

# CITY OF ARMADALE

## AGENDA

**OF CITY AUDIT COMMITTEE TO BE HELD IN THE COMMITTEE ROOM,  
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON  
WEDNESDAY, 5 AUGUST 2020 AT 5.30PM.**

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**PRESENT:**

**APOLOGIES:**

**OBSERVERS:**

**IN ATTENDANCE:**

**DECLARATION OF MEMBERS' INTERESTS**

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**PUBLIC QUESTION TIME**

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**Note:**

Meetings of the City Audit Committee are closed to the public on the basis that matters to be dealt with by Committee will generally be of a sensitive and confidential nature which, if disclosed could reasonably be expected to impair the effectiveness of the audit process – Council resolution CS18/2001 refers.

## **DEPUTATION**

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### **CONFIRMATION OF MINUTES**

#### **RECOMMEND**

**Minutes of the City Audit Committee Meeting held on 10 March 2020 be confirmed.**

*“For details of Councillor Membership on this Committee, please refer to the City’s website – [www.armadale.wa.gov.au/your council/councillors](http://www.armadale.wa.gov.au/your_council/councillors).”*

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## CITY AUDIT COMMITTEE

5 AUGUST 2020

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**1.1 - AUDITOR'S INTERIM AUDIT REPORT -2019/20 FINANCIAL YEAR**

WARD : ALL  
FILE No. : M/431/20  
DATE : 23 July 2020  
REF : JL  
RESPONSIBLE : Executive Director  
MANAGER : Corporate Services

**In Brief:**

- This Report presents matters raised in the Auditor's Interim Audit Report for Council's attention together with responses from Management to those matters;
- The Report Recommendation is to note the Auditor's comments; endorse the management responses/actions; and consider whether any further actions are necessary.
- The report also recommends noting the advice and recommendations of the Office of the Auditor General's report on Local Government Contract Extensions and Variations

**Tabled Items**

Nil

**Decision Type**

- Legislative** The decision relates to general local government legislative functions such as adopting/changing local laws, town planning schemes, rates exemptions, City policies and delegations etc
- Executive** The decision relates to the direction setting and oversight role of Council.
- Quasi-judicial** The decision directly affects a person's rights or interests and requires Councillors at the time of making the decision to adhere to the principles of natural justice.

**Officer Interest Declaration**

Nil

**Strategic Implications**

4. Leadership
- 4.1 Visionary Civic Leadership and Sound Governance
- 4.1.2 Make decisions that are sound, transparent and strategic.

**Legislation Implications**

*Local Government Act 1995*

- Section 7.1A – Audit Committee
- Section 7.1C – Decisions of audit committees
- Section 7.9 – Audit to be conducted
- Section 7.12A – Duties of local government with respect to audits

**7.1A. Audit committee**

- (1) *A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.*
- (2) *The members of the audit committee of a local government are to be appointed\* by the local government and at least 3 of the members, and the majority of the members, are to be council members.*

*\* Absolute majority required.*

- (3) *A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or*

*have a person to represent the CEO as a member of an audit committee.*

- (4) *An employee is not to be a member of an audit committee.*

**7.1C. Decisions of audit committees**

*Despite section 5.20, a decision of an audit committee is to be made by a simple majority.*

**7.9. Audit to be conducted**

- (1) *An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —*
  - (a) *the mayor or president; and*
  - (b) *the CEO of the local government; and*
  - (c) *the Minister.*
- (2) *Without limiting the generality of subsection (1), where the auditor considers that —*
  - (a) *there is any error or deficiency in an account or financial report submitted for audit; or*
  - (b) *any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or*
  - (c) *there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government,*  
*details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.*
- (3) *The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —*
  - (a) *prepare a report thereon; and*
  - (b) *forward a copy of that report to the Minister,*

*and that direction has effect according to its terms.*

- (4) *If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government.*

**7.12A. Duties of local government with respect to audits**

- (1) *A local government is to do everything in its power to —*
- (a) *assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and*
  - (b) *ensure that audits are conducted successfully and expeditiously.*
- (2) *Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.*
- (3) *A local government must —*
- (aa) *examine an audit report received by the local government; and*
  - (a) *determine if any matters raised by the audit report, require action to be taken by the local government; and*
  - (b) *ensure that appropriate action is taken in respect of those matters.*
- (4) *A local government must —*
- (a) *prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
  - (b) *give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*
- (5) *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.*

**Council Policy/Local Law Implications**

The Audit Committee Terms of Reference establishes the objectives, duties and responsibilities of the Committee. Specifically, the Terms of Reference state:

***Purpose and Objectives of Audit Committee***

The purpose of the Audit and Risk Committee is to support the Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management, internal and external audit function and ethical accountability.

The primary objective of the audit committee in accordance with Regulation 16 of the *Local Government (Audit) Regulations 1996*, is to provide assistance and guidance to Council on the discharge of its duties under Part 6 and 7 of the *Local Government Act 1995*.

#### ***Duties and Responsibilities***

- d) Review the reports provided by the external and internal auditors.
- e) Oversee the implementation of any action that the City:
  - Is required to take in response to an audit report received by an internal or external auditor.
  - Has taken or intends to take following a report prepared addressing any matters identified as significant by the auditor.
  - Has agreed following a review of risk management, internal control or legislative compliance.
  - Has agreed following a review of financial management systems.
  - Has agreed following an internal audit.

#### **Budget/Financial Implications**

Nil

#### **Consultation**

OAG (Office of the Auditor General)

OAG's Contracted Auditor (Macri Partners)

#### **BACKGROUND**

Each year as part of the City's audit program, an Interim Audit is undertaken by the OAG (Office of the Auditor General) to identify areas of improvement associated with the City's internal controls, systems and procedures. The comments received from the Auditor are then to together with responses from Management are presented in this Report for Committee's consideration and recommendation to Council.

In March this year, Council endorsed the External Audit Plan for 2020, which included the Interim Audit (which forms part of the External Audit Plan):

The plan set out that the following areas to be covered for risk assessment during the interim audit:

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

Further, the interim audit encompasses an examination of some compliance matters (including registers, minutes and other legislative matters) under:

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

Any non-compliance matters are to be reported in the Interim Audit Management Report for management information. Non-compliance matters are also be reported in the Independent Auditor's Report

### **DETAILS OF PROPOSAL**

As part of Council's committee structure, the City Audit Committee has been established to review and address audit matters arising. The Interim Audit Report is summarised in this Report. It is to be noted that the Interim Audit is primarily concerned with a review of internal controls/practices/procedures and Management's compliance with those controls. The findings of the Interim Audit help inform the Auditor in his Independent Audit Report to Ratepayers. The Interim Audit reports on an exception basis those matters that the Auditor believes Council should be aware of and/or requiring action by Management.

The Auditor's Interim Audit and Report is scoped to cover a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Bank Reconciliations
- Investment of Surplus Funds
- Purchases and Payments
- Corporate Credit Cards
- Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- Stores and Depot
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tenders Register, etc)
- Compliance
- Review of Council Minutes

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

The confidential attachment 'Interim Audit Report 2019/20' is the report on the interim audit provided by Macri Partners on behalf of the OAG which includes the findings, risk ratings, implications, recommendations and management responses and agreed actions provided by City staff.

The recommendations and actions agreed to by the City officers will be reviewed by the Internal Auditor and reported back to the Audit committee as part of the internal audit follow up report.

## **ANALYSIS**

The interim audit findings and suggested opportunities for improvement were summarised into the following areas:

1. Creation of contracts with suppliers and ensuring that the amount spent is not exceeded without approval.
2. Raise purchase orders prior to the commitment with the supplier that is complete and delivered in a timely manner.
3. Ensure goods or services are procured as per Council Procurement Policy.
4. Ensure that funds are expended from approved budgets and appropriate explanation provided for budget variations to Council.
5. Ensure that Corporate Credit Card holders are aware of their responsibilities.
6. Recovery of long outstanding debts.
7. Manage and minimise excessive annual leave balances.
8. Segregation of the payroll and human resources function.
9. Ensure that all monthly reconciliations are completed and authorised by the appropriate officers.
10. Report all non-compliance with the City's policies.

In summary, the recommendations included:

- Review the City's Procurement Policy to provide detailed requirements and guidelines.
- Review the systems and processes pertaining to general procurement guidelines and delegations to strengthen adherence to policy and procedure.
- Reinforce and remind officers of their responsibilities to adhere to Policies and to correctly account and manage their budgets.
- Review the Use of Credit Card Policy and supporting documentation.
- Review long term doubtful debts.
- Review excessive leave balances.
- Ensure appropriate officers prepare, review and authorise key documentation.
- Ensure appropriate segregation of duties across functions.
- Formalising processes.

## **Office of Auditor General's (OAG) Report on Local Government Contract Extensions and Variations**

Specific reference is made to the Office of Auditor General's (OAG) Report on Local Government Contract Extensions and Variations, as this is relevant to some of the management responses pertaining to purchasing and contracts. The OAGs report was issued in May this year and contained a number of recommendations, following a review of eight local governments. The report may be accessed here <https://audit.wa.gov.au/reports-and-publications/reports/local-government-contract-extensions-and-variations/>

Of note, the report recommends comprehensive guidance on where contract variations and extensions are permissible, and the authorisation required to accompany the contract variation.

### **OAG Recommendations**

*All local government entities should:*

- a. ensure their policies and procedures include comprehensive guidance to staff on recording of contract information and management of contract extensions and variations, so that better practices are consistently applied across the organisation*
- b. establish specific delegated authorisation limits for the approval of contract extensions and variations*
- c. ensure their contract summaries include all key information relating to contracts. The level of information should be based on their assessment of the significance, number and complexity of their contractual arrangements*
- d. ensure that records of key decisions are retained in accordance with their recordkeeping plans and are readily available*
- e. improve review processes relating to contract extensions, including timely and documented reviews of contractor performance before exercising contract extension options*
- f. ensure that contract variations are supported by adequate documentation describing the nature and reasons for the variations, including the associated cost, time and scope implications. The cumulative impact of variations on a contract should also be reviewed and an assessment made of whether a separate procurement process should be undertaken*
- g. ensure that all contract extensions and variations are approved in accordance with approved delegations, to ensure that all contracting decisions are subject to appropriate levels of scrutiny.*
- 2. Entities should review their policies and procedures against the principles in Appendix One.*

The City has updated the Procurement Policy, which is pending submission to the Corporate Services Committee following a review by the Standing Orders and House Advisory Group (SOHAG) carried out in July. Likewise, the purchasing/contract management guidelines have also been updated to incorporate all the recommendations of the Auditor General and will be submitted to the CEO for endorsement later this month.

The draft (revised) procurement policy is included in the attachments for information.

### **CONCLUSION**

The findings in the Auditor's Interim Audit Report and the Management responses suggest further actions that can be undertaken in a timely manner to strengthen the City's controls, particularly around procurement and contract management.

## **RECOMMEND**

### **That Council:**

- 1. Notes the matters raised by the Auditor in the Interim Audit Report for the 2019/20 financial year, and endorses the Management responses to those matters, as presented in this Report;**
- 2. Notes the advice and recommendations of the Auditor General's Report on Local Government Contract Extensions and Variations**

## **ATTACHMENTS**

1. Interim Audit Report 2020 - Draft Findings and Responses - *This matter is considered to be confidential under Section 5.23(2) (e iii) of the Local Government Act, as it deals with the matter, if disclosed, would reveal information about the business, professional, commercial or financial affairs of a person*
2. [↓](#) Report-20\_Local-Government-Contract-Extensions-and-Variations (2) (002)
3. Draft Procurement of Goods and Services Policy - *This matter is considered to be confidential under Section 5.23(2) (e iii) of the Local Government Act, as it deals with the matter, if disclosed, would reveal information about the business, professional, commercial or financial affairs of a person*

## **2.1 - COVID-19 RISKS AND RESILIENCE**

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WARD : ALL  
FILE No. : M/229/20  
DATE : 21 April 2020  
REF : FW  
RESPONSIBLE : Executive Director  
MANAGER : Corporate Services

### **In Brief:**

- The City has implemented a number of risk management and business continuity initiatives to guide the response to COVID-19. This has included the identification of strategies and actions to ensure the continued delivery of City services and support for the community.
- Recommend that Council notes the report from the CEO on the City's risk and business continuity response to the COVID-19 pandemic.

