Audit and Governance Committee

Agenda

Notice is hereby given pursuant to the provisions of the Local Government Act, 1999, that a meeting of the Audit and Governance Committee will be held in the Council Chambers, 181 Unley Road Unley on

Wednesday 9 August 2017

6.30pm

for the purpose of considering the items included on the Agenda.

Peter Tsokas
Chief Executive Officer

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 9 August 2017 – 6.30pm
Council Chambers

AGENDA

MEMBERS:

Mr John Rawson (Presiding Member)
Mr Ed Parker (Independent Member)
Mr Sean Tu (Independent Member)
Councillor Michael Rabbitt
Councillor Rob Sangster

APOLOGIES

ITEM 58
CONFLICT OF INTEREST   1.

ITEM 59
CONFIRMATION OF MINUTES   2.

MOVED:
SECONDED:

That the minutes of the Audit and Governance Committee meeting, held on Wednesday 10 May 2017, as printed and circulated be taken as read and signed as a correct record.

OFFICER'S REPORTS

- Letter from Auditors BDO

Forwarded under separate cover due to confidentiality, items:

- Council report on Centennial Park Cemetery Authority Operating Budget
- Risk registers

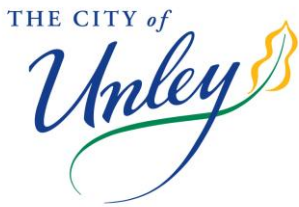## PRESENTATIONS

MOTIONS WITHOUT NOTICE

NEXT MEETING DATE

Wednesday 11 October 2017 – 6.30pm

CONFLICT OF INTEREST

TITLE:	CONFLICT OF INTEREST
ITEM NUMBER:	58
DATE OF MEETING:	9 AUGUST 2017
ATTACHMENT:	1. CONFLICT OF INTEREST DISCLOSURE FORM

Members to advise if they have any material, actual or perceived conflict of interest in any Items in this Agenda.

CONFLICT OF INTEREST DISCLOSURE FORM

I, _____ have received a

[insert name]

copy of the agenda for the (Ordinary / Special) **Council / Committee / Board**

[delete that which is not applicable]

meeting to be held on _____

[insert date]

I consider that I have a ***material** conflict of interest pursuant to section 73 / ***actual** or ***perceived** conflict of interest pursuant to section 74 *[*delete that which is not applicable]* of the *Local Government Act 1999* ("the LG Act") in relation to the following agenda item:

_____

[insert details]

which is to be discussed by the ***Council / *Committee / *Board** at that meeting.
[delete that which is not applicable]

The nature of my **material** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you (or a person prescribed in section 73(1) of the LG Act) stands to obtain a benefit or suffer a loss depending on the outcome of the consideration of the matter at the meeting of the Council in relation to the agenda item described above].*

_____

_____

_____

OR

The nature of my **actual** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why the conflict between your interests and the public interest might lead to a decision that is contrary to the public interest in relation to the agenda item described above].*

_____

_____

_____

I intend to deal with my **actual** conflict of interest in the follow transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the actual conflict of interest in a transparent and accountable way]*

_____

_____

_____

_____

OR

The nature of my **perceived** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you consider that an impartial fair-minded person could reasonably consider that you have a perceived conflict of interest in the matter]*

_____

_____

_____

_____

I intend to deal with the **perceived** conflict of interest in the following transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the perceived conflict of interest in a transparent and accountable way]*

_____

_____

_____

_____

_____

Signature

_____

Date

CONFIRMATION OF MINUTES

TITLE: CONFIRMATION OF MINUTES FOR AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ON 10 MAY 2017

ITEM NUMBER: 59

DATE OF MEETING: 9 AUGUST 2017

ATTACHMENTS: NIL

RECOMMENDATION

MOVED:
SECONDED:

That:

1. The minutes of the Audit and Governance Committee Meeting held on Wednesday 10 May 2017, as printed and circulated, be taken as read and signed as a correct record.

DECISION REPORT

REPORT TITLE:	STRATEGIC ASSET MANAGEMENT IMPROVEMENT PROGRAM
ITEM NUMBER:	60
DATE OF MEETING:	9 AUGUST 2017
AUTHOR:	JOHN DEVINE – GENERAL MANAGER CITY DEVELOPMENT,
	BRENTON CURTIS – MANAGER STRATEGIC
	ASSETS AND ALAN JOHNS – MANAGER, PROPERTY ASSETS

1.   EXECUTIVE SUMMARY

Councils are required to prepare and maintain a suite of strategic management plans. A strategic asset management plan forms part of this suite and has significant impact on the development and management of the long term financial plan.

A strategic asset management plan is a summarised combination of a number of asset management plans which should exist for all major asset classes.

The Council has been managing its assets in a sustainable manner for many years, and the journey to date has included a number of key achievements.

These include:

- An improvement in asset management process and capability through the implementation of an asset management system. The implementation was accompanied by a significant change management program to ensure the outcomes of the project and proposed on-going work practices were imbedded. This improvement program continues.
- System integrated with the Finance system and the system will soon be integrated with the customer request system also.
- Acquisition of a predictive modelling tool that helps calculate future funding requirements based on assumptions and scenarios for various asset levels of service and maintenance programs.
- The review of service levels of a number of major asset classes that have been endorsed by Council. (This program continues)
- The implementation of work plans for service delivery to manage and monitor the efficient and effective use of resources.
- Improved consideration of the asset management planning, business planning and financial planning cycles.

This report is to:
- Inform the Committee that the future improvement program involves the realigning of the strategic asset management plan and supporting asset plans with the International Standard for Asset Management: ISO55000.
- Seek support and endorsement of the proposed Annual Asset Management Planning Cycle.
- Seek support and endorsement of the review of a number of business principles that support the treatment of assets and their associated costs in various plans.

The proposed Annual Asset Management Planning Cycle will result in better synergy with the other strategic plans and assist in the timely delivery of the annual business plan and budget.

The review of the business principles will result in a more transparent and understanding of assets, their values, associated costs and funding requirements to meet customer needs.

2.   RECOMMENDATION

That it be recommended to Council that:

1.   The report be received.

2.   The Asset Management Annual Planning Cycle contained in this report be endorsed.

3.   The review of the business principles contained in this report be endorsed.

3. RELEVANCE TO CORE STRATEGIES/POLICY

3.1 Local Government Act 1999,
3.2 Civic Leadership - *Our business systems are effective and transparent.*
*3.3* Civic Leadership - *We have strong leadership & governance*

4. DISCUSSION

In accordance with Section 122 of the Local Government Act, councils are required to have strategic management plans (SMP) which generally comprise of a suite of interrelated and consistent plans. The Strategic Asset Management Plan (SAMP) is one of these plans and it provides an overview of how key asset classes are going to be maintained at an agreed level of service over a period of no less that 10 years. The SAMP also describes the funding requirements which should be assessed when reviewing the Long Term Financial Plan (LTFP) and the long term financial sustainability of the council. Therefore, the review of these plans should be aligned.

