table below details areas for possible improvement in relation to the plans examined.

Plan	Purpose / Goal	Matters Identified / Improvements
Asset Management Plan	Plan prepared to assist the Town to improve the way it delivers services through its infrastructure assets such as roads, drainage, footpaths, public open space and buildings.	<p>The Town adopted a formal asset management plan in 2012. The risk assessments within these plans should utilise the matrix of consequences and likelihood detailed in the Risk Management Policy and identify treatment plans to reduce the risk to an acceptable level.</p> <p>Improvement: Asset management plans require updating and review, given the changes to the Town's assets and particularly the lease of the airport.</p>
Business Continuity Plan	Plan to facilitate organised decision-making in the event of a major incident that might otherwise lead to chaos.	<p>The Business Continuity Plan is currently in draft, the Plan states activation of the plan are based on a risk assessment process but does not refer to the Risk Management Policy.</p> <p>Improvement: A Business Continuity Plan be finalised and identify and documenting key business continuity risks along with the treatments to reduce the risk to an acceptable level.</p>
ICT Strategic Plan	Plan to guide the future development and delivery of ICT services.	<p>An ICT Strategic Plan 2012-2017 was developed in 2012 and is due for review. The Plan does not document key ICT risks.</p> <p>Improvement: Review the ICT Strategic Plan identifying and documenting key ICT risks along with the treatments to reduce the risk to an acceptable level.</p>

7.0 Implementation (Continued)

7.2 Operational Policies and Procedures

In seeking to achieve its stated vision, the Town of Port Hedland delivers a number of services to the community. Meetings were undertaken with key staff in each of the areas of service responsibility, to determine the practices applied to issues of risk management, internal controls and legislative compliance.

Considering the number of services provided and the current staff resourcing, a risk based approach to the prioritisation of the review and development of new procedures is recommended. The table below details areas of suggested improvement in relation to policies and procedures examined.

Component	Purpose / Goal	Matters Identified / Improvements
Risk Management Framework	Procedures and practices to set out a uniform approach to the identification, assessment, management, reporting and monitoring of risks.	Formal risk management procedures and practices are not currently in widespread use. Improvement: Risk management procedures and process require further development and application in accordance with the risk management framework to be effective.
Procedure Changes	Procedure to control and manage changes to procedures.	Procedures for amending or changing procedures are not formalised. With high staff turnover, this has contributed to unilateral undocumented changes to procedures and a breakdown in key controls. Improvements: Establish procedures for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation to assist with managing changes to procedures.
Documented Procedures	Documented procedures by officers helps establish a standard methodology and identifies key controls for processes undertaken by officers.	Documented procedures currently exist. From staff representations, where procedures exist they are not consistently followed. We noted from staff representations, a number of procedures have recently been amended by new staff or intentions are to amend procedures. Improvements: Opportunities exist to improve standard operating procedures and ensure they are documented with key controls clearly identified. Once these procedures are developed and implemented, they require constant monitoring for adherence and to ensure they are effective.

7.0 Implementation (Continued)

Component	Purpose / Goal	Matters Identified / Improvements
Procurement	Procedures for the procurement of goods or services.	<p>As reported within the 2017 External Audit Report, evidence of the required number of quotations being received is not always maintained to support compliance with the Procurement Policy.</p> <p>The following matters were noted during our review of a small sample of purchases:</p> <ul style="list-style-type: none">• Payments to a supplier exceeded the value of the original contract and subsequent contract variations. Variations to the contract were authorised by the superintendent on the project.• A contract was awarded against a Request for Quotation, on the basis the supplier was a WALGA Preferred Supplier. The scope of works of the contract included works the contractor is not listed as a qualified category for on WALGA's website.• Instances where the entity signing the contract to undertake the works is separate to the entity undertaking the works and raising the invoices were noted.• Payments totalling in excess of \$150,000 were made in July 2017 to one supplier, with a notation indicating they were for an RFQ. Supporting documentation was not available for inspection. The entity paid is not listed on the WALGA Preferred Supplier Panel and it is not evident a Tender was called for these works.• The 2016/17 budget had a provision for payment of over \$1million in sponsorship monies. No procedures or processes appear to be in place for the authorisation or control of this expenditure despite it effectively being procurement of services in in certain instances exceeding \$150,000. <p><i>(Continued over page)</i></p>