### **Tabled Items**

Nil

### **Decision Type**

- Legislative**                      The decision relates to general local government legislative functions such as adopting/changing local laws, town planning schemes, rates exemptions, City policies and delegations etc.
- Executive**                              The decision relates to the direction setting and oversight role of Council.
- Quasi-judicial**                      The decision directly affects a person's rights or interests and requires Councillors at the time of making the decision to adhere to the principles of natural justice.

### **Officer Interest Declaration**

Nil

### **Strategic Implications**

- 1.2 – Active community life that is safe and healthy
- 4.1 – Visionary civic leadership and sound governance
- 4.3 – Financial sustainability

### **Legal Implications**

Nil

### **Council Policy/Local Law Implications**

Nil

### **Budget/Financial Implications**

The City created provisions for COVID19 Response and Recovery through a budget review process resulting in budget savings totaling \$4.25m which were endorsed for reallocation as follows:

- \$600,000 in 2019/20 for the COVID19 Response and Recovery account, endorsed by Council to meet the City's obligations in response to the pandemic emergency.
- \$3.65m for 2020/21 to fund a COVID19 Response and Recovery Reserve.

### **Consultation**

Executive Leadership Team

### **BACKGROUND**

A pneumonia of unknown cause detected in Wuhan, China was reported to the World Health Organisation (WHO) on 31 December 2019. This 'pneumonia' was subsequently identified as COVID-19 which is a respiratory disease caused by a new type of coronavirus - severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).

The WHO declared a public health emergency of international concern 30 January 2020 and declared a pandemic on 11 March 2020.

The Government of Western Australia subsequently declared a State of Emergency and a Public Health Emergency in response to the COVID-19 coronavirus.

### **COMMENT**

#### **Business Continuity**

Following endorsement by Council in December 2019 of the Better Business program for the next 12 months, plans were underway to develop Business Continuity Plans for City Services during 2020.

When the COVID19 public health emergency escalated rapidly in March 2020, the City found itself without any formalised Business Continuity Plan in place to immediately guide decisions and actions in response to the global pandemic emergency. Notwithstanding, the City moved quickly to implement the fundamental elements that would ordinarily be contained in a Business Continuity Plan and set about developing the BCP concurrently, in accordance with the international standard ISO22301.

Specifically, the City undertook the following:

- Established an Incident Management team, consisting of the Executive Leadership Team and Managers of Health, Human Resources, Communications, ICT as well as the Director Major City Projects as the nominated Local Recovery Coordinator.
- Formalised a structure incorporating a number of recovery and response teams including their roles, responsibilities and required resources.
- Completed a business impact analysis to identify the City's critical, essential and non-essential services in the event of a Pandemic in accordance with identified maximum allowable outages, the summary of which was included in the City's Service Statements presented as part of the 2020/21 budget process.
- Developed Business Continuity Plans for each business area which included the identification of critical services and functions, resourcing requirements and business continuity strategies and actions.

- Categorised all staff with a COVID19 risk rating and designed a work from home strategy prioritised in order of staff risk ratings.
- Fast tracked the securing of mobile IT resources and upgrade of IT software and infrastructure to enable staff to work effectively from home.
- Completed a staff skills capability and capacity audit to enable redeployment where appropriate.

Significant operational resilience has been required to adapt to the changing COVID-19 environment and the various stages of the response and recovery phases. This has occurred despite a high level of stress and operational disruption.

### Risk Management

The COVID-19 pandemic altered the City's risk environment. To support the management of risks, a risk register specific to the pandemic was created. This enabled the Incident Management Team to monitor and review the relevant risks and associated controls, and introduce or adapt controls to suit the changing needs.

Risks were identified as part of the daily Incident Management Team operations, as well as from the following guidelines as attached to this report.

- Office of the Auditor General – COVID-19 Financial Control Matters
- Office of the Auditor General – Information Systems Audit Report 2020 Appendix 2 - Security considerations for remote working arrangements
- NSW Independent Commission Against Corruption – Managing corrupt conduct during the COVID-19 outbreak.

These guidance papers are focused on the changes to the risk environment and how this might affect the effectiveness of controls in relation to cyber and remote working arrangements, misappropriation and corrupt conduct.

The Pandemic Risk Register details thirteen (13) major risks and includes the controls that have been put in place, and further treatments that are planned if those risks are unacceptable within the current controls. The risks identified include:

1. High absenteeism
2. Contractor failure
3. Supply chain disruption
4. Misconduct, fraud and corruption
5. Cyber attack
6. Inappropriate use of stimulus funding
7. Community welfare
8. Insufficient cashflow
9. Ineffective work practices
10. Cost blowouts
11. Delayed re-ignition
12. Strategic project disruption
13. Workplace related infection of COVID19

The risks are being managed in accordance with the City's risk appetite, which requires high residual rated risks to have Executive oversight and action plans to reduce risk ratings implemented. The Pandemic Risk register as a whole is being reviewed monthly by the

Incident Management Team and adapted to meet the ongoing changes in the risk environment.

Some examples of the controls introduced to mitigate the above risks include:

- The introduction of e-meetings for staff and Council meetings and workshops.
- Implementation of a Crisis Communication Plan which involved increased internal and external communications.
- Conducted a budget review to identify budgets that required amendment or could be reallocated to assist the City's response to and recovery from the Pandemic emergency. This resulted in budget savings totalling \$4.25M, which was endorsed for reallocation to the COVID19 Response and Recovery Provisions as follows:
  - \$600,000 in 2019/20 for the COVID19 Response and Recover account, endorsed by Council to meet the City's obligations in response to the pandemic emergency.
  - \$3.65M for 2020/21 to fund a COVID19 Response and Recovery Reserve.
- Modified the annual budget preparation which incorporated a review of the City's services, projects, revenues and costs, considered alternative budgets based on differing pandemic recovery scenarios, curbed spending where possible and implemented a rates, fees and charges freeze or in some cases reduction. (as attached).
- Closed and reopened facilities and services in accordance with the State Government's Pandemic Plan requirements.
- Increased emergency food supply provided through additional external funding.
- Established social response and recovery teams to provide assistance to the community
- Regular communications with suppliers of critical supplies.
- Designed and implemented COVID safe plans for the continued delivery of services in City facilities, which included increased hygiene controls, social distancing measures and contract tracing processes.
- Development of Return to Work Arrangements which include guidelines on how to deal with a person suspected of COVID-19, hygiene training, cleaning and building closure requirements. These guidelines are aligned with Department of Health advice.
- Promotion of the Employee Assistance Program

The pandemic has also changed the context for many of the City's strategic risks. A more detailed analysis of the impacts will be provided at a subsequent City Audit Committee meeting.

### **ANALYSIS**

To measure the impact of COVID-19 on the City's operations, data on a number of key risk indicators has been collated and analysed weekly to determine emerging trends. A resulting Risk and Performance report was presented to the Incident Management Team weekly and discussed with Council regularly.

The Key Risk Indicators included the following:

- Expenditure accounted for against the \$600,000 endorsed by Council up to 30 June 2020.
- Implementation of the City's newly endorsed Hardship Policy for rates, including number of enquiries, applications, fees waived and dishonoured payments.
- Customer service trends including number and type of enquiries

- Staff related data including annual and medical leave taken, number of casual staff paid and redeployment requirements and opportunities.
- Impact on Waste services including the number of bins collected and vehicles attending the Landfill site.
- Service use data relating to Building, Planning, Health and Libraries.
- Social media statistics and sentiment.

## CONCLUSION

The Reduce, Response and Recovery phases of the Pandemic have required an agile and adaptable approach as the environment has continuously evolved. The City implemented a number of risk management and business continuity initiatives to guide this approach and identify required strategies and actions to ensure the continued delivery of City services and support for the community.

## RECOMMEND

**That Council notes the report from the CEO on the City's risk and business continuity response to the COVID-19 pandemic.**

## ATTACHMENTS

1. [OAG - COVID-19-Financial-and-governance-matters-better-practice-guidance-April-2020](#)  
(1)
2. [Information-Systems-Audit-Report-2020-State-Government-Entities\(2\)](#)
3. [NSW ICAC COVID19 Advice April 2020](#)
4. [Example of COVID-19 Budget and Business Continuity Impacts and Considerations](#)
5. Pandemic Risk Register for Committee - *This matter is considered to be confidential under Section 5.23(2) (e iii) of the Local Government Act, as it deals with the matter, if disclosed, would reveal information about the business, professional, commercial or financial affairs of a person*

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***2.2 - INTERNAL AUDIT - EMERGENCY MANAGEMENT***

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WARD : ALL  
FILE No. : M/76/20  
DATE : 11 February 2020  
REF : FW  
RESPONSIBLE : Executive Director  
MANAGER : Corporate Services

In Brief:

- An internal audit of the City's bushfire mitigation and the management of volunteer bushfire brigades found that there are some opportunities for improvement in relation to some operational frameworks and structures, operating procedures, processes and forms and management plans and frameworks.

Recommend that Council:

- note and endorse the Internal Audit Report for Emergency Management

**Tabled Items**

Nil

**Decision Type**

- Legislative** The decision relates to general local government legislative functions such as adopting/changing local laws, town planning schemes, rates exemptions, City policies and delegations etc.
- Executive** The decision relates to the direction setting and oversight role of Council.
- Quasi-judicial** The decision directly affects a person's rights or interests and requires Councillors at the time of making the decision to adhere to the principles of natural justice.

**Officer Interest Declaration**

Nil

**Strategic Implications**

- 4.1 Visionary civic leadership and sound governance  
4.2 An innovative and progressive organisation

**Legislation Implications**

*Local Government (Audit) Regulations 1996 – Regulation 17*  
*Bushfires Act 1954 – section 43*  
*Bushfires Regulations 1954 section 41*

**Council Policy/Local Law Implications**

*Bush Fire Brigades Local Law 2019*

### **Budget/Financial Implications**

The cost of the Internal Audit was covered in the budget for Corporate Services. All recommendations will be able to be implemented using current City resources.

### **Consultation**

1. Crowe
2. Fourteen (14) City staff members

### **BACKGROUND**

Regulation 17 of the *Local Government (Audit) Regulations* requires a triennial review of the appropriateness and effectiveness of a Local Government's systems and procedures in relation to risk management, legislative compliance and internal control. Internal audit is an essential function in meeting the requirements of this regulation as well as the City's continuous improvement objectives in the Better Business Program.

### **DETAILS OF PROPOSAL**

It was agreed during the planning phase of this audit to reduce the broad scope of "statutory compliance in Ranger and Emergency Services" as nominated on the 2019 Internal Audit Plan to the highest risk areas being bushfire mitigation and management of the volunteer brigades, including a review of the implementation of the Keely report recommendations.

The objective of this audit was to assess the adequacy and effectiveness of current systems, controls, policies and management instructions to ensure the operation of a safe and effective bush fire management service for the prevention/mitigation of bush fires and the management of BFBs.

The scope for the internal audit included the following:

- Resource requirements;
- Work order system;
- Procurement practice;
- Arrangements in place with the BFBs;
- City practices with regard to volunteers, including working with children checks;
- Compliance with regulatory requirements; and
- Status of the implementation of the Keely Report recommendations.