In the past, Council's LTFP has been based on the best available asset data available at that time, and total annual depreciation has been used as a guide in the provision of funding allocation for annual asset replacement (in the absence of reliable SAMP information). Maintenance programs have evolved historically rather than from endorsed 'levels of service' for each asset class.

The Council continues to mature in the application of asset management practices and significant work has been undertaken to align practices with International Standard ISO55000. This Standard, introduced in 2014, covers the management of physical assets and provides a framework to support the pro-active management of the lifecycle of assets, from acquisition to decommission.

The following diagram is an illustration of that framework.
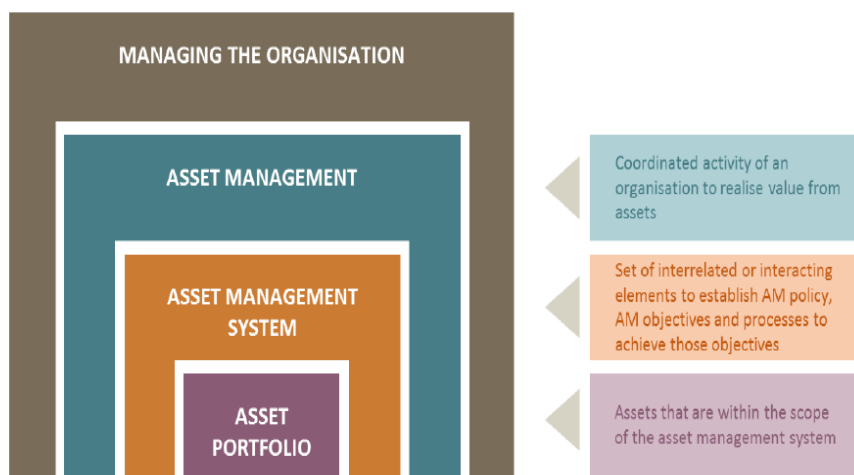
Asset Management Principles

The following set of seven key principles are being applied to ensure all assets throughout the City are managed and maintained to meet the needs of the community.

- Principle 1 – Equity across the community
  A balanced approach is taken ensuring that residents across the community have equal opportunities for required services

- Principle 2 – Sustainable assets
  Assets are designed & maintained in a manner cognisant of a triple bottom line outcome (financial; environmental; social) & utilising a life cycle approach

- Principle 3 – Risk sensitive
  Asset based decisions are done so in a manner where risks are identified, understood and managed (WHS; Environment; Public Safety; Political)

- Principle 4 – Strategic consistency
  Assets related to services are planned & maintained within an integrated planning framework

- Principle 5 – Functional & Service Level
  Assets are designed & maintained to ensure they are fit for purpose, meeting the agreed Level of Service

- Principle 6 – Compliant
  Assets are designed & maintained to meet compliance requirements at a minimum

- Principle 7 – Innovation & improvement focused
  Alternative methods of providing services/ assets are regularly examined, & improvements considered, ensuring "best value" options are applied

Proposed Asset Management Annual Planning Cycle

A key component of the asset management improvement is implementing an asset management planning cycle that is linked to the Annual Business Plan and Budget process to enable good decision making.

The table below outlines the annual process and timing for the Committee's support.

Process	Time
Close of previous financial year	July
Review asset outcomes	July & August

Modelling – Levels of Service / $'s	August & September
Update AMP's for following year	September
Update SAMP – to feed into LTFP (rolling plan with 1, 2-4 and 5-10 year categories to reflect levels of accuracy in funding requirements)	October
Council sign-off on SAMP (4 yearly)	October / November when required
Development of detailed Operating / Maintenance program for following year and input to Annual Business Plan and Budget	December to March
Development of detailed Capital program for following year and input to Annual Business Plan and Budget	December to March

The Improvement Plan

In 2015 a systematic review commenced of all asset management plans to align with the new standard. Asset classes such as Property, Roads, Footpaths, Open Space will have a separate AMP containing a defined program of works to deliver targeted levels of service, and will identify the funding requirement over the life of the plan. This work will continue until all major asset classes have an AMP.

These individual AMP's will be consolidated and summarised to provide the SAMP.

Over the past 12 months Council has considered and endorsed levels of service for a number of key asset classes; roads, bridges, buildings, and footpaths. This is a complex process that takes time and in the Annual Business Plan and Budget for 2017-18, Council increased its funding allocation for reactive footpath maintenance to accommodate in an increase in the level of service at an annual ongoing cost of $150,000, while reducing the Capital requirements for these costs by $1m p.a

The Council will continue to mature in its asset management capabilities over coming years, and a key part of that improvement is the review of a number of business principles.

Business principles to be reviewed, tested and considered by the Committee include:

- capitalisation of assets

- life cycle funding requirements of the SAMP

- funding requirements and comparative depreciation analysis

- asset value (fair value, asset condition, impairment testing and impacts, revaluations)

5. POLICY IMPLICATIONS

5.1 Financial/budget

- Nil
- The review of listed business principles will result in the reclassification and treatment of some expenses (operating and capital).

5.2 Legislative / Risk Management

- The Local Government Act requirements for strategic plans are met.
- Accounting standards requirements are met.
- The Asset Management Annual Planning Cycle ensures improved alignment of key strategic plans and will provide for improved decision making during the annual business plan and budget process.
- The Improvement Plan overall will support and encourage a more effective business planning environment and transparent levels of risk management.

5.3 Staffing / Work Plans
- Nil

5.4 Environmental / Social / Economic
- Nil

5.5 Stakeholder Engagement
- Nil

6. REPORT CONSULTATION

The following staff have been included in the consultation process in the preparation of this report:
- Nicola Tinning, General Manager Business Support & Information (Acting)
- Leta Northcott, Manager Finance & Procurement (Acting)

7. ANALYSIS OF OPTIONS

Option 1 – The Asset Management Annual Planning Cycle and the review of the business principles contained in the report be endorsed.

This option formally supports the alignment of asset management planning, with the Council's business planning and financial planning cycles which will result in better information for decision making.

The review of the business principles and the involvement of the Committee in the review will result in a more transparent and increased

understanding of assets, their values, associated costs and funding requirements to meet customer needs.

Option 2 – The Committee does not endorse these Recommendations and requests Administration to further investigate options for the Committees consideration.

8.   RECOMMENDED OPTION

Option 1 is the recommended option.

9.   ATTACHMENTS

- Nil

10.   REPORT AUTHORISERS

John Devine	General Manager City Development

DECISION REPORT

REPORT TITLE:	OPERATIONAL RISK PROFILE
ITEM NUMBER:	61
DATE OF MEETING:	9 AUGUST 2017
AUTHOR:	JULIE LISTER
JOB TITLE:	A/GROUP MANAGER, GOVERNANCE AND RISK

EXECUTIVE SUMMARY

The purpose of this report is to present the operational risk profiles and registers for each of the four business areas to the Audit and Governance Committee for their consideration, and recommendation to Council for adoption.