7.0 Implementation (Continued)

Component	Purpose / Goal	Matters Identified / Improvements
Procurement (continued)	Procedures for the procurement of goods or services.	<p>Improvements: Copies of quotations, or at least a signed record of quotations received should be maintained with the purchase order as evidence of compliance with the policy.</p> <hr/> <p>Procedures should be developed to ensure suppliers awarded contracts exceeding \$150,000 on the basis of being a WALGA Approved Supplier are qualified as such for all aspects of the contract awarded.</p> <hr/> <p>Procedures for the authorisation of contract variations should be developed to ensure the variations do not change the scope of the contract, are minor and are authorised by officers with appropriate authority.</p> <hr/> <p>Procedures should be developed to ensure the ABN number of the entity responding to a request for quotation or tender, is the same through all contract documents and is the entity raising the tax invoice and receiving payment.</p> <hr/> <p>Continuing with the centralisation of procurement especially for higher value purchases is essential for the establishment of proper procurement controls given the high turnover of staff in the organisation.</p> <hr/> <p>Procedures should be developed to ensure appropriate probity and governance around sponsorship monies paid to event organisers and other entities.</p>
Tender Assessment	Procedures to provide probity for the assessment of tenders received.	<p>The Town currently uses a panel of three officers, which may include managers and Directors, to assess the tenders and provide a score against each qualitative criterion. The Procurement Team then facilitate a meeting as non-voting members to discuss the scores and ensure they have been scored fairly. Members of the panel are expected to declare an interest if one exists. No documented procedures are currently in place to formalise this process or require declaration no interest exists.</p> <hr/> <p>Improvements: To help ensure probity and fairness when assessing tenders, procedures for the process to be undertaken should be documented.</p>

7.0 Implementation (Continued)

Component	Purpose / Goal	Matters Identified / Improvements
Procurement assessment	Procedures to provide probity for the assessment of procurement options received.	<p>In certain cases, a panel is utilised to assess responses to requests for quotations. No formal requirements are documented when undertaking these assessments.</p> <p>Improvements: To help support probity and fairness when assessing responses to requests for quotation the process undertaken should be documented. The process to be followed should require a higher level of probity and due diligence the higher the value or risk associated with the purchase.</p> <p>Purchases over \$150,000 should be subject to the same assessment procedures as those applied Tenders.</p>
Investments	Procedures for the management of investments	<p>An investment register is maintained within a spreadsheet reflecting fixed term investments held. The register of investments does not indicate where interest and principal funds are transferred to on maturity. Copies of the register are not maintained in a format which prevents subsequent amendment.</p> <p>Improvements: Tracing of funds on maturity of investments is essential and records of where funds are transferred and who authorised the transfer should be maintained within the register.</p> <p>Maintaining printed copies of the investment register reviewed and authorised by a senior manager independent of the control of the investments prevents subsequent amendment to the register.</p>
Checklists	Checklists document the completion of multiple steps within an overall process.	<p>Checklists of key functions are maintained for selected functions. The checklists were not maintained up to date for all compliance functions.</p> <p>Improvements: Creation and maintenance of standard checklists may assist in evidencing key points of control and serve as a reminder. Checklists are of assistance in ensuring compliance with repetitive legislative compliance tasks.</p>
Workflow Diagrams	Workflow process diagrams create a visual representation of a process, clearly identifying key points of control and responsibility.	<p>Workflow diagrams have not been compiled or maintained up to date for undocumented procedures.</p> <p>Improvements: In conjunction with, or as an alternative to, the development of documented procedures and checklists, update and development of workflow process diagrams may assist in clearly identifying controls and processes to be followed.</p>

7.0 Implementation (Continued)

7.3 Human Resource Management and Practices

A number of components constitute the organisation's human resource management practices and form an essential element of risk management, internal control and legislative compliance. Each of these elements is examined in the table below.