The audit involved interviews with staff members from Ranger and Emergency Services, Parks and Reserves, Environmental Services, Development Services and Planning Services, as well as consultation with the Procurement team

The final report on the Emergency Management Internal Audit provided by Crowe is attached (Confidential) which includes findings, recommendations, priority levels and a management response and agreed actions provided by City staff.

During the audit, Crowe observed:

*"the presence of a positive risk management culture within Ranger and Emergency Services. Based on our inquiries, there is a desire from the business unit to implement the*

*appropriate processes and procedures to achieve the City's fire mitigation objectives. Management are cognisant of the improvement opportunities required to enhance the bush fire mitigation process and the management of BFBs.*

*Issues identified encompassed operational, governance and compliance dimensions that require attendance by management. Some recommendations have cross business unit implications and accordingly require a comprehensive approach by the City to ensure a fit-for-purpose response in addressing the issues."*

## **ANALYSIS**

The internal audit findings and suggested opportunities for improvement were summarised into the following areas:

1. Bushfire Brigade Management Arrangements
2. Regulatory Compliance
3. Keelty Report Recommendations
4. Workorder System
5. Resource Requirements
6. Policies and Management Instructions

In summary the recommendations included:

- Review operational frameworks and structures
- Revise forms
- Formalise tracking systems
- Undertake post implementation reviews
- Formally document processes
- Provide refresher training to staff on record keeping
- Develop a workforce plan
- Finalise and implement draft operating procedures, management plans and frameworks.

In response to these recommendations, City staff have determined agreed actions to address requirements of the recommendations. This field work for this Internal Audit was completed several months ago and has not been presented to City Audit earlier due to the suspension of the Internal Audit program during the first few months of the COVID-19 Pandemic emergency. It should be noted that whilst the report has not been presented to City Audit, the actions for many of the recommendations have progressed with some actions having already been completed.

## **CONCLUSION**

The internal audit of the City's Emergency Management, specifically bushfire mitigation and management of volunteer bushfire brigades conducted by Crowe, found that there are some opportunities for improvement in relation to the operational frameworks and structures, operating procedures, processes and forms and management plans and frameworks.

**RECOMMEND**

**That Council note and endorse the Internal Audit Report for Emergency Management.**

**ATTACHMENTS**

1. Internal Audit Report - Emergency Management - *This matter is considered to be confidential under Section 5.23(2) (e iii) of the Local Government Act, as it deals with the matter, if disclosed, would reveal information about the business, professional, commercial or financial affairs of a person*

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***2.3 - AUDIT UPDATE - OFFICE OF THE AUDITOR GENERAL***

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WARD : ALL  
FILE No. : M/454/20  
DATE : 29 July 2020  
REF : JS  
RESPONSIBLE : Executive Director  
MANAGER : Corporate Services

**In Brief:**

- Recommend that Council note the Audit Update Report by the Office of the Auditor General.

**Tabled Items**

Nil

**Decision Type**

- Legislative**                      The decision relates to general local government legislative functions such as adopting/changing local laws, town planning schemes, rates exemptions, City policies and delegations etc
- Executive**                              The decision relates to the direction setting and oversight role of Council.
- Quasi-judicial**                      The decision directly affects a person's rights or interests and requires Councillors at the time of making the decision to adhere to the principles of natural justice.

**Officer Interest Declaration**

Nil

**Strategic Implications**

4.1 Visionary Civic Leadership and Sound Governance

**Legal Implications**

Nil

**Council Policy/Local Law Implications**

Nil

**Budget/Financial Implications**

Nil

**Consultation**

Nil

## **BACKGROUND**

In 2019/20 the Office of the Auditor General (OAG) commenced taking responsibility for the City's Audit. As a result Subha Gunalan, the Director – Financial Audit, will attend the Committee meetings as the OAG representative.

## **DETAILS OF PROPOSAL**

Attached is an Audit Update report from the OAG which covers a variety of matters including:

1. OAG response to corruption and crime report into misconduct risks with access to confidential information in the office of the auditor general
2. Financial audit update
3. OAG reports recently tabled in parliament
4. Selected in-progress audits
5. Accounting standards
6. Auditing standards
7. Other matters of interest

## **RECOMMEND**

**That Council note the Audit Update report from the OAG.**

## **ATTACHMENTS**

1. [↓](#) OAG Audit Update Report

***COUNCILLORS' ITEMS***

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Nil

**MEETING DECLARED CLOSED AT \_\_\_\_\_**

## CITY AUDIT COMMITTEE

**SUMMARY OF ATTACHMENTS**

5 AUGUST 2020

ATT NO.	SUBJECT	PAGE
<b>1.1 AUDITOR'S INTERIM AUDIT REPORT -2019/20 FINANCIAL YEAR</b>		
1.1.2	Report-20_Local-Government-Contract-Extensions-and-Variations (2) (002)	23
<b>2.1 COVID-19 RISKS AND RESILIENCE</b>		
2.1.1	OAG - COVID-19-Financial-and-governance-matters-better-practice-guidance-April-2020 (1)	42
2.1.2	Information-Systems-Audit-Report-2020-State-Government-Entities(2)	44
2.1.3	NSW ICAC COVID19 Advice April 2020	69
2.1.4	Example of COVID-19 Budget and Business Continuity Impacts and Considerations	78
<b>2.3 AUDIT UPDATE - OFFICE OF THE AUDITOR GENERAL</b>		
2.3.1	OAG Audit Update Report	83

# Western Australian Auditor General's Report



## Local Government Contract Extensions and Variations and Ministerial Notice Not Required



Report 20: 2019-20  
4 May 2020

**Office of the Auditor General  
Western Australia**

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***The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.***

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Local Government Contract Extensions and  
Variations  
and  
Ministerial Notice  
Not Required**

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Report 20: 2019-20  
May 2020



**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

**LOCAL GOVERNMENT CONTRACT EXTENSIONS AND VARIATIONS AND  
MINISTERIAL NOTICE NOT REQUIRED**

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This focus area audit assessed if entities adequately managed extensions and variations to their contracts, and if they maintained comprehensive summaries of their contracts.

I wish to acknowledge the entities' staff for their cooperation with this report.

Also included is my determination that a section 82 notice was not required by the Minister for Water.

A handwritten signature in black ink, appearing to read 'C. Spencer'.

CAROLINE SPENCER  
AUDITOR GENERAL  
4 May 2020

## Contents

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Local Government Contract Extensions and  
Variations**

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## Executive summary

### Background

Western Australia's 148 local government entities (entities) spend billions of dollars each year on purchasing a wide range of goods and services. A significant number of these purchases involve contracts.

Procurement contracts vary in complexity, value, duration and risk, but all benefit from a strong approach to contract management. Robust contract management processes centred around the principles of probity, accountability and transparency help to ensure that contracting is effective, meets the standards expected by the community and the Parliament and provides good value for money for the ratepayer.

Comprehensive policies and good management of contract extensions and variations are essential to achieving these outcomes. It is important for all entities to maintain a summary of their contracts in a register or database (hereafter referred to as register), with all key contract details, to help effectively manage contract extensions and variations. This is essential from an accountability perspective and also assists entities in meeting their financial reporting obligations.

### Conclusion

At 5 entities there was insufficient documentation to demonstrate that extensions or variations were given due consideration, so we were unable to conclude if they were appropriately managed. At 3 entities, some extensions did not have evidence of contractor performance reviews, and at 3 entities some variations were not approved by delegated officers.

Most entities need to enhance their policies with comprehensive guidance. All entities' contract registers lacked key information essential to effective monitoring of contractual obligations.

### What we did

The focus of this audit was to assess if entities adequately managed extensions and variations to their contracts, and if they maintained comprehensive summaries of their contracts.

We assessed the policies, procedures and practices for managing contract extensions and variations at 8 entities of varying sizes in both metropolitan and regional Western Australia. We assessed the following criteria:

- Do entities have adequate policies and procedures for managing contract extensions and variations?
- Do entities have complete and accurate summaries of their contracts?
- Are entities adequately:
  - controlling contract extensions, including the review of contractor performance before extending contracts
  - controlling contract variations, and determining if a variation significantly changes the original scope of the contract
  - complying with management approved delegations before a contract is extended or varied?

When testing against these criteria, we had regard for Part 4 of the Local Government (Functions and General) Regulations 1996, which deals with the provision of goods and services, and includes specific requirements relating to contract extensions and variations. In addition, we expected entities to meet the principles of the *Local Government Act 1995*, which requires entities to have policies, and to keep proper accounts and records. We also had regard to the broader principles of good internal control and governance and general better practice principles that help reduce procurement risks and support value for money.

The audit focused on whether controls were in place to support effective management of contract extensions and variations after a contract was finalised. It was not designed to review the adequacy of procurement processes undertaken prior to the signing of the original contracts.

The following 8 entities were included in this audit:

Entities
City of Bayswater (Bayswater)
City of Kwinana (Kwinana)
City of Rockingham (Rockingham)
City of Swan (Swan)
Shire of Narrogin (Narrogin)
Shire of Wagin (Wagin)
South Metropolitan Regional Council (SMRC)
Town of Cottesloe (Cottesloe)

Source: OAG

**Table 1: Entities included in the audit**

We assessed contract extensions and variations processed from 1 January 2018 to the date of the audits, in mid-2019.

Detailed findings have been reported to audited entities. Their audit committees should follow up to ensure audit findings and recommendations are appropriately addressed by management in a timely manner.

We conducted this audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. The approximate cost of undertaking the audit and reporting was \$177,500.

## What we found

The contract management policies and procedures at most entities lacked appropriate guidance for staff to correctly and consistently process extensions and variations. We also found contract registers at all 8 entities were missing key information required for effective contract management.

We found instances at 5 entities where sound practices were not always followed for assessment and approval of extensions and/or variations. We therefore could not conclude whether this represented probity in purchasing and value for money for the ratepayer.

### **Policies and procedures need to be enhanced to ensure consistent application by staff**

Comprehensive policies and procedures provide clear guidance to staff, help ensure that regulatory requirements are complied with, and that better practices are consistently followed by all staff. It is also important to have clear documentation of delegated authorisations to ensure that all decisions on contract extensions and variations are made by officers within their delegated authority limits.

Kwinana had sound policies and procedures for managing contract extensions and variations, with scope for improvement at the other 7 entities.

We identified the following shortcomings:

- Four entities did not have clearly established authorisations and delegations for the approval of contract extensions and/or variations. Establishing clear lines of responsibility and accountability for all decision making is an important prerequisite to ensuring decisions are made by individuals the entity considers have the requisite skills, knowledge and experience.
- The policies of 5 entities lacked guidance on what constitutes an appropriate contract variation. For example, a contract variation to provide goods and services that is inconsistent with the scope of the original contract, or significantly alters the scope of the original contract is not appropriate. In such circumstances, a separate procurement process would normally be required.
- The policies of 6 entities did not outline the key requirements for processing contract extensions, including that contracts could be extended only if the terms of the original contract included extension options.
- The policies or procedures of 5 entities did not require a documented performance assessment of a contractor before a contract extension option was considered. This increases the risk that poor performing contractors may be granted extensions.
- No entities' policies or procedures required staff to maintain a contract register, with all key contract information.
- Six entities did not require a regular review of their contract registers to identify contracts that are due to expire, so that appropriate action starts well before the contract expiry date. Lack of a review process increases the risk that contract extension decisions may be rushed, leading to inappropriate extensions, and potentially impact continuity in the provision of goods and services.

### **Contract registers did not include key information for effective contract oversight**

It is important for all entities to maintain a summary of their contracts, with all key information, to help contract managers effectively manage contract extensions and variations.