The registers and profiles have been developed in line with the Risk Management Policy and Framework using a consistent approach, tailored to the needs of City of Unley, which will provide transparency and improved decision making. The Operational Risk Registers will be forwarded to the Audit and Governance Committee under separate cover due to the obvious risk associated with detailed information being freely available.

The profiles and registers will require communication to staff and progressive integration into core processes and related policy and procedures. A strategic risk workshop was held on 31 July to present the organisation operational risks to managers and executive and to develop the strategic risk profile. This will be presented at the October Audit and Governance Committee meeting.

RECOMMENDATION

That it be recommended to Council that:

1. The report and attachments be received.

2. The Operational Risk Profiles (Attachment to Item 61/17) be adopted.

1. RELEVANT CORE STRATEGIES/POLICIES

- Organisational Strategy/Goal

    5.3 Good governance and legislative framework

2. DISCUSSION

The Council, on the 22 May 2017 adopted the Risk Management Policy and Framework recommended by the Audit and Governance Committee.

During the past couple of months a series of workshops have been held with the divisional leadership teams to provide an informed view of risk management. Risk assessment has been undertaken through workshop facilitation with executive and senior managers, small group discussion and draft feedback consultation prior to final executive approval.

Risks are expressed positively as opposed to negatively using meaningful wording to the business area which supports the tailored approach. The profiles and registers will be made available to all staff through links on the 'Central' intranet page under Business Units where a specific link for Risk has been set up. This supports the principles of communication and transparency.

The endorsed policy and framework has been presented at the Leadership Group meeting and going forward will be integrated within core processes, policies and procedures.

3. ANALYSIS OF OPTIONS

Option 1 – The Operational Risk Profiles be adopted.

Council's current risk assessment information ranging from 2010 to 2015 requires revision to align with the recently endorsed Risk Management Policy and Framework, to meet best practice standards and guidelines and changes within the business and structure of City of Unley.

Option 2 – The Committee does not endorse the Operational Risk Profiles and requests Administration to further review the profiles for the Committees consideration.

Further review and updates are required based on feedback from the Audit and Governance Committee prior to Council's adoption.

4. RECOMMENDED OPTION

Option 1 is the recommended option.

5. POLICY IMPLICATIONS

The primary legislative provisions relating to risk management are:

Section 125 of the *Local Government Act 1999* specifies that a Council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the Council to carry out its activities in an efficient manner to achieve its objectives.

Section 134 (4) (b) of the *Local Government Act 1999* requires Council to adopt risk management policies, controls and systems.

Regulation 14(e) of the *Local Government (Financial Management) Regulations 2011* requires internal controls be implemented by Council and to provide assurance that its financial records are complete, accurate and reliable.

Non Compliance with the WHS Act, Regulations and approved Codes of Practice.

6. REPORT CONSULTATION

The Executive Management Team and Leadership Team have participated in workshops and been consulted on outputs and feedback provided. The Chief Executive has reviewed all registers and profiles.

7. ATTACHMENTS

- Operational Risk Profiles (City Services, City Development, Governance and Risk and Business Support and Information)

8. REPORT AUTHORISERS

Name	**Title**
Peter Tsokas	Chief Executive Officer

Business Support & Improvement – Risk Profile (as at 29/6/17)

	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	High	High	Extreme	Extreme
Major	Medium	Medium	High (13, 4)	High (17)	Extreme
Moderate	Low	Medium (2)	Medium (3, 5, 10, 7)	High	High
Minor	Low	Low (12, 9, 16, 11)	Medium (6, 1)	Medium (8, 14, 15)	High
Insignificant	Low	Low	Low	Medium	Medium

Business Support & Improvement – Risk Profile (as at 29/6/17)

City Development – Risk Profile (as at 29/6/17) Attachment 1

	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	High	High	Extreme	Extreme
Major	Medium	Medium	High	High	Extreme
Moderate	Low — 12	Medium — 5, 14	Medium — 1, 2, 7, 13	High	High — 8
Minor	Low — 4, 11	Low — 3, 6	Medium — 9	Medium — 10	High
Insignificant	Low	Low	Low	Medium	Medium

City Services – Risk Profile (as at 29/6/17)

	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	High	High	Extreme	Extreme
Major	Medium	Medium **2** **8**	High	High	Extreme
Moderate	Low	Medium **10**	Medium **9** **6**	High **7** **1** **5**	High
Minor	Low	Low	Medium **3**	Medium **4**	High
Insignificant	Low	Low	Low	Medium	Medium

Governance & Risk – Risk Profile (as at 29/6/17)

	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	High	High	Extreme	Extreme
Major	Medium	Medium (10, 9)	High	High	Extreme
Moderate	Low	Medium (6)	Medium (3, 4, 7)	High (11, 5)	High
Minor	Low	Low (8, 1)	Medium	Medium (2)	High
Insignificant	Low	Low	Low	Medium	Medium

DECISION REPORT

REPORT TITLE:	RISK AND INTERNAL AUDIT PROGRAM 2017/18
ITEM NUMBER:	62
DATE OF MEETING:	9 AUGUST 2017
AUTHOR:	JULIE LISTER
JOB TITLE:	A/GROUP MANAGER, GOVERNANCE AND RISK

EXECUTIVE SUMMARY

The purpose of this report is to present the Risk and Internal Audit Program 2017/18 (Program) to the Audit and Governance Committee for their consideration, and recommend to Council for adoption.

The Strategic Risk and Internal Audit Program has been developed considering all the operational risks included within the four Business Units' Operational Risk Registers and Profiles.

A strategic risk workshop was held on 31 July to present the divisional operational risks to managers and executive and to develop the strategic risk profile. The strategic risk link (column is currently blank) will be incorporated and this information will be presented to the October meeting, of the Audit and Governance Committee.

RECOMMENDATION

That it be recommended to Council that:

1.	The report and attachments be received.

2.	The Risk and Internal Audit Program 2017/18 be adopted.

1.   **RELEVANT CORE STRATEGIES/POLICIES**

- Organisational Strategy/Goal

  5.3 Good governance and legislative framework

2.   **DISCUSSION**

The primary purpose of the Program is to provide Council, the Audit and Governance Committee and Executive with an independent and objective assurance of the adequacy of Council's internal control environment and to implement assurance activities / tools to support this into the future.

The Program has been aligned to and developed based upon Business Units operational risk profiles in consultation with executive and management.

The selection of the proposed internal audit projects considered corporate priorities, alignment to risk information, government trends, organisational and operational change or shift in resourcing and legislative responsibilities.

Given that the new risk management framework and policy is being communicated across the organisation, the operational risk registers are recently developed and strategic risks are to be identified the Program focuses on the current financial year. As the organisation becomes risk mature and the supporting internal control environment more aligned to the risks, a longer term plan of works will be developed.

The Program is not a static document and will be periodically re-assessed to recognise City of Unley's changing governance, risk and internal control environment. Regular communication with management and risk monitoring will be undertaken to inform of any potential changes and facilitate the on-going alignment of internal audit activities to strategic risk and corporate objectives.