Component	Purpose / Goal	Matters Identified / Improvements
Staff Training	To ensure staff have access to ongoing and appropriate training.	Staff training needs are currently identified on an ad-hoc basis. We understand management wishes to establish a more formal staff training structure. Improvement: Continuing with the development of a staff training matrix, to identify staff training needs relevant to their role is important to ensuring it is better co-ordinated across the organisation.

7.0 Implementation (Continued)

7.4 Insurance

At present, the Chief Executive Officer annually reviews the completeness of insurance. Discussions are also held with the insurers annually and adjustments to policies and insurance levels made as considered appropriate. The insurance values of Buildings and Plant and Equipment are based on the three-yearly valuations of building assets undertaken by registered valuers.

The existence and adequacy of insurance carried by contractors is not assessed prior to award of contracts. General contractors engaged by the depot on an ad hoc basis are generally not required to produce details of the level or existence of their insurance coverage.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Contractor Insurance	Insurance cover maintained by contractors for damage caused when undertaking works for the Town.	<p>Contractors' insurances are not assessed prior to award of contracts in all cases. General contractors engaged on an ad hoc basis are generally not required to produce details of the level or existence of their insurance coverage or licences to undertake the works.</p> <p>Improvement: To help ensure all contractors have the relevant licences and have adequate insurance cover for the works they undertake for the Town, procedures should be developed and records maintained of suppliers who have provided all relevant documentation.</p>

8.0 Monitoring and Review

Developing and implementing systems and procedures for risk management, legislative compliance and internal controls into an organisation can be a time consuming and expensive exercise with the potential to divert resources away from direct services. Considering the level of investment necessary to establish these systems, actions to monitoring their effectiveness are an essential practice.

After implementing these management and control systems, it is important to put in place practices that regularly monitor and assess their effectiveness to ensure they continue to meet their intended purpose.

Over time, the relevancy of established controls may change, their purpose may be forgotten, or technology may offer a more efficient or effective way to achieve the initial goal. For these reasons, formal review procedures are required to ensure the resources applied to maintaining these systems, practices and controls are done so in the most efficient way.

Evidence of the monitoring of risk management, internal controls and legislative compliance is sourced from Minutes of Meetings, Registers of Disclosures and reports reviewed.

8.1 Council and Audit and Risk Committee

Regular monthly financial statements and lists of payments, made in the intervening period between each meeting, have been presented to the Council for review, as required by legislation. This provides the basis for high level oversight of the expenditure transactions of the organisation.

Identified risks are included within agenda items for elected member consideration and recorded in a risk register appropriately.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Council and Audit Risk Committee	Monitoring and consideration of risks when making strategic decisions.	Identified risks are included within agenda items for elected member consideration and recorded in a risk register appropriately. The Risk Management Framework requires the evaluation of residual risks in relation to the treated risks. Residual risk is not evaluated following the decision of Council or implementation of the decision of Council. <hr/> Improvement: Residual risks following a Council decision should be evaluated and recorded as required by the risk management framework.

8.0 Monitoring and Review (Continued)

8.2 Strategic and Operational Registers

A number of registers are maintained by the Town of Port Hedland,. The table below details areas for possible improvement in relation to these registers.

Register	Purpose / Goal	Matters Identified / Improvements
Risk Register	Provide a record of risk breaches and remedial action taken.	<p>A risk register in relation to Council Decisions was available for inspection.</p> <p>The Risk Management Framework requires the evaluation of residual risks in relation to the treated risks. There is no capacity to record residual risk within the risk register.</p> <hr/> <p>Improvement: Recording of the residual risk for identified significant or high risk after application of the risk treatment is required by the risk management framework, the risk register requires amendment to enable this to occur.</p> <p>Maintaining risk registers for all identified risks is important to help ensure significant or high risks are adequately treated.</p>
OSH Register	Provide a record of OSH incidents.	<p>OSH incident forms are completed by staff and lodged with the OSH officers who maintain an incident register within Smartsheet.</p> <p>No reporting of OSH incident numbers to the Audit and Risk Committee is currently occurring.</p> <hr/> <p>Improvements: As Smartsheet has limited controls and officers may accidentally or intentionally delete records, a pdf version of the OSH Register should be routinely saved and reconciled to the original incident forms received. Reporting of OSH Incident numbers to the Audit and Risk Committee will assist them in understanding the risks in relation to OSH.</p>

8.0 Monitoring and Review (Continued)

8.3 Annual Compliance Audit Returns

Returns have been completed on a self-assessment basis and approved by Council each year. It is important to note the Returns were not independently prepared or verified.