The entities in our audit maintained records of their contracts on databases, registers, or a combination of both. One entity did not have any collective record of their contracts at the commencement of the audit, but subsequently provided us with a contract summary. The contract registers at the 8 entities did not include all key contract information. We identified the following:

- The contract registers at 2 entities were incomplete and did not include all current contracts. The register at another entity did not include the commencement, duration and end dates of contracts. A fourth entity's register included inaccurate and/or inconsistent information on key data such as contract values, term dates and the status of contracts. Inaccurate and incomplete contract registers can affect management's ability to effectively manage contracts.
- At 6 entities, the contract registers did not include the dollar value of contracts, or any contract extensions or variations. In addition, at 3 of these entities, registers did not include the estimated dollar value of Schedule of Rate<sup>1</sup> contracts. As a result, inadequate information was available to management on the total cost of their contracts.
- Where relevant, although details of contract variations are contained within individual contract management plans, none of the entities' contract registers included summarised information on approved contract variations, such as the number and dollar value of individual variations, and the total value of approved variations. This information is essential for contract managers to effectively track the cumulative value of contract variations, evaluate the impact on the scope of the original contracts, and initiate separate procurement processes where appropriate.
- At 4 entities, contract registers did not include information on the number and duration of extension options available under each contract and details of extension options that were exercised. This information would enable better monitoring of contracts, including the timely exercise of contract extension options.
- The contract registers at 6 entities did not have details of scheduled performance review dates, to ensure that timely reviews of contractor performance were performed prior to considering contract extension options.

### **Some entities need to improve their assessment of contractors' performance before extending contracts**

A contract extension may extend the agreed terms for a further period and/or involve changes to price, personnel and services. We expected to find evidence that contract managers had performed an adequate and timely review of contractors' performance before granting an extension. This would provide management with adequate opportunity to assess if the contractor still offered value for money.

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<sup>1</sup> Schedule of Rates contracts are used where the nature of contract work is certain, but the exact amount of work to be performed cannot be predicted at the outset and is inherently provisional in nature. Nonetheless, tenders are usually invited and awarded based on the range of estimated quantities.

All entities except Rockingham and Kwinana exercised contract extension options during our audit period. One of the 6 did not have detailed records of the total number and value of contract extension options exercised. Based on the contract registers of the remaining 5 entities, 51 contract extension options totalling \$19.6 million were exercised during the audit period.

We tested a sample of 18 contract extensions totalling \$13.6 million across the 6 entities. Narrogin, Wagin and SMRC had adequate processes in place for the extension of contracts.

At the other 3 entities, we noted the following shortcomings:

- At 2 entities, 6 of 7 contract extensions did not have any formal documentation to demonstrate that an assessment of contractor performance was conducted before the contract extensions were approved. We were therefore unable to conclude if there was adequate review of contractor performance before exercising the extension options. This increases the risk that poor performing contractors may be granted extensions. The total value of 5 of these extensions was \$1.4 million, while the value of the remaining extension could not be determined as the original contract was not available.
- Three extensions at 2 entities totalling \$1.48 million were approved after the expiry of the initial contracts. One of the entities advised that there were extenuating circumstances that resulted in a short period when some key functions were performed later than usual. Renewal processes that are not initiated well before the expiry of contracts, limit the entities' ability to assess whether the contracts still offer the best value for money. This also potentially impacts the continued supply of goods and services.
- For 2 of 5 contract extensions at 1 entity, there was no mutually accepted agreement or correspondence between both the parties to extend the contract.

### **Contract variations were not always adequately explained at 2 entities**

Contract variations are amendments to a contract that change the original terms or conditions. Variations are usually used to alter the scope of the supply or services provided or to change pricing. We considered if contract variations, individually or cumulatively, significantly altered the scope of the original contract. This may indicate that an entity was using variations to avoid undertaking a new procurement process.

All entities except Wagin undertook contract variations during the period of our audit, although only 5 were able to provide detailed information of the total number and value of their contract variations processed. The contract registers of these 5 entities showed 63 variations totalling \$6 million. We reviewed 27 contract variations totalling \$5.2 million across the 7 entities.

At 2 entities, 4 of 12 variations were not supported by detailed proposals with descriptions of the nature and reasons for the variations, including associated cost, time and scope implications. We were therefore unable to conclude whether the variations had been approved based on adequate analysis of these implications and whether value for money assessments had been performed.

### **Delegation levels were not always complied with when extending or varying contracts**

It is important that all decisions relating to the approval of contract extensions and variations are made in accordance with approved authorisation limits. This ensures that these decisions are valid, and are made by staff with the experience and knowledge commensurate with the value and complexity of the contracts involved.

We reviewed the approval processes of 27 variations valued at \$5.2 million and 18 contract extensions totalling \$13.6 million across all 8 entities and identified the following shortcomings:

- At 2 entities, 7 variations totalling \$1.2 million were approved by officers in excess of their delegated authority.
- At a third entity, we identified 2 variations to a contract totalling \$77,395 that significantly changed the scope of the original contract, increasing the contract value in excess of the \$150,000 tender threshold limit. The consequent waiver from tender was approved by an officer who did not have the delegated authority.
- Two extensions totalling \$73,058 at 1 entity did not have any documented evidence of their approval. We were therefore unable to conclude if an appropriate officer had approved them. This reduces transparency and accountability in decision making and increases the risk that the mandated level of scrutiny is not applied.

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## Recommendations

1. All local government entities, including those not sampled in this audit, should:
  - a. ensure their policies and procedures include comprehensive guidance to staff on recording of contract information and management of contract extensions and variations, so that better practices are consistently applied across the organisation
  - b. establish specific delegated authorisation limits for the approval of contract extensions and variations
  - c. ensure their contract summaries include all key information relating to contracts. The level of information should be based on their assessment of the significance, number and complexity of their contractual arrangements
  - d. ensure that records of key decisions are retained in accordance with their recordkeeping plans and are readily available
  - e. improve review processes relating to contract extensions, including timely and documented reviews of contractor performance before exercising contract extension options
  - f. ensure that contract variations are supported by adequate documentation describing the nature and reasons for the variations, including the associated cost, time and scope implications. The cumulative impact of variations on a contract should also be reviewed and an assessment made of whether a separate procurement process should be undertaken
  - g. ensure that all contract extensions and variations are approved in accordance with approved delegations, to ensure that all contracting decisions are subject to appropriate levels of scrutiny.
2. Entities should review their policies and procedures against the principles in Appendix 1.

Under section 7.12A of the *Local Government Act 1995*, all sampled entities are required to prepare an action plan addressing significant matters relevant to their entity for submission to the Minister for Local Government within 3 months of this report being tabled in Parliament and for publication on the entity's website. This action plan should address the points above, to the extent that they are relevant to their entity, as indicated in this report.

## Response from entities

Entities in our sample generally accepted the recommendations and confirmed that, where relevant, they have amended policies and administrative systems, or will improve practices for managing contract extensions and variations.

## Appendix 1: Better practice principles

The following table shows control principles on which our audit focused. They are not intended to be an exhaustive list.

Management of contract extensions and variations	Focus area	What we expected to see
<b>Policy</b>	Policies and procedures	<ul style="list-style-type: none"> <li>• Contract management policies and procedures are regularly reviewed to ensure compliance with current legislation and relevance to current operations.</li> <li>• Policies or procedures include a requirement to maintain a comprehensive register or database of all contracts, including:                             <ul style="list-style-type: none"> <li>○ the dollar value above which contracts are to be included in the register, and</li> <li>○ the custodian of the register with responsibility for regular review and update of the contract register or database.</li> </ul> </li> <li>• Policies include clear guidance on what constitutes a contract variation and when a separate procurement process is required.</li> <li>• The policies or procedures provide guidance on the key processes for contract extensions, including timely and documented assessments of contractor performance prior to exercising an extension option.</li> </ul>
	Delegations	<ul style="list-style-type: none"> <li>• There are appropriate delegations and authorisations in place for procurement as well as for contract extensions and variations.</li> </ul>
<b>Records</b>	Comprehensive register of contracts	<ul style="list-style-type: none"> <li>• A comprehensive register of all contracts is maintained, with all key contract information.</li> </ul>
<b>Contract extensions</b>	Contract terms	<ul style="list-style-type: none"> <li>• Contracts are extended only if the original contract includes extension options.</li> </ul>
	Approval	<ul style="list-style-type: none"> <li>• Contract extensions are approved by an appropriate officer, in accordance with delegated authorisation limits.</li> <li>• Extensions are approved before the expiration date of the original contract or previously extended term, for continuity in the provision of services.</li> </ul>
	Contractor performance review	<ul style="list-style-type: none"> <li>• There is documented evidence that contractor performance has been assessed before a contract extension is approved.</li> </ul>

Management of contract extensions and variations	Focus area	What we expected to see
	Recordkeeping	<ul style="list-style-type: none"> <li>• There is documented evidence that the terms of the contract extension have been mutually agreed by the entity and the contractor.</li> <li>• Documents for approval of contract extensions are retained in accordance with recordkeeping plans, to promote accountability and transparency in decision making.</li> </ul>
<b>Contract variations</b>	Approval	<ul style="list-style-type: none"> <li>• Contract variations are approved by an appropriate officer, in accordance with delegated authorisation limits.</li> <li>• Consideration is given to the cumulative impact of variations, to ensure that the scope of the original contract is not significantly altered, and that a separate procurement process is not required.</li> </ul>
	Proposal for variation	<ul style="list-style-type: none"> <li>• Contract variations are supported by proposals with detailed description of the nature of the variation, with associated cost, time and scope implications.</li> </ul>
	Recordkeeping	<ul style="list-style-type: none"> <li>• The variation proposals and approval documents are retained in accordance with recordkeeping plans, to promote accountability and transparency in decision making.</li> </ul>

Source: OAG

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Ministerial Notice Not Required**

## Ministerial notice not required

On 24 March 2020, we received 2 notices from the Minister for Water, the Hon David Kelly MLA, under section 82 of the *Financial Management Act 2006* (FMA) in relation to Legislative Assembly Questions on Notice 5872 part (6) and 5873 part (c).

On 10 December 2019, the Hon Terry Redman MLA asked the Minister for the following information:

### *Legislative Assembly Question on Notice 5872*

*(1) I refer to the recent Freedom of Information (FOI) released by Water Corporation including a redacted copy of "PRA Business Case" arguing the value of "insourcing the Perth Region Alliance", and ask?*

*(6) Will the Minister table a copy of the "Alliance Agreement" referenced on page 10 of the business case?*

On 19 March 2020, the Minister replied:

*(6) The Alliance Agreement is a commercial contract arrangement between the Water Corporation and Programmed Facilities Management.*

### *Legislative Assembly Question on Notice 5873*

*I refer to the decision by Water Corporation to insource the services currently provided under the Aroona Alliance, and ask:*

*(c) Can the Minister table the Aroona Alliance contract;*

On 10 March 2020, the Minister replied:

*(c) The Alliance Agreement is a commercial contract arrangement between the Water Corporation and the Alliance partners.*

The Minister's notices advised that the Perth Regional Alliance Agreement and the Aroona Alliance Contract could not be provided to Parliament, as their release would disclose commercially confidential and sensitive information.

We determined that the 2 notices were not required in this instance, as the information does not concern the conduct or operation of an agency as required by the FMA. Section 85 of the *Water Corporations Act 1995* outlines the limited application of the FMA and the *Auditor General Act 2006* to the Water Corporation, but this does not cover section 82 of the FMA.

The Audit Practice Statement on our website ([www.audit.wa.gov.au](http://www.audit.wa.gov.au)) outlines the circumstances when a notice is unlikely to be required. These include when the requested information does not concern the conduct or operation of an agency as required by the FMA.