The Plan (Attachment 1 to Item 62/17)) provides a high level summary of potential areas for scoping. A more detailed scoping document (the audit assignment) will be developed for each review undertaken (two examples are provided at the rear of the Program). Attachment 2 to Item 62/17

3.   **ANALYSIS OF OPTIONS**

Option 1 – Risk and Internal Audit Program 2017/18 be adopted

The primary purpose of the Program is to provide Council, the Audit and Governance Committee and Executive with an independent and objective assurance of the adequacy of Council's internal control environment and to implement assurance activities / tools to support this into the future.

<u>Option 2 – The Risk and Internal Audit Program 2017/18 be amended prior to going to Council for adoption</u>

Further review and updates are required prior to Council adoption.

4. RECOMMENDED OPTION

Option 1 is the recommended option.

5. POLICY IMPLICATIONS

The primary legislative provisions relating to internal control are:

Section 125 of the *Local Government Act 1999* specifies that a Council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the Council to carry out its activities in an efficient manner to achieve its objectives.

Section 134 (4) (b) of the *Local Government Act 1999* requires Council to adopt risk management policies, controls and systems.

Regulation 14(e) of the *Local Government (Financial Management) Regulations 2011* requires internal controls be implemented by Council and to provide assurance that its financial records are complete, accurate and reliable.

6. REPORT CONSULTATION

The CEO has participated in risk workshop and plan content.

7. ATTACHMENTS

- Risk and Internal Audit Program 2017/18
- Examples of two audit assignments

8. REPORT AUTHORISERS

Name	**Title**
Peter Tsokas	Chief Executive Officer

RISK & INTERNAL AUDIT
PROGRAM 2017/18

ABSTRACT
This Risk and Internal Audit Program is designed to help the City of Unley achieve its objectives and take advantage of opportunities while providing assurance that risks are being effectively and efficiently managed.

Julie Lister
A/Group Manager, Governance and Risk
24th July 2017

1. Introduction

Internal Audit reports to the Executive Manager, Office of the Chief Executive for operational purposes and the Audit and Governance Committee for its oversight role. Internal Audit plays a role in assisting the Council, Audit and Governance Committee and the Chief Executive Officer (CEO) in the performance and discharge of their functions and duties.

The objective of Internal Audit, and therefore its ongoing audit planning, is to:
- Provide a value adding service to improve Council's operations; and
- Provide assurance to the Chief Executive Officer, Audit and Governance Committee and those relying on Internal Audit's work that critical risks and improvement opportunities have been identified

Internal Audit's planning approach to developing the Strategic Risk based Internal Audit Program has included:
- Undertaking operational risk workshops with all business areas to facilitate the creation of risk registers and profiles
- Reviewing previous external audit reports to identify areas of concern
- Consideration of the content of previous internal audit plans and reports
- Discussion with Executive Management (scoped reviews)

Internal Audit reviews will be undertaken in line with the Internal Audit Methodology Framework (see attachment 2) and will for each review include a clear scope and objective, testing program that documents internal controls and a report.

Risk management encourages City of Unley to manage proactively rather than reactively. Therefore, it also means identifying and taking opportunities to improve organisational performance as much as it means taking action to avoid or reduce the chances of something going wrong. An integrated risk management system involves a systematic and rigorous approach to what people do on a daily basis.

The Three Lines of Defence Model (see attachment 3) clearly demonstrates the roles of risk management and internal audit.

2. Program Development Overview

The Program is designed to assist the City of Unley achieve its objectives and take advantage of opportunities while at the same time providing assurance that both strategic and operational risks are being effectively and efficiently managed. Implementation of the Program is a key enabler to achieving Council's goals, objectives, targets and community expectations within an acceptable (tolerable) level of risk.

The City of Unley's Chief Executive Officer, General Managers and Team Leaders have been closely involved in the development of the Program through risk management workshops and ad hoc discussions.

Outputs from the City of Unley's Risk Management Framework are the key driver of the Program. To develop a robust Program, these outputs are combined with:

- an understanding of other audit and compliance activities (external and internal) being undertaken across the organisation (for example, external financial audit and compliance audits)

- insights gained from across the local and state government sectors as well as the private sector (where relevant) regarding better practice governance, risk and internal control environments
- consideration of the current state of many external factors impacting on the City of Unley including social, political, technological, environmental and economic challenges.

3. Strategic Risk & Internal Audit Program (see attachment 4)

Each activity described in the Program has been linked to the risks identified within City of Unley's operational Risk Registers and Profiles, which are linked to Strategic Risks. While some activities in the Program will be carried out annually, some activities that continue to remain low risk could go a number of years before inclusion within the annual plan. This is necessary to ensure the Program continues to reflect the organisation's opportunities and challenges.

Using relevant standards as the foundation (including the International Risk Management Standard AS/NZ ISO 31000:2009: "Risk Management Principles and Guidelines" and the International Standards for the Professional Practice of Internal Auditing), consistent with better practice governance principles, the Program consists of a several key elements. Each of these elements is important to building and strengthening the City of Unley's risk, internal control and governance environment.

Elements included within the Program include:

RIsk Management Activities – Activities that support the City of Unley's governance, risk and control environment including, supporting the implementation of the Risk Management Framework, facilitating the testing of plans and providing consulting advice on key projects and/or emerging risk areas.

Internal Audit Projects – Targeted Internal Audit projects that are focussed on providing assurance over the processes and internal controls in place to manage specific risks identified in the City of Unley's strategic and operational Risk Registers and Profiles.

Elements of the Program will be delivered using a co-sourced team of resources. This approach will make sure that the City of Unley is building governance, risk and internal control capability within the organisation but is also supported by external resources (where required) with knowledge and experience in specialised areas.

4. Risk and Internal Annual Plan 2017/18 (see attachment 1)

The Annual Plan 2017/2018 is extracted from the Program. It is important to note each year the program will be reviewed based on updated risk information and ongoing where relevant, revised to make sure that it continues to reflect City of Unley's risk, internal control and governance environment.

Risk and Internal Audit Plan 2017/18

Risk Management Program of Works

Ref	Activity	Objective	Operational Risk Linkage
RM1	Continuous improvement	Reviewing the Risk Management Framework to ensure continuous alignment with better business practice (ISO31000:2009). Facilitating annual strategic and operational Risk Register and Profile Updates.	All
RM2	Risk Advisory	Providing advice at the request of the Audit and Governance Committee, Chief Executive, General Managers and as required across the organisation.	All
RM3	Project Assurance	Providing advice and assurance on key council projects and initiatives.	CD9
RM4	Insurance Adequacy	Annual review of the council's insurance arrangements for its people, assets and infrastructure.	G9
RM5	Business Continuity, Response and Recovery Management	Year 1: Developing overarching "Incident Management Plan"; Reviewing existing plans, developing scenarios and facilitating required testing; investigate the benefits and opportunities associated with the implementation of the I-Responda framework. Year 2 & 3: Developing associated incident response plans, facilitating incident scenarios	CD6, G1, B4
RM6	Risk Management Training	Preparing and delivering regular risk management update and awareness training as required.	All