Seven areas of non-compliance were noted in relation to the Annual Compliance Audit Return 2016.

8.4 Complaint Handling

The Code of Conduct approved by Council on 28 September 2016, provides for the lodging of complaints. This is further supported by the Complaints Policy approved by Council on 22 March 2017. Documented procedures for the handling of Customer complaints were put in place in April 2009.

8.0 Monitoring and Review (Continued)

8.5 Audit Practices

Council has appointed external financial auditors to the Town of Port Hedland. A number of items rated as significant have been identified during the last two years by the external auditors and are included within a separate Improvement Plan.

The table below details areas for possible improvement in relation to audit processes.

Framework Components	Purpose / Goal	Matters Noted / Improvements
Internal Audit	Internal audit monitors the level of compliance with internal procedures and process along with assessing the appropriateness of these procedures.	<p>Currently, no internal auditors have been appointed and limited internal audit functions have been undertaken.</p> <p>Improvement: To confirm adherence to documented policies and procedures and assist in the identification of internal control weaknesses an internal audit function is required to be established.</p>
Financial Management Review	Review of Financial Management undertaken bi-annually.	<p>Financial Management Review undertaken in June 2016 made eight recommendations to improve the Financial Management of the Town.</p> <p>Improvement: The items identified within the Financial Management Review be addressed.</p>
Best Practice Review	Review of the Town undertaken by the Department of Local Government and Communities to recognise and promote good practice in Western Australian country local governments	<p>The review made a number recommendations in relation to the following areas of operations.</p> <ul style="list-style-type: none"> • Governance – 13 Recommendations • Planning and Regulatory - 3 Recommendations • Plan for the Future – 5 Recommendations • Assets and Finance – 2 Recommendations • Workforce planning and Human Resources management – 5 Recommendations • Community and Consultation – 3 Recommendations <p>Improvement: The items identified within the Review be addressed.</p>

8.0 Monitoring and Review (Continued)

Framework Components	Purpose / Goal	Matters Noted / Improvements
Previous Audit Regulation 17 Reviews	Previous review of the appropriateness and effectiveness of risk management, internal control and legislative compliance.	<p>Previous review made a number of recommendations in relation to the appropriateness and effectiveness of risk management, internal control and legislative compliance some of these recommendations remain outstanding.</p> <hr/> <p>Improvement: Outstanding items identified within the previous review be addressed.</p>

9.0 Other Matters

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Appendix A – Council Policies Examined

The Council Policies examined as part of the review were as follows:

Policy Topic	Policy Topic
1. Administration	2. Finance
1/006 Insurance - Professional Indemnity - Use of Disclaimers	2/004 Rating
1/008 Vandalism - Reward for Conviction	2/005 Debt Management
1/009 Legal Representation – Costs Indemnification	2/007 Purchasing
1/010 Flying of The Aboriginal and Torres Strait Islander Flags	2/010 Council Investments
1/011 Queen’s Birthday Holiday	2/011 Tender Evaluation
1/014 Execution of Documents and Application of The Common Seal	2/012 Rates Incentive Program Policy
1/015 Audio Recording of Council and Committee Meetings	2/013 Rates Exemption Policy (Non Rateable Land)
1/017 Order of Business for Council and Committee Meetings	2/014 Rates Concession Policy (Rateable Land)
1/018 Public Agenda Briefings	2/015 Notice of Discontinuance (Rates and Debtors) Policy
1/019 Confidential Briefings	2/016 Regional Price Preference
1/020 Honorary Freeman	2/017 Grant Funding
1/021 Relationship Declaration Register	2/018 Borrowings
1/022 Risk Management Policy	2/019 Financial Reserves
1/023 Whistleblower (Public Interest Disclosure)	2/020 Corporate Credit Card
1/024 Fraud and Corruption Prevention	2/021 Fee Waiver for Not-For-Profit and Non-Government Organisations and Groups
1/025 Media and Communications Policy	
1/026 Complaints	
1/027 Severance Payment	