## Auditor General's reports

Report number	2019-20 reports	Date tabled
19	Control of Monies Held for Specific Purposes	30 April 2020
18	Information Systems Audit Report 2020 – State Government Entities	6 April 2020
17	Controls Over Purchasing Cards	27 March 2020
16	Audit Results Report – Annual 2018-19 Financial Audit of Local Government Entities	11 March 2020
15	Opinion on Ministerial Notification	28 February 2020
14	Opinion on Ministerial Notification	31 January 2020
13	Fee-setting by the Department of Primary Industries and Regional Development and Western Australia Police Force	4 December 2019
12	Audit Results Report – Annual 2018-19 Financial Audits of State Government Entities	14 November 2019
11	Opinion on Ministerial Notification	30 October 2019
10	Working with Children Checks – Follow-up	23 October 2019
9	An Analysis of the Department of Health's Data Relating to State-Managed Adult Mental Health Services from 2013 to 2017	9 October 2019
8	Opinions on Ministerial Notifications	8 October 2019
7	Opinion on Ministerial Notification	26 September 2019
6	Opinions on Ministerial Notifications	18 September 2019
5	Fraud Prevention in Local Government	15 August 2019
4	Access to State-Managed Adult Mental Health Services	14 August 2019
3	Delivering Western Australia's Ambulance Services – Follow-up Audit	31 July 2019
2	Opinion on Ministerial Notification	26 July 2019
1	Opinions on Ministerial Notifications	19 July 2019



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 @OAG\_WA

 Office of the Auditor General for  
Western Australia

# COVID-19

## Financial control matters



We recognise that State and local government entities are spending significant time and effort dealing with the operational ramifications of the COVID-19 public health response. We have prepared consideration points to prevent key control breakdown during this period.

It is vitally important that entities are aware that times of disruption present a heightened risk environment. Those who are dishonestly inclined will be keen to take advantage of any sense of crisis. Good control over finances and key decisions during this period means that entities and senior decision-makers will be better prepared to resume normal operations when the crisis is over. It also means they won't be left dealing with the ramifications of fraud, error or decisions taken in haste that may be regretted when conditions are calmer. Importantly, public trust will be upheld.

Management should ensure staff maintain good controls, particularly over cash, expenditure and assets. Good controls are also important for any regulatory or non-financial decisions that bind the entity, or the State, into the future, such as for approvals, concessions, operating permits, or conditions.

### Some contextual considerations for entities

- Consider if there is an exaggerated sense of urgency that may persuade or permit staff to override important controls.
- Recognise that existing gaps in controls, which in normal times may not be exploited, can become gaping holes when staff are not overseen as closely when working from home or key people are distracted by other matters.
- Have you explicitly promoted a culture encouraging staff to speak if they see something that poses a risk during this period? If staff or stakeholders see something, they should say something, are they aware of fraud control reporting, including public interest disclosures.
- Are credentials (for example, qualifications, working with children checks and police checks) and references still checked before on-boarding new personnel?
- Are delegations and authorisations valid, and changes to delegations approved (for example, if there are senior management absences due to illness or secondments)?
- Are licenses and/or permits lawfully issued/approved, and with due probity? A sense of urgency or chaos may override due process as well as bring opportunistic requests. Be cautious, weigh risks and benefits with probity to prevent conflicts of interest and good record keeping.
- Are debt waiver/acts of grace authorised in accordance with law?
- Are purchasing/corporate credit cards issued in line with policy? [For better practice guidance see our March 2020 report [Controls over Purchasing Cards](#) (for State government) and May 2018 report [Controls over Corporate Credit Cards](#) (for local government).]
- Are senior management continuing to monitor and scrutinise spending against the budget, with genuine understanding of the reasons for variances? And monitoring cash flow and balances?
- Is there timely cancellation of automatic/periodical payments for services that are no longer being provided?
- Are working from home conditions clearly defined and approved? [See our better practice guidance on [Security considerations for remote working arrangements](#)]

### ***Assets – Risk of misappropriation, unauthorised purchases or disposals***

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
- asset acquisitions are approved in line with the delegation of authority
- asset reconciliations between the register and the general ledger are prepared and reviewed on a timely basis
- asset disposals/write-offs are appropriately authorised
- loans of assets to other entities are properly recorded and authorised
- where necessary, key responsibilities continue to be segregated in relation to asset acquisition, recording, custody, disposal and reconciliation
- appropriate records of portable and attractive assets are maintained, particularly those that staff may take home to use when working from home.

### ***Cash – Risk of misappropriation***

Entities should ensure:

- regular bank reconciliations are prepared and reviewed, reconciling items are investigated and resolved
- all bank accounts have at least 2 signatories
- online purchasing policies are reviewed to reflect the current period
- increases in purchasing card limits are appropriately approved
- there are appropriate and timely reviews of credit card usage.

### ***Expenditure – Risk of unauthorised or invalid payments, incorrect or invalid suppliers, and increased risk of fraudulent payments***

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
- changes to vendor master files are documented and approved (for better practice guidance see our March 2019 report [Management of Supplier Master Files](#))
- there is separation between the vendor creation and payment approval functions
- a 3-way match is performed of invoices, receipt of goods and purchase orders
- payment authorisation is made in line with the delegation of authority and requires 2 to sign. Signatories should pay particular attention to the delivery addresses of goods received
- purchase orders are prepared and appropriately authorised
- appropriate security and checks are in place over EFT payment data
- there is segregation of duties between officers performing the functions of ordering, receiving, incurring and certifying (for State government entities, in line with [Treasurer's Instruction 304](#))

### **Queries**

If you have any queries please contact your OAG financial audit engagement leader or our general enquiries via [info@audit.wa.gov.au](mailto:info@audit.wa.gov.au) or phone (08) 6557 7500. For information on making a [Public Interest Disclosure](#) (PID), phone (08) 6557 7500 and ask to speak to a PID officer.

# Western Australian Auditor General's Report



## Information Systems Audit Report 2020 – State Government Entities



Report 18: 2019-20  
6 April 2020

**Office of the Auditor General  
Western Australia**

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We can deliver this report in an alternative format for those with visual impairment.

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***The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.***

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Information Systems Audit Report 2020  
– State Government Entities**



THE PRESIDENT  
LEGISLATIVE COUNCIL

THE SPEAKER  
LEGISLATIVE ASSEMBLY

**INFORMATION SYSTEMS AUDIT REPORT 2020 – STATE GOVERNMENT ENTITIES**

This report has been prepared for submission to Parliament under the provisions of sections 24 and 25 of the *Auditor General Act 2006*.

Information systems audits focus on the computer environments of entities to determine if these effectively support the confidentiality, integrity and availability of information they hold.

I wish to acknowledge the entities' staff for their cooperation with this report.

A handwritten signature in black ink, appearing to be 'C Spencer'.

CAROLINE SPENCER  
AUDITOR GENERAL  
6 April 2020

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## Auditor General's overview

I am pleased to present our annual *Information Systems Audit Report*. The report summarises the results of the 2019 annual cycle of information systems audits for State government entities and tertiary institutes in the Western Australian public sector.



This report presents the results of our general computer control audits and capability assessments. The capability and maturity of entities' general computer controls is such an important organisational imperative that it deserves the prominence of a dedicated report. Case studies are presented to share lessons from across the sector, including my Office. In future years, we may expand this report to provide more detailed information about common weaknesses found and approaches to addressing shortcomings.

The report contains a number of important findings and recommendations. All public sector entities should consider the recommendations and case studies in the report to see how they can be applied to their operations.

It is pleasing to see the number of entities assessed as having mature general computer controls across all categories of our assessment increased from 13 to 15, with many capability areas improving. However, information security and business continuity showed little improvement, with many entities failing to meet the benchmark for minimum practice. This is of significant concern given the value of personal and corporate information entities hold. It is my view that entities need to be as vigilant in protecting their personal and corporate information, by implementing the same level of controls including monitoring and protection, as for other valuable assets, such as cash, bank account access and other physical assets. Maturity across all sectors and entities has a way to go in this regard.

We use a rating scale to assess the maturity of entity controls across 6 categories. While the model has worked well over the last 12 years, my Office is looking at modernising and enhancing the model in future years. We hope this will help entities continue to develop and maintain robust controls that will sustain improved levels of maturity in general computer control environments.

The Office of Digital Government's support to entities in addressing weaknesses and improving their capability is an important central agency function, required for a modern public service where connectivity and security of State systems is a focus. During the last 12 months, following a request from the Office of Digital Government, I provided them with copies of entity management letters for our general computer controls audits, where entities consented for us to do so, in order to inform their work program.

Unfortunately, it can be difficult for entities to perfectly implement controls, and sometimes staff will ignore or circumvent them – either deliberately or inadvertently. That is why having mechanisms to detect problems, including monitoring controls, ongoing training and rotation of staff is vital. It is also critical to promote an organisational culture where staff understand the principles of information security and are encouraged to report shortcomings in the knowledge they will be addressed.

My Office is not ring-fenced from reality, or immune in this regard. In 2019 we discovered an instance where access controls for a business system were not effective. Consequently, human resource and other non-audit information was inappropriately accessed internally by staff who did not need to access it. Information on this matter is included in a case study in Appendix 1, which is provided to share the lessons learnt by our Office, including the value of various control mechanisms, as it was ultimately those controls that brought the breach to our attention.

In all entities, system controls are particularly important at times where entities are going through significant change to consolidate and modernise information and communications technology. These changes bring new challenges, particularly where information technology (IT) arrangements are outsourced. Our sector-wide controls audits have found that governance of outsourced IT arrangements needs improvement. Entities were not consistently ensuring that the systems implemented by vendors meet expectations around security standards, architecture and functionality. With a global trend to outsource IT services, entities have an increasingly important responsibility for ensuring that external service providers follow better practices.

In the current environment, controls around remote IT access infrastructure will also need to be an area of priority as entities increasingly support staff to work in more flexible ways in response to current public health measures for the COVID-19 virus. To assist entities with this, we have included some good practice security considerations in Appendix 2 around remote access.

## Introduction

The objective of our general computer controls (GCCs) audits is to determine whether computer controls effectively support the confidentiality, integrity, and availability of information systems. Information systems are important for the delivery of essential services to the public. GCCs include controls over the information technology (IT) environment, computer operations, access to programs and data, program development and program changes. In 2019, we focused on 6 categories of GCCs:

- information security
- business continuity
- management of IT risks
- IT operations
- change control
- physical security.

## Conclusion

The number of entities that met our expectations across all control categories continued to improve in 2019, with 15 entities meeting the benchmark compared to 13 in 2018.

However, we continue to find a large number of GCC weaknesses which could compromise the confidentiality, integrity and availability of information systems. In 2019, we reported 522 GCC issues to 50 State government entities. This was a slight reduction from the 547 issues reported at 47 entities in 2018. However, entities are not addressing audit findings quickly, with 45% of the findings reported in 2019 relating to previously reported audit findings. One way entities can remain vigilant against the rapidly changing threats to information systems is by promptly addressing audit findings.

Controls over information security and business continuity are slowly improving, but they continue to be areas of concern. We found that 46% of the entities still don't have appropriate business continuity strategies and 43% lack controls to adequately manage information security. Poor controls in these areas leave systems and information vulnerable to misuse and may impact critical services provided to the public.

Our capability maturity model assessment indicated that entities are managing system changes and physical security relatively well. We also noted there was a slight improvement in the management of IT risks.

All entities need to pay more attention to information security and cyber risks, including procedures to classify information. These risks require the same attention as other critical business risks and building a culture of security is essential in effectively treating them.