Internal Audit Program of Works (Scoped and agreed with relevant Executive)

Ref	Activity	Objective	Operational Risk Linkage
IA2	Workforce Planning and Management	Assurance that current processes and controls manage the workforce (outside and inside) in a way that promotes council values in an efficient manner; that attracts, recruits and retains resources with the required skills, knowledge, experience and behavioural attributes; that monitors employee performance and builds internal capability, including succession planning and knowledge management. 2017/18: Will focus on employment contracts, intellectual property, secondary employment, probationary periods and performance monitoring.	CD3, CD4, CD5, CD14, B1, B5, B9, CS5, G2, G4
IA10	Community and Public Safety Protection	Assessing the processes and controls established to protect the safety and wellbeing of the community and public, focussing particularly on vulnerable people. 2017/18: Will focus on relevant screening and clearances required for staff, volunteers, hirers of community space and program deliverers when dealing with the community (such as Library, Museum, Aged Care services, Reception desks, Swim Centre, Community Centres).	CD13, CS2, CS8
IA14	Internal Financial Controls (Requirement of S125 LGA 1999)	Year 1: Design and implement a spot check program in line with the Better Practice Model – Financial Internal Control for South Australian Councils to validate that internal financial controls are in place and operating as designed; Consult with external auditors to develop spot check cycle. Years 2 & 3: Undertake spot checks	B16

		as per priority schedule.	
IA19	Elected Member and other Section 41 Committee Member: Expenses	Assurance that expenses paid to Elected Members are approved, timely, accurate, relevant and in compliance with Local Government Act 1999. Focus 2017/18: Attendance and related expenses for seminars, training and conferences are in line with a robust approval process and documented procedure.	G9
IA20	Legislative Compliance	Year 1 - Design and implement a self-assessment framework to provide reasonable compliance assurance with relevant legislation, regulations and guidelines. Year 2 and 3 coordinate the annual self-assessment process and undertake spot checks.	G9, CS6
IA21	Legislative Compliance: Building Development Applications	Development assessment processes and procedures focusing on development application files and the lodgement, assessment and determination procedures applied with a focus on legislative compliance in the procedures applied and determining the application rather than on the merits of an application or its compliance with building rules.	CS6
IA24	Internal Audit Outstanding Actions	Year 1: Design and implement a process for managing actions arising from internal audit and assurance reporting. Year 2 and beyond: Monitoring and reporting on actions arising from internal audit and assurance reporting.	n/a

Proposed Internal Audit Program of Works: Actual review content to be scoped and agreed with Executive Management

Ref	Activity	Objective	Operational Risk Linkage
IA2	Workforce Planning and Management	Assurance that current processes and controls manage the workforce (outside and inside) in a way that promotes council values in an efficient manner; that attracts, recruits and retains resources with the required skills, knowledge, experience and behavioural attributes; that monitors employee performance and builds internal capability, including succession planning and knowledge management. 2017/18: Will focus on employment contracts, intellectual property, secondary employment, probationary periods and performance monitoring.	CD3, CD4, CD5, CD14, B1, B5, B9, CS5, G2, G4
IA6	Procurement Management	Assessing the controls in place to ensure compliance with better business practice procurement and contract management principles including policy, guidelines, procedures, value for money, compliance and delegations. 2017/18: Focus to be determined	CD9, CD10, B15
IA7	Contract Management	Assurance on processes that controls are in place to select and manage contractors including tender submission and evaluation, probity, contractor capability, contract performance monitoring and safety. 2017/18: Focus to be determined	CD10, B15
IA18	Information and Records Management (Hard Copy and Electronic Data)	Assurance on the processes and controls in place to retain and protect the security of council data and information in line with State Records Act, including the capturing, recording and release of information (in all forms including media) in line with relevant legislation including FOI, Privacy and PCI DSS and arrangements for dealing with public information provided under the Whistle blower legislation. 2017/18: Focus to be determined	G5, G6, G7, G9, CS4

IA23	Staff, Elected Member and other Section 41 Committee Member: Register of Interests	Assurance that Primary Register of Interest requirements across City of Unley are targeted at the relevant committees and staff, where staff are executive or could be seen to be influential in decision making.	G9

Governance of Risk: Three Lines of Defence

To ensure the effectiveness of the risk management framework, the CEO and Senior Management need to be able to rely on adequate line functions, including monitoring and assurance functions within City of Unley. The Institute of Internal Auditors endorses the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:
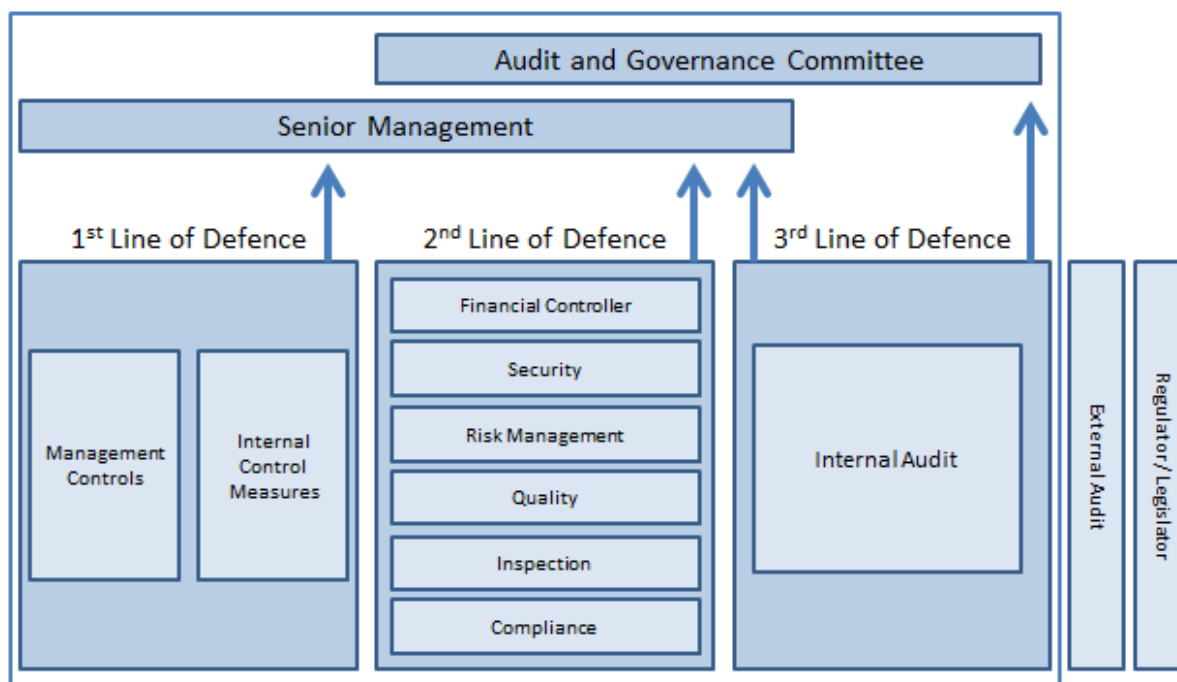
1. First line of defence

Under the first line of defence operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

2. Second line of defence

The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control activities). This line of defence monitors and facilities the implementation of effective risk management practices by operational management and assist the risk owners in reporting adequate risk related information up and down the organisation.