Appendix A – Council Policies Examined (Continued)

Policy Topic	Policy Topic
3. Staff	9. Engineering
3/003 Subsidies and Allowances	9/004 PreCyclone Green Waste Collection
3/007 Senior Employees and Appointing Acting Chief Executive Officer	9/005 Crossovers
3/019 CEO Performance Review	9/006 Community Facility Name Signs
4. Members/Councillors	9/007 Roadside, Verge and Reserve Parking Policy
4/006 Elections – Caretaker Period Policy	9/009 Vehicle Policy
4/007 Elected Member Representation – Pilbara Regional Council, Regional Roads Group and Local Emergency Committee	9/010 Asset Management Policy
4/008 Elected Members Entitlements	10. Parks and Gardens
4/009 Significant Decision Making	10/003 Landscaping
6. Recreation	11. Airport, Tourism and Economic Development
6/003 Funding & Donations	12. Town Planning
6/006 Consumption of Alcohol at Town of Port Hedland Owned and Managed Property	12/002 Off Site Car Parking Policy
6/010 Recreation Reserve and Facilities – Seasonal Hire	12/007 Shipping and/or Sea Container Policy
6/011 Recreation Reserve and Facilities – Casual Hire and Events	13. Health
7. Culture	13/006 Permission to Camp on Private Property
7/002 Acquisition and Management of Artworks	13/010 Application of Bin Replacement Charges
7/004 The Town of Port Hedland Affirms Its Commitment to Maintaining a Culturally Diverse, Tolerant and Open Society, United by an Overriding Commitment to Our Nation, and its Democratic Institutions and Values	13/012 Licensing of Funeral Directors
8. Community Services	13/014 Trading in Public Places Policy
8/002 Public Art Policy	14. Building
8/003 Access and Inclusion	15. Other
8/004 Community Leasing	15/003 Organisational Policy for CCTV Operations

Appendix B – Plans Examined

The Plans examined as part of the review were as follows:

Plan	Status
Strategic Community Plan	2014-2024
Corporate Business Plan	2015-2019
Asset Management Plan	30 November 2012
Long Term Financial Plan	2014-2024
Workforce Plan	2012-2016
Recordkeeping Plan	2017-2022
Entire Business Improvement Plan	Ongoing, exported 7 November 2017
ICT Implementation Plan	2012-2017 V05
ICT Strategic Plan	2012-2017
Business Continuity Plan	2017 Version 1
Local Recovery Plan	2015
TOPH Cyclone Plan	2017 v1 Draft

Appendix C – Strategic and Operational Registers Examined

The registers examined as part of the review were as follows:

Register

Declarations of Interest Register

Council Decision Risk Register

Incident and Hazard Action – Risk Register

Incident Reporting Spreadsheet

Investigated Breaches of Misconduct Register

Tender Register

Gifts and Travel Register

Complaints Register

OSH Risk Register

Delegations Register

Investments Register

Appendix D – Operational Guidelines

Risk Management

The internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. 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 D – Operational Guidelines (Continued)

Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to 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*

Internal Controls

Internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

These systems not only relate to accounting and reporting but also include communication processes both internally and externally, staff management and error handling.

Operational Guidelines prepared by the Department of Local Government and Communities (Audit in Local Government number 09 September 2013) provide the background to Internal Controls in the context of this review as follows:

'Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

Appendix D – Operational Guidelines (Continued)

Internal Controls (continued)

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

- k) integrity and ethics;*
- l) policies and delegated authority;*
- m) levels of responsibilities and authorities;*
- n) audit practices;*
- o) information system access and security;*
- p) management operating style; and*
- q) 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:

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

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