## Background

We use the results of our GCC work to inform our capability assessments of entities. Capability maturity models (CMMs) are a way to assess how well developed and capable entities' established IT controls are. The models provide a benchmark for entity performance and means for comparing results from year to year, and across entities.

The model we have developed uses accepted industry good practice as the basis for assessment. Our assessment of GCC maturity is influenced by various factors including the:

- business objectives of the entity
- level of dependence on IT
- technological sophistication of computer systems
- value of information managed by the entity.

## Audit focus and scope

We conducted GCC audits at 50 State government entities. This is the 12th year we have assessed entities against globally recognised good practice.

We provided 37 of the 50 entities with capability assessments and asked them to self-assess. We then met with each of the entities to compare their assessment and ours, which was based on the results of our GCC audits. There were thirteen entities where we did not perform a capability assessment as the audits were fully outsourced or IT control testing was performed by our financial audit teams.

We use a 0-5 rating scale<sup>1</sup> to evaluate each entities' capability maturity level in each of the GCC categories. We have included specific case studies where information security weaknesses potentially compromise entities' systems.

<b>0</b> <b>Non-existent</b>	Management processes are not applied at all. Complete lack of any recognisable processes.
<b>1</b> <b>Initial/ad hoc</b>	Processes are ad hoc and overall approach to management is disorganised.
<b>2</b> <b>Repeatable but intuitive</b>	Processes follow a regular pattern where similar procedures are followed by different people with no formal training or standard procedures. Responsibility is left to the individual and errors are highly likely.
<b>3</b> <b>Defined</b>	Processes are documented and communicated. Procedures are standardised, documented and communicated through training. Processes are mandated, however it is unlikely that deviations will be detected. The procedures themselves are not sophisticated but are the formalisation of existing practices.
<b>4</b> <b>Managed and measurable</b>	Management monitors and measures compliance with procedures and takes action where appropriate. Processes are under constant improvement and provide good practice. Automation and tools are used in a limited or fragmented way.
<b>5</b> <b>Optimised</b>	Good practices are followed and automated. Processes have been refined to a level of good practice, based on the results of continuous improvement and maturity modelling with other enterprises. IT is used in an integrated way to automate the workflow, providing tools to improve quality and effectiveness, making the entity quick to adapt.

Source: OAG

**Table 1: Rating scale and criteria**

<sup>1</sup> The information within this maturity model assessment is derived from the criteria defined within COBIT 4.1, released in 2007 by ISACA.

## Findings

While entities improved their controls in 2019, they still need to focus on information security and business continuity controls. Figure 1 summarises the results of our capability assessments across all 6 control categories for the 37 entities we assessed. We expect entities to achieve a level 3 (Defined) rating or better across all the categories.



Source: OAG

**Figure 1: Capability maturity model assessment results**

*Note: Business continuity and information security categories had the most amount of weaknesses.*

The percentage of entities rated level 3 or above for individual categories was as follows:

Category	2019 %	Change	2018 %
Information security	57	↑	47
Business continuity	54	↑	50
Management of IT risks	78	↑	69
IT operations	80	↓	82
Change control	80	↑	74
Physical security	89	↑	76

Source: OAG

**Table 2: Percentage of entities rated level 3 or above**

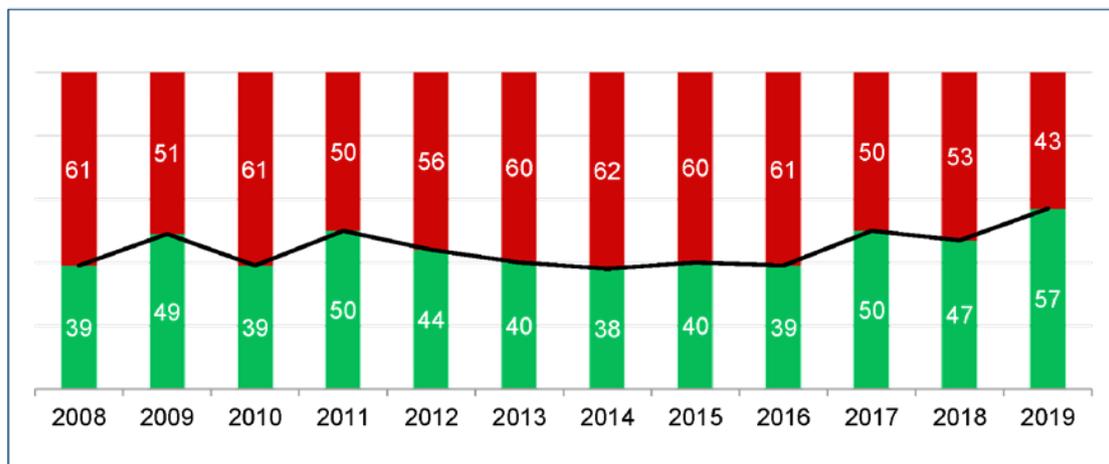
Entities improved their controls across 5 of the 6 categories in 2019. While information security and business continuity show improvement, we continue to find many entities with weaknesses in these areas. Robust controls over business continuity and disaster recovery are particularly important due to risks of large scale disruption associated with pandemics, natural disasters, or the compromise of information systems.

Only 4 of the entities we perform a capability assessment at every year have consistently demonstrated good practices across all 6 control categories:

- Department of the Premier and Cabinet (7 years at level 3 or higher)
- Racing and Wagering Western Australia (6 years at level 3 or higher)
- Western Australian Land Information Authority (4 years at level 3 or higher)
- Curtin University (4 years at level 3 or higher).

### Information security

The number of entities who met our benchmark for information security increased from 47% to 57% in 2019. However, a large number of entities are still not managing this area effectively. The trend across the last 12 years shows slight improvement, but this is not enough to adequately address the risks associated with information security.



Source: OAG

**Figure 2: Information security – percentage of entities that met benchmark**

*Note: Green represents the percentage of entities that met the benchmark and red represents the entities that did not meet the benchmark.*

Weaknesses we found included:

- inadequate or out-of-date information security policies
- no review of highly privileged access to applications, databases and networks
- lack of processes to identify and patch security vulnerabilities within IT infrastructure
- no information security awareness programs for staff
- lack of staff training and development in information security
- information classification policy or procedures not in place
- weak password controls without multifactor authentication.

The following case studies demonstrate the risks to entity information when information is not securely managed.

*Cloud based finance system with a high risk of unauthorised access*

An entity that recently migrated their finance system to the cloud had not implemented appropriate controls. This meant the system had a high risk of unauthorised and inappropriate access. Issues we found included:

- insecure authentication with weak default passwords and no requirement for multifactor authentication for the internet accessible system
- over 190 users had access to sensitive information which included bank account details
- 11 former staff could still access the system due to the weak authentication mechanism
- 16 vendor staff had full administrator privileges to the system, 13 of which didn't need this access
- inadequate and limited audit and security event logs which did not correctly identify users that access the system
- 21 staff with conflicting system roles that allowed them to override management controls for segregation of duties.

By using the above vulnerabilities, we were able to obtain privileged access to all functions in the finance system. The system also did not have appropriate security trails to provide suitable evidence for any forensic investigations.

When combined, these weaknesses could result in a person inappropriately entering and approving an invoice for payment, modifying payee details to their own bank account and processing fictitious journals. Due to the lack of monitoring controls, it would be difficult for this entity to identify and investigate inappropriate or fraudulent transactions and activities.

Source: OAG

**Figure 3: Poor information security controls leave entity exposed to fictitious or fraudulent transactions**

*Payment files are not secure*

At 1 entity, we found that plain-text payment files used for processing EFT payroll payments to employees, could be accessed and modified by an excessive number of users. The entity also did not regularly check if there were changes to these payment files.

These weak controls increase the risk that a person with access to the payment file could inappropriately change payment information.

Source: OAG

**Figure 4: Lack of controls to protect payment files**

*Multifactor authentication is important*

Many entities' critical systems are accessible over the internet but do not require additional controls such as multifactor authentication. Multifactor authentication adds a layer of security and is a good safeguard against unauthorised access to systems and information.

We also found some entities did not require multifactor authentication for remote access into their network and IT systems, increasing the risk of unauthorised access to entity IT systems and information.

Source: OAG

**Figure 5: Internet accessible systems lack controls**

Information security is critical to maintain the integrity and reliability of information held in key financial and operational systems, and to protect them from accidental or deliberate threats and vulnerabilities. It is therefore important that entities appropriately manage the confidentiality, integrity and availability of government information and services.

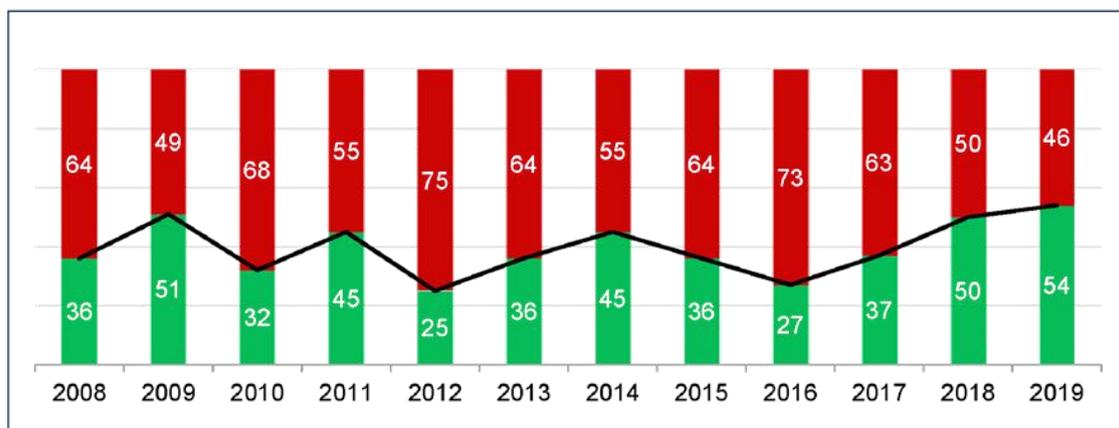
The OAG's own case study highlights the lessons learned from an incident involving inappropriate access to human resources information (see Appendix 1).

**Business continuity**

We found many entities still do not have adequate business continuity and disaster recovery arrangements in place.

Interruptions to business can have serious impacts on the critical services entities deliver to the public. To ensure business continuity, entities should have an up-to-date business continuity plan (BCP), disaster recovery plan (DRP) and incident response plan (IRP). The BCP defines and prioritises business critical operations and therefore determines the resourcing and focus areas of the DRP. The IRP needs to consider potential incidents and detail the immediate steps to ensure a timely, appropriate and effective response.

Entities should test these plans on a periodic basis. Such planning and testing helps entities assess and improve their processes for recovering information systems in the event of an unplanned disruption to business operations and services. Senior executives should monitor that plans are developed and tested in accordance with the risk profile and appetite of the entity.