3. Third line of defence

Internal audit forms the City of Unley's third line of defence. An independent internal audit function will, through a risk based approach to its work, provide assurance to the CEO, senior management and the Audit and Governance Committee. This assurance will cover how effectively City of Unley assesses and manages it risks and will include assurance on the effectiveness of the first and second line of defence. It encompasses all elements of the City of Unley's risk management framework and all categories of objectives: strategic, ethical, operational, reporting and compliance.

Internal Audit Methodology

Internal Audit Methodology: Planning Phase

File set up	Discussion with management	Research	Audit assignment	Testing Program
• Create folder in ECM • Copy template documents across and name simple as 'year report audit title' • There will be a hard copy working file during the review	• Discuss and agree the internal audit objectives • Confirm applicable legislation (if any) • Align work to operational and strategic risks • Agree a start date for work and a realistic date for a draft report • Notes to be retained electronically on file	• Review standard operating procedures and any policies • Review process maps • Review historical reviews undertaken • Review external audit reports • Review other documentation as requested/provided by management • Review risk information • Source any relevant legislation • Any identified issues to be incorporated into the testing program and considered in more depth	• Draft audit assignment using template • Discuss and agree with management • Obtain management approval	Develop testing program highlighting all key controls and how they will be tested based on: • Discussions with key staff on process (practical) • Observe process being undertaken (practical) • Use research documents (much is theory)
	Documented Discussion notes		Approved Audit Assignment	Complete Testing Plan

Internal Audit Methodology: Fieldwork Phase

Complete Fieldwork		Potential Issues Arising	Complete Testing Program
• Complete testing of internal controls as per testing plan	Observations Further discussions Transaction and process testing Observations Data analytics Document review	• There should be no secrets at the end of the review – discuss potential issues as they arise to clarify and confirm • After clarification depending on severity and risk bring to immediate attention of senior management	• Record all testing results against relevant internal control • Assess and assign control effectiveness • Finalise working papers
Documented Discussion notes Documented Working Papers		Documented Discussion notes	Complete Testing Program

Internal Audit Methodology: Report Phase

Draft Internal Audit Report	Exit Interview	Quality Assurance	Report Issue
The draft internal audit report draws information from: • Audit assignment • Testing program • Control effectiveness graph table (if used) • Control effectiveness chart (if used) Check presentation, spelling, consistency and evidence. If there is no evidence to support a finding that is a potential issue then it is not an issue	Forward the draft internal audit report to respective team leaders/ managers for review Book meeting to arrange a discussion Agree actions to address issues and document an implementation plan including realistic dates and responsibilities	Forward the final internal audit report and agreed implementation plan to Executive Manager, CEO for QA of presentation, grammar etc. This is not about reviewing content for change of wording or agreed actions	• Forward the final internal audit report and agreed implementation plan to the respective team leader or manager via email for approval/sign off • Include relevant information on issues identified within the senior management report in preparation for the next meeting • Add issues to the ongoing issue register for monitoring within agreed timescales

Documented Draft Internal Audit Report

Documented Final Internal Audit Report for QA

Documented Agreed Actions Implementation

Documented QA and approval to issue

Final Internal Audit Report ready for issue

Issued Internal Audit Report

Updated Issues Register

Updated senior Management Report

Internal Audit Methodology: Follow Up Phase

Internal Audit Issues Register
Monitor outstanding agreed actions/issues quarterly based on risk and report progress to audit and Governance Committee and Executive Management

Outstanding agreed Actions Report

Strategic Risk and Internal Audit Program

Ref	Activity	Objective	Operational Risk Linkage	Strategic Risk Link	Aggregated Risk Rating	Priority	2017/18
Risk Management Activities							
RM1	Continuous improvement	Reviewing the Risk Management Framework to ensure continuous alignment with better business practice (ISO31000:2009). Facilitating annual strategic and operational Risk Register and Profile Updates.	All		n/a	n/a	Yes
RM2	Risk Advisory	Providing advice at the request of the Audit and Governance Committee, Chief Executive, General Managers and as required across the organisation.	All		n/a	n/a	Yes
RM3	Project Assurance	Providing advice and assurance on key council projects and initiatives.	CD9		n/a	n/a	Yes
RM4	Insurance Adequacy	Annual review of the council's insurance arrangements for its people, assets and infrastructure.	G8		n/a	n/a	Yes
RM5	Business Continuity, Response and Recovery Management	Year 1: Developing overarching "Incident Management Plan"; Reviewing existing plans, developing scenarios and facilitating required testing; investigate the benefits and opportunities associated with the implementation of the I-Responda framework. Year 2 & 3: Developing associated incident response plans, facilitating incident scenarios.	CD6, G1, B4		n/a	n/a	Yes
RM6	Risk Management Training	Preparing and delivering regular risk management update and awareness training as required.	All		n/a	n/a	Yes
Internal Audit Projects							
IA1	Policy and Procedure Framework Effectiveness	Review of the design and implementation of the framework in place to ensure it is reflective of current business processes and 'fit for purpose'.	CD1, B8, G2		Medium	2	
IA2	Workforce Planning and Management	Assurance that current processes and controls manage the workforce (outside and inside) in a way that promotes council values in an efficient manner; that attracts, recruits and retains resources with the required skills, knowledge, experience and behavioural attributes; that monitors employee performance and builds internal capability, including succession planning and knowledge management. 2017/18: Will focus on employment contracts, intellectual property, secondary employment, probationary	CD3, CD4, CD5, CD14, B1, B5, B9, CS5, G2, G4		Medium	2	Yes
IA3	Business Continuity Management Framework	Review of the framework in line with AS/NZS 5050:2012 and HB292:2006 as better practice guides. Assurance on the suitability of plans to mitigate the strategic risk regarding preparation, response and recovery to a business continuity incident.	B4, CD6, G1, G10		Medium	2	
IA4	ICT Service Delivery	Assurance on policies and procedures to provide effective controls for data security, data back up, relevant industry better practice and standard compliance; access restrictions and management; adequacy of response and recovery plans; compliance with ICT policies and procedures; penetration testing and vulnerability assessments.	B2, B4, B13, CD2, G1, G3, G10		Medium	2	
IA5	Strategic Planning	Assurance on the processes in place, specifically in relation to the 4 year plan, business plan, financial planning and budget reviews and annual planning considering change management and reporting on the achievement of performance measures (strategic and operational outcome delivery).	B6, B7, CD7, CD8, CD11, CS1, CS7, CS9, G2		High	1	
IA6	Procurement Management	Assessing the controls in place to ensure compliance with better business practice procurement and contract management principles including policy, guidelines, procedures, value for money, compliance and delegations.	CD9, CD10, B15		Medium	2	Yes
IA7	Contract Management	Assurance on processes that controls are in place to select and manage contractors including tender submission and evaluation, probity, contractor capability, contract performance monitoring and safety.	CD10, B15		Medium	2	Yes
IA8	Asset Management	Assurance that the Council's asset management lifecycle approach links to strategic priorities and is aligned to better business practice; Appropriate asset management processes and practices; Appropriate accounting processes; Compliance with legislation, policies and procedures; Utilisation of integrated asset management recording and valuation systems.	CD12		Low	3	
IA9	Work Health and Safety Compliance Assurance	Assurance on the processes and controls established to protect the safety and wellbeing of staff, contractors and volunteers to ensure compliance with Work Health and Safety Act 2012. Annual KPI reviews undertaken by LGRS with reported non conformances; Actions plans are developed - focus on reporting to ensure actions are closed out timely and to appropriate standard.	CD1, B10, CS2, CS8		Medium	2	

IA10	Community and Public Safety Protection	Assessing the processes and controls established to protect the safety and wellbeing of the community and public, focussing particularly on vulnerable people. 2017/18: Will focus on relevant clearances required for staff, volunteers, and hirers of community space when dealing with the community (Library, Reception desks, Swim Centre, Community Centres).	CD13, CS2, CS8	Medium	2	Yes
IA11	Project Management - Capital Works Projects	Assurance on the effectiveness of processes and controls that are in place to manage risks including adequate planning for new / changed services; Projects aligned to Council's strategic plans; The effectiveness of the framework established to manage programs and projects across the organisation; Achievement of better practice models - strategic assessment, business case, project development, tender process, project review, project reporting, financial management and risk management.	B2, B3, B14	Medium	2	
IA12	Delegations and Authorisations	Assurance on the controls and processes including approvals, communication and training.	B8, G2	Medium	2	
IA13	Organisational Culture and Conduct	Assurance on the current tools and processes that are used to deliver the desired organisational culture, identifying any areas where outcomes could be improved (staff, management, elected members and members of section 41 committees).	B12, G2, G11	Medium	2	
IA14	Internal Financial Controls (Requirement of S125 LGA 1999)	Year 1: Design and implement a spot check program in line with the Better Practice Model – Financial Internal Control for South Australian Councils to validate that internal financial controls are in place and operating as designed; Consult with external auditors to develop spot check cycle. Years 2 & 3: Undertake spot checks as per priority schedule.	B16	Low	3	Yes
IA15	Internal Financial Controls: Payroll (Section 125 LGA 1999)	Assurance on payroll risks but not limited to those risks (11) and controls (48) in the Better Practice Model. This review could be undertaken to replace spot checks.	B16	Low	3	
IA16	Business Systems and Solutions	Assurance on controls to manage risks associated with the alignment of IT systems and solutions that support and meet business needs and user expectations - loss of supplier (software, 3rd party supplier) or loss of data.	B17	High	1	
IA17	Volunteer Management	Providing assurance over the processes and controls implemented ensuring they align with State Strategy while managing the associated risks.	CS10	Medium	2	
IA18	Information and Records Management (Hard Copy and Electronic Data)	Assurance on the processes and controls in place to retain and protect the security of council data and information in line with State Records Act , including the capturing, recording and release of information (in all forms including media) in line with relevant legislation including FOI, Privacy and PCI DSS and arrangements for dealing with public information provided under the Whistle blower legislation.	G5, G6, G7, G9, CS4	High	1	Yes
IA19	Elected Member and other Section 41 Committee Member: Expenses	Assurance that expenses paid to Elected Members are approved, timely, accurate, relevant and in compliance with Local Government Act 1999. Attendance and related expenses for seminars, training and conferences are in line with a robust approval process and documented procedure.	G9	Medium	1	Yes
IA20	Legislative Compliance	Year 1 - Design and implement a self assessment framework to provide reasonable compliance assurance with relevant legislation, regulations and guidelines. Year 2 and 3 coordinate the annual self assessment process and undertake spot checks.	G9, CS6	Medium	2	Yes
IA21	Legislative Compliance: Building Development Applications	Development assessment processes and procedures focusing on development application files and the lodgement, assessment and determination procedures applied with a focus on legislative compliance in the procedures applied and determining the application rather than on the merits of an application or its compliance with building rules. *to note: DPTI have recommended their review processes June 2017*	CS6	Medium	2	Yes
IA22	Legislative Compliance: PCI DSS Review	Investigate Council's requirements for compliance, its ability and capability to comply and its reporting regime to external financial regulators.				
IA23	Staff, Elected Member and other Section 41 Committee Member: Register of Interests	Assurance that Primary Register of Interest requirements across City of Unley are targeted at the relevant committees and staff, where staff are executive or could be seen to be influential in decision making.	G9	Medium	1	Yes

IA24	Internal Audit Outstanding Actions	Year 1: Design and implement a process for managing actions arising from internal audit and assurance reporting. Year 2 and beyond: Monitoring and reporting on actions arising from internal audit and assurance reporting.	n/a		n/a		Yes
Total							

Community and Public Safety Protection (IA10)

Background	In undertaking the requirements of their role / position, City of Unley staff, volunteers, hirers and program deliverers within Council community space interact with residents and the general public. Key business areas would include community centres, swimming centre, customer service (reception areas), aged care services, youth development, museum, events, sport and recreation environment and volunteers services.
	Some Legislation and Regulation relating to prescribed persons or positions mandates screening (Child related employment, Aged care, Disability services) whilst other screening is seen as best practice (Vulnerable persons, General employment probity).
	Screening can be undertaken through a Police Criminal History Check and/or services provided by Department for Communities and Social Inclusion (DCSI).
Objectives and Scope	To determine requirements for relevant clearances and screening to be undertaken across Council for staff, volunteers and program deliverers in community/public facing positions and/or activities. This will include staff/volunteers providing services to residents, community centres, reception areas, aged care services, youth development, museum, events, sport and recreation environment and swimming centre.
	The scope of the audit excludes reviewing current clearances and the effectiveness of the existing internal control environment.
	The specific objectives of the audit will be to determine: o Which positions require which clearance / screening and why o Relevant updates to the 'Safe Environment Policy' o Confirm requirements in relation to external users of council facilities / program deliverers / contractors
Approach	The approach will involve reviewing the process, procedures, policies and documentation; interviewing key employees; observation, walkthrough and substantive testing and where appropriate seeking expert advice.
Potential Risk Exposure	• CS8: Inherent nature of the activities undertaken and services delivered to the community • CS2: Responsibility to protect vulnerable persons in the community given the inherent nature of services provided
Output	The key deliverables: 1. Appropriate communication of key findings and suggested improvements during the audit; 2. Report to be discussed at an exit meeting, to confirm observations and document management's action plans. 3. Listing of roles with mandated and best practice screening requirements.
Start date:	24th July 2017
Draft report date:	7th August 2017

Doc Set ID:

Management sign off

Megan Berghuis   Signed:
General Manager, City Services   Date:

Legislative Compliance: Development Application Applications (IA21)