Source: OAG

**Figure 6: Business continuity – percentage of entities that met benchmark**

Weaknesses we found included:

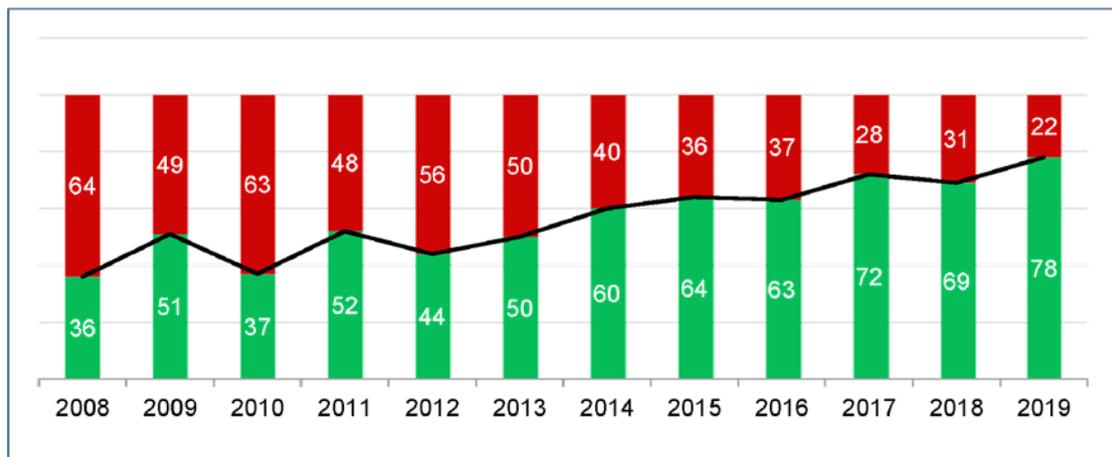
- lack of BCPs or DRPs
- DRPs which did not cover all key systems
- inadequate business impact analysis to prioritise business functions and recovery requirements
- old and redundant DRPs with some not reflecting current information and communication technology (ICT) infrastructure
- untested DRPs and entities not knowing if they can recover systems
- backups were not tested or stored securely.

Without appropriate continuity planning there is an increased risk that key business functions and processes will not be restored promptly after a disruption. This could cause extended outages and disrupt the delivery of important services.

### Management of IT risks

Seventy-eight percent of entities met our expectations for managing IT risks, a 9% improvement from last year and a 42% increase from our first assessment in 2008.

All entities should have risk management policies and practices that identify, assess and treat risks affecting key business objectives. Entities should be aware of the nature of risks associated with IT and have appropriate risk management policies and practices such as risk assessments, registers and treatment plans.



Source: OAG

**Figure 7: Management of IT risks – percentage of entities that met benchmark**

Common weaknesses we found included:

- lack of approved risk management policies
- inadequate processes for identifying, assessing and treating IT related risks
- no risk registers for ongoing monitoring and mitigation of identified risks.

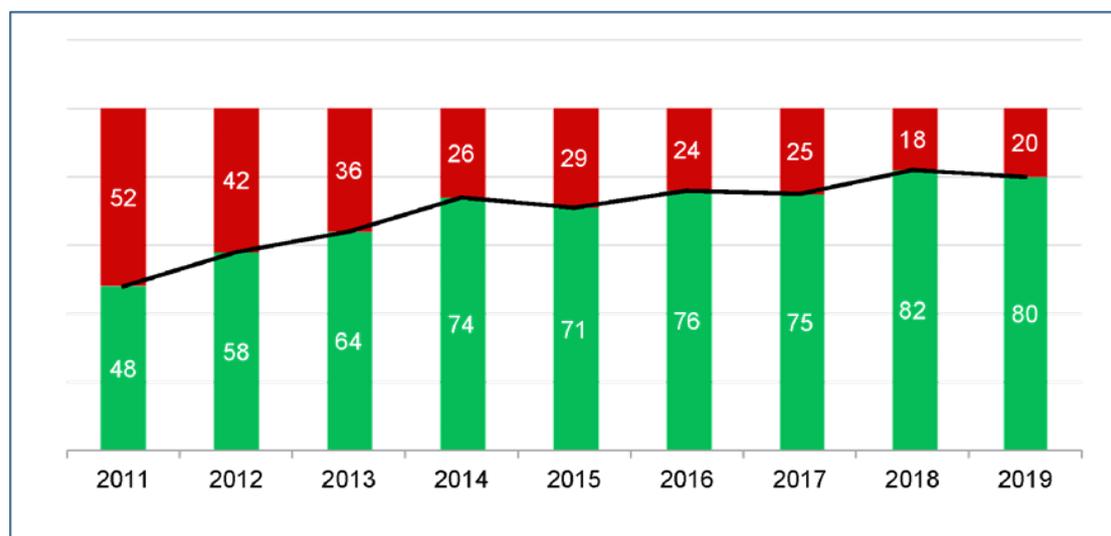
Without appropriate IT risk policies and practices, entities may not identify, and mitigate threats within reasonable timeframes. When risks are not identified and treated properly entities may not meet their business objectives.

### IT operations

While there was a slight decline in 2019, many entities' IT practices and service level performance met our benchmark. Overall, there has been a steady improvement since 2011 when we first added this area to our assessment.

Effective management of IT operations is key to maintaining data integrity and ensuring that IT infrastructure can resist and recover from errors and failures. We assessed whether entities had adequately defined their requirements for IT service levels and allocated sufficient resources to meet these requirements. We also tested whether service and support levels within entities were adequate and met good practice. Other tests included if:

- policies and plans were implemented and working effectively
- repeatable functions were formally defined, standardised, documented and communicated
- effective preventative and monitoring controls and processes had been implemented to ensure data integrity and segregation of duties.



Source: OAG

**Figure 8: IT operations – percentage of entities that met benchmark**

*Note: data is only available from 2011 when we added this area to the CMM.*

Weaknesses we found included:

- lack of service level agreements with IT vendors and inadequate contract management
- weak governance over IT operations
- IT strategies not in place
- lack of access reviews and segregation of duties across finance, payroll and network systems
- inappropriate processes to monitor cyber security events
- asset registers not maintained and IT equipment unable to be located.

These types of findings can mean that IT service delivery may not meet business requirements or expectations. Without appropriate IT strategies and supporting procedures,

IT operations may not be able to respond to business needs and recover from errors or failures.

The following case study demonstrates the risks to entities when IT services are not procured appropriately.

*Poor ICT procurement planning*

One audited entity did not have effective processes for procuring ICT services. We found instances where ICT services were procured without going to tender. In this case, there were multiple contracts with a single vendor which were below the tender threshold(\$250,000). However, in aggregate over the year, the committed spend with this vendor was \$2.5M which is well above the tender threshold.

Poor ICT procurement practices increases the risk that entities will breach State Supply Commission requirements for procurement or not achieve value for money in its procurement.

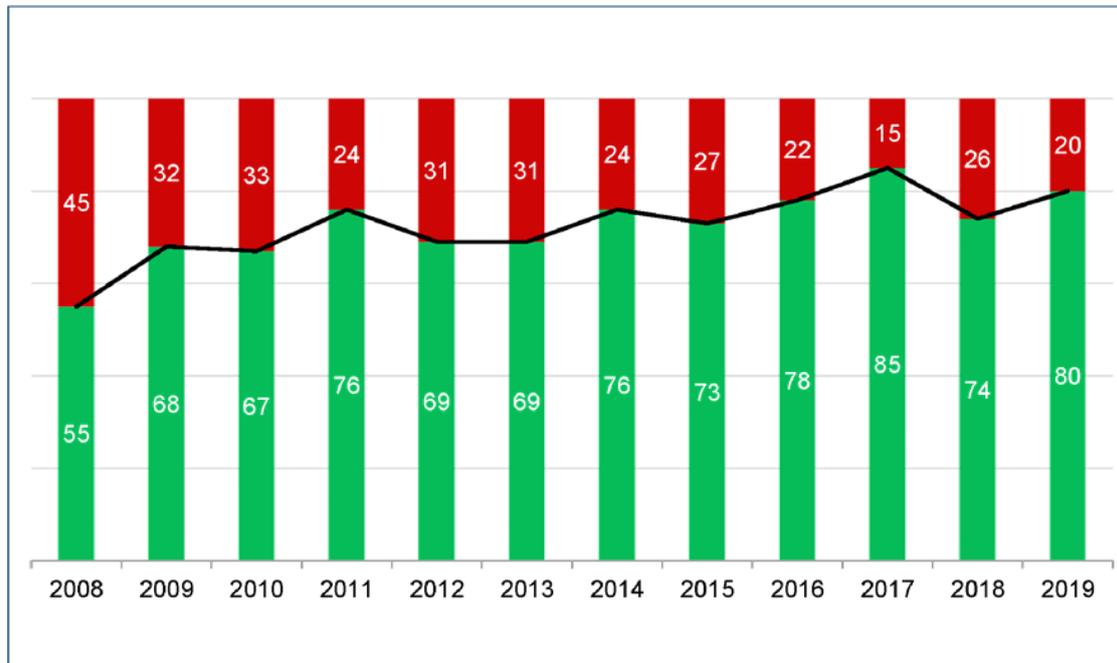
Source: OAG

**Figure 9: Poor procurement planning can result in poor value for money**

**Change control**

Entities' change control practices have slowly improved since 2008. In 2019, 80% of entities met our benchmark.

We examined if system changes are appropriately authorised, implemented, recorded and tested. We reviewed any new applications acquired or developed to evaluate if the changes were made in line with management's intentions.



Source: OAG

**Figure 10: Change control – percentage of entities that met benchmark**

Weaknesses we found included:

- no formal system change management policies in place
- changes to critical systems not logged or approved
- changes to systems and critical devices not documented
- no risk assessments performed for major changes to infrastructure.

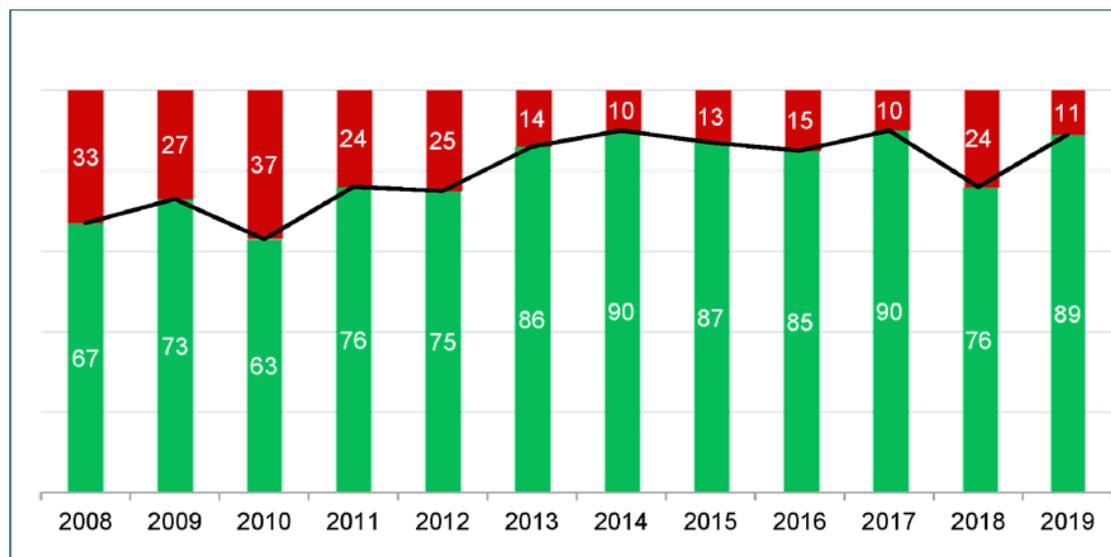
An overarching change control framework is essential to ensuring changes are made consistently, reliably and efficiently. When examining change control, we expect entities to be following their approved change management procedures.

There is a risk that without adequate change control procedures, systems will not process information as intended and entities' operations and services will be disrupted. There is also a greater chance that information will be lost and access given to unauthorised persons.

### Physical security

There was a 13% increase in performance in this category as 89% of entities met our expectations for the management of physical security.

We examined if IT systems were protected against environmental hazards and related damage. We also reviewed if entities had implemented and monitored physical access restrictions to ensure that only authorised individuals had the ability to access or use computer systems.



Source: OAG

Figure 11: Physical security – percentage of entities that met benchmark

Weaknesses we found included:

- no reviews of staff and contactors' access to server rooms
- lack of humidity controls in the server room
- no fire suppression system installed in the server room.

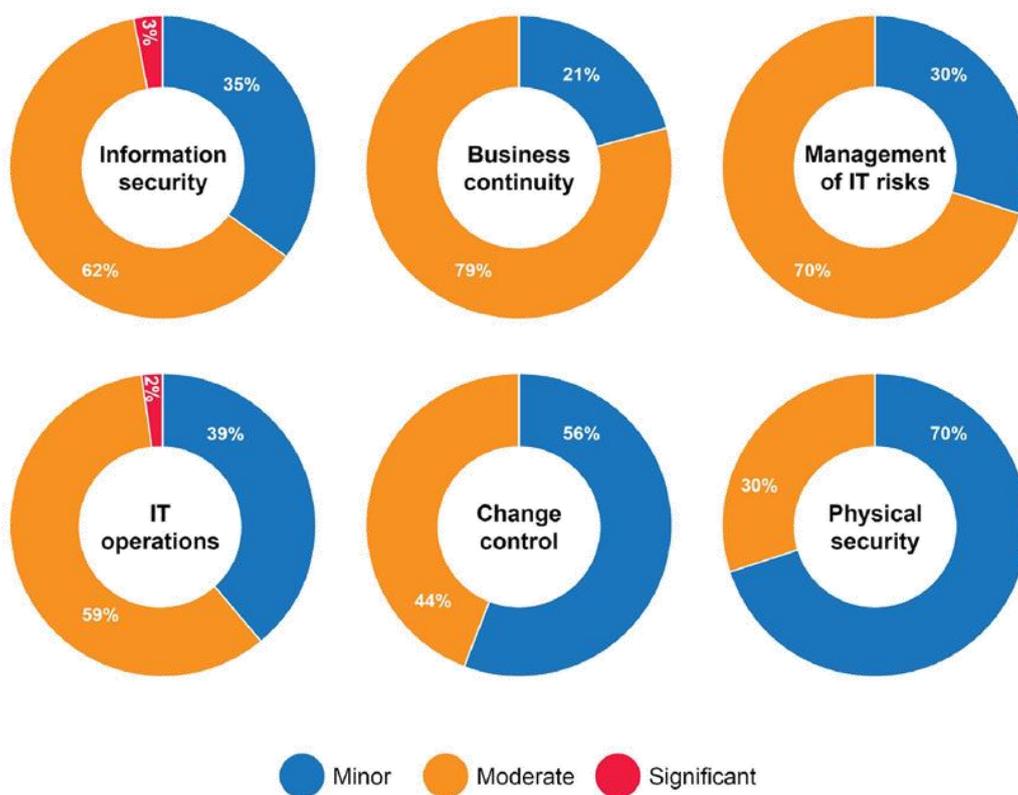
Inadequate protection of IT systems against various physical and environmental threats increases the potential risk of unauthorised access to systems, and information system failure.

**The majority of our findings require prompt action**

We rated the majority of our findings as moderate as they are of sufficient concern to warrant action being taken by the entity as soon as possible. However, combinations of issues can leave entities with more serious exposures to risk.

Figure 12 summarises how we rated the significance of our findings.

Although we did not rate many findings significant, of particular concern are higher risk findings in the information security and change control areas, as these leave systems directly exposed or can introduce vulnerabilities.



Source: OAG

Figure 12: Distribution of ratings for GCC findings in each control category we reviewed

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## Recommendations

### 1. Information security

Executive managers should:

- a. ensure good security practices are implemented, up-to-date, regularly tested, and enforced for key computer systems
- b. conduct ongoing reviews and monitoring of user access to information to ensure they are appropriate at all times
- c. develop and implement mechanisms to continually raise information and cyber security awareness and practices among all staff.

### 2. Business continuity

Entities should have an up-to-date business continuity plan, disaster recovery plan and incident response plan. These plans should be tested on a periodic basis.

### 3. Management of IT risks

Entities should ensure that IT risks are identified, assessed and treated within appropriate timeframes and that these practices become a core part of business activities and executive oversight.

### 4. IT operations

Entities should ensure that they have appropriate policies and procedures in place for key areas such as IT risk management, information security, business continuity and change control. In addition, entities should ensure IT strategic plans and objectives support overall business strategies and objectives. Entities should use good practice standards and frameworks as a reference when implementing their own policies and procedures.

### 5. Change control

Change control processes should be well developed and consistently followed for changes to computer systems. All changes should be subject to thorough planning and impact assessment to minimise the occurrence of problems. Change control documentation should be current, and approved changes formally tracked.

### 6. Physical security

Entities should develop and implement physical and environmental control mechanisms to prevent unauthorised access or accidental damage to computing infrastructure and systems.

## Appendix 1 – OAG case study

An internal information access breach was identified at the Office of the Auditor General (the Office) in 2019. While the breach itself was a relatively unremarkable incident, as these breaches are all too common in the digital age, they can have reputational and operational impacts. As such, even a risk-aware entity such as ours can never be complacent about regularly testing the implementation and ongoing effectiveness of access controls.

We share the incident with Parliament and entities to illustrate the importance of contemporary controls that are actively implemented, monitored, and documented in policies and procedures. Staff should be continually trained in using these controls and periodic, executive-level assurance should be obtained to confirm they are functioning as intended.

### Incident

The incident involved internal staff inappropriately accessing OAG human resource and other non-audit information in our records management system. In this case, parent file access controls were not automatically inherited by the subsequent new file levels for some records in that system over a period of time.

### Detection, investigation and reporting

The incident was detected as a result of changes to personnel and work practices. The Office undertook an internal investigation and, for accountability and transparency purposes, informed Parliament through the Joint Audit Committee, comprising members of the Public Accounts Committee and Estimates and Financial Operations Committee, within a matter of weeks.

Once we investigated and understood the root cause, we promptly addressed the weakness in the internal file access controls. While it is disappointing that a business system control was not effective, and was taken advantage of, this experience provided a critically important learning opportunity for the Office, including the importance of rotating employees so that processes are tested and scrutinised with fresh eyes. An organisational culture of employees speaking up if something does not look right, and executive leaders willing to support action, is critically important. All staff are responsible for information security in their entity, and should inform management immediately if they identify a security weakness.

### Actions taken

Key actions the Office took following this incident included:

- acceleration and re-prioritisation of initiatives to improve our information security and monitoring controls, including extensive reviews with periodic independent assurance
- increased executive visibility, awareness and dialogue around information security and internal control mechanisms
- a renewed focus on rotating employees within and between business units
- increased communication with staff around their shared responsibilities relating to information security, and further compulsory training
- increased investment in capability and leadership of the IT branch
- in the absence of a whole-of-government information classification policy, we are in the process of implementing our own information classification policy and procedures.

## Appendix 2 – Security considerations for remote working arrangements

In response to the spread of the Coronavirus (COVID-19), entities in all sectors across Australia are encouraging staff to work remotely from home. Rapid transition to these arrangements can introduce risks and challenges for entities who may not have previously implemented large-scale remote working arrangements. It is important that entities manage and address these risks, as well as staff security behaviour, to prevent people from exploiting the current situation to compromise systems and information.

The following table outlines some guiding principles entities should consider when rolling out remote working technology and procedures. This is not intended to be an exhaustive list. Entities can obtain further guidance from the Australian Cyber Security Centre<sup>2</sup> and the Office of Digital Government has recently issued some considerations for remote work.

Principle	Our expectation
Prioritise and simplify	<p>Each entity needs to assess their unique risks associated with remote working arrangements and address critical risks as a priority. These risks will be different for each entity depending on the functions staff perform remotely and the types of information being accessed.</p> <p>Entities should ensure that procedures and technology for remote working are simple and easy to follow. Complex processes can introduce vulnerabilities that could result in undesired outcomes.</p>
Engage with staff	<p>Increase staff awareness by clearly communicating expectations including policies and any occupational health and safety requirements.</p> <p>The business continuity plan may come into effect and it is also important that staff understand how the plan impacts their day to day working procedures.</p> <p>Staff should have easy access to a forum or group where they can seek answers to their queries related to working from home and security.</p>
Remote access technology	<p>The technology used for remote access needs to be secure. The security controls that entities select will depend on the method of remote access, such as:</p> <ul style="list-style-type: none"> <li>• virtual private network (VPN)</li> <li>• web applications</li> <li>• remote desktop access</li> </ul> <p>Remote access servers should enforce technical controls in line with security policies.</p>
Security of network	<p>The majority of the remote workers will use internet to access entity resources. Entities should implement appropriate policies to secure remote access originating from untrusted networks.</p>

<sup>2</sup> <https://www.cyber.gov.au/news/cyber-security-essential-when-preparing-covid-19>

	VPN is one of the better methods of securing remote access because it uses encryption to protect the confidentiality and integrity of communication over the network.
Physical security	<p>Remote working locations may not be as secure as office environments. Entities need to understand the risks associated with this and define and implement appropriate controls to protect information. For example, implementing encryption on portable devices is a simple method to improve security.</p> <p>Entities also need to ensure the security of sensitive hard copy documents is maintained.</p>
Multi-factor authentication	Remote access into entity systems and networks must be secured by strong authentication controls. Entities should implement multi-factor authentication for all remote access.
Bring your own device (BYOD) policies	<p>A risk based policy should define the requirements for personal devices if they are allowed to access entity resources. Personal devices are generally not as secure as those provided by entities and attackers could exploit this weakness as more people work from home.</p> <p>Considerations should be given to:</p> <ul style="list-style-type: none"> <li>• encryption</li> <li>• access levels</li> <li>• segregated network zone for personal devices</li> <li>• security patch levels</li> <li>• malware controls.</li> </ul>
Patch systems	All systems should be patched with latest updates. This applies to all the internet facing infrastructure and client applications.
Stay vigilant	Stay alert and educate staff on the risks especially phishing emails and text messages themed around COVID-19.

Source: OAG based on Australian Cyber Security Centre guidance

## Auditor General's reports

Report number	2019-20 reports	Date tabled
17	Controls Over Purchasing Cards	27 March 2020
16	Audit Results Report – Annual 2018-19 Financial Audit of Local Government Entities	11 March 2020
15	Opinion on Ministerial Notification	28 February 2020
14	Opinion on Ministerial Notification	31 January 2020
13	Fee-setting by the Department of Primary Industries and Regional Development and Western Australia Police Force	4 December 2019
12	Audit Results Report – Annual 2018-19 Financial Audits of State Government Entities	14 November 2019
11	Opinion on Ministerial Notification	30 October 2019
10	Working with Children Checks – Follow-up	23 October 2019
9	An Analysis of the Department of Health's Data Relating to State-Managed Adult Mental Health Services from 2013 to 2017	9 October 2019
8	Opinions on Ministerial Notifications	8 October 2019
7	Opinion on Ministerial Notification	26 September 2019
6	Opinions on Ministerial Notifications	18 September 2019
5	Fraud Prevention in Local Government	15 August 2019
4	Access to State-Managed Adult Mental Health Services	14 August 2019
3	Delivering Western Australia's Ambulance Services – Follow-up Audit	31 July 2019
2	Opinion on Ministerial Notification	26 July 2019
1	Opinions on Ministerial Notifications	19 July 2019





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INDEPENDENT COMMISSION  
AGAINST CORRUPTION  
NEW SOUTH WALES

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NSW INDEPENDENT COMMISSION  
AGAINST CORRUPTION

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# Managing corrupt conduct during the COVID-19 outbreak

April 2020

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## Introduction

The outbreak of the COVID-19 virus and its likely economic impact will have a dramatic effect on the way public sector functions are performed in NSW. The NSW Independent Commission Against Corruption (“the Commission”) has issued this guidance to draw attention to:

- the fraud and corruption risks that arise during periods of disruption and economic downturn
- measures that may assist in protecting government