Background	Developments with City of Unley require written Development Approval from Council with applications assessed against the objectives and principles of the City of Unley Development Plan, with the application process determined by the Development Act 1993 and Development Regulations 2008.
	Section 56B of the Act, provides legal basis for auditing the building rules assessment function carried out by Councils with regulation amendments in 2012 enabling auditing to commence. The Department of Planning, Transport and Infrastructure will undertake periodic reviews that check whether the processes and procedures have been undertaken in accordance with the Act. If appropriate, a report will be provided prioritising actions for rectification.
	City of Unley has in the last 12 months undertaken a restructure whereby staff within this business area have had a change to roles and responsibilities with some staff changes.
Objectives and Scope	The scope of the audit will be on legislative compliance in procedures applied in processing and determining the application, rather than on the planning merits of an application or its compliance with the Building Rules.
	The audit will consider 10 randomly selected files from each of the following classes of applications assessed by the Council since July 2016: • Building rules consent files • Complying Development Plan consent files • Category 1 merit Development Plan consent files • Category 2 merit Development Plan consent files • Category 3 merit Development Plan consent files • Non complying Development Plan consent files
	The specific objectives of the audit will be to determine whether files are compliant with legislative and procedural compliance and determine any potential training opportunities for staff.
Approach	The review will be undertaken by Kelledy Jones Lawyers with the approach involving reviewing the process, procedures, policies and documentation; interviewing key employees; observation, walkthrough and substantive testing and where appropriate seeking expert advice.
Potential Risk Exposure	• CS6: Managing statutory complexity in planning decision making processes
Output	The key deliverables: 1. Appropriate communication of key findings and suggested improvements during the audit; 2. Draft report to be discussed at an exit meeting, to confirm observations and document management's action plans. 3. Final report and where appropriate / relevant documented process maps highlighting key controls within a process and / or opportunities for process improvement.
Start date:	7th August 2017

Doc Set ID:

Draft report date:	1st September 2017

Management sign off

Megan Berghuis   Signed:

General Manager, City Services   Date:

CORRESPONDENCE

TITLE:	CORRESPONDENCE
ITEM NUMBER:	63
DATE OF MEETING:	9 August 2017
ATTACHMENTS:	1. BDO (Binder Dijker Otte AUDITORS)

Correspondence from:

1. BDO – Auditors

be noted.

The correspondence forwarded under separate cover, due to confidentiality,

1. Item 926 Council report on Centennial Park Cemetery Authority Operating Budget and
2. Council's Risk Registers relating to City Services, City Development, Governance and Business & Improvement,

be noted.

Mr John Rawson
Presiding Member – Audit & Governance Committee
City of Unley
PO Box 1
UNLEY SA 5061

1 August 2017

Dear John

INTERIM REPORT ON THE 2017 EXTERNAL AUDIT

We are pleased to provide the members of the Audit and Governance Committee an update on the 2017 External Audit.

We have conducted our interim audit visit, in line with our Audit Plan distributed to the Audit and Governance Committee. Our work to date has covered:

- Our annual assessment of risk and potential implications for the audit of the financial report.
- Our annual assessment of risk and potential implication for the audit opinion on internal controls.
- A review of internal controls and determination of those which will be relied upon and tested as part of our audit strategy for the audit of the annual financial statements.
- Interim testing of internal controls for the audit opinion on internal controls
- Interim testing of a sample of transactions in revenue, operating expenditure and payroll functions.
- Review of interim results and analytical review to identify any unusual trends or items which might require additional audit attention.
- Review of interim testing to ensure that there are no underlying deficiencies in internal controls or matters which would require additional attention as part of our audit on the financial report.

We have also updated our knowledge in relation to matters that may be considered as risks, as identified in our Audit Plan:

Risk	Update at 1 August 2017
Revaluation and useful lives of Infrastructure, Land and Buildings	Council revalue all material asset classes on a regular basis such that the carrying values are not materially different from fair value. This revaluation is carried on a rotation basis. During the financial year ending 30 June 2017, Council will revalue roads, lanes, kerbs & water-table; drainage; bridges; and open space.

Once this has been reviewed and confirmed by management the necessary adjustments will be made in the accounting records, prior to the finalisation of the records for the year ended 30 June 2017. |

Risk	Update at 1 August 2017
Accounting treatment and disclosure of amounts relating to Council's interest in Centennial Park Cemetery Authority, including any changes occurring during the year	We will obtain the statutory financial statements for Centennial Park Cemetery Authority for the year ended 30 June 2017 and confirm that City of Unley have correctly accounted for and disclosed their ownership interest.
Brown Hill Keswick Creek Stormwater Project – project status, treatment of associated costs, and whether a regional subsidiary has been established by 30 June 2016	We understand that a regional subsidiary has not yet been established. We continue to regularly discuss the status of this matter with management. We will consider the presentation of any new project costs and associated assets in the financial statements for the year ended 30 June 2017, in the course of our final audit visit.
Accounting treatment of items captured within Capital WIP	We have also been briefed by management on the progress in relation to Capital WIP in particular the capitalisation and / or expense of items. It is expected that the underlying asset records will be updated as part of year end closing with reconciliations completed before the commencement of the audit on 4 September 2017.
Management override of internal controls	We will test transactions which could be made to circumvent controls such as general journals and manual adjustments to the financial statements.

First time adoption of AASB 124 amendments – related party disclosure

Our discussions with management have indicated that the management has started the process to:

- Identify all related parties
- Capture and record information regarding transactions with these related parties;
- Apply the concept of materiality in determining what transactions need to be disclosed; and
- Consider the necessary disclosures in the notes to the 2017 financial statements.

This should be finalised before we complete our year end-audit visit. As mentioned in our audit plan, we will assess managements' process, test selected disclosures back to supporting records and documentation, and consider whether the disclosures made are consistent with other information obtained during the course of our audit at the year-end visit.

Update on audit opinion in relation to internal controls

We have commenced work planning for and testing internal controls for the purpose of providing an audit opinion on Council's internal controls. Specifically that controls exercised by the Council in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with law.

Our assessment of internal controls is based on the criteria in the *Better Practice Model – Financial Internal Control for South Australian Councils* as issued by the Local Government Association of South Australia. At the time of this report we have not completed testing of all the core controls identified in this document because some relate to an annual process and will not occur until year-end, or others are more closely aligned to testing we would normally conduct after year end.

We have not currently noted any material exceptions that we believe would lead to a qualification to the audit report on internal controls.

Reporting points arising from 2016 audit

We have also reviewed the status of points arising from the 2016 audit:

Issue	Recommendation	Status
It was noted for all reconciliations prepared for month of August 2015 and for one reconciliation prepared for September 2015, that there was no independent review.	Ensure that the Council's process of independently reviewing reconciliations is adhered by.	We did not identify any instances where the monthly review of the reconciliations did not occur during our interim review. Furthermore we did not identify any instances of review of other reconciliations did not occur.

Please contact me if you have any questions or need any further information.

Yours sincerely

BDO Audit (SA) Pty Ltd

Geoff Edwards
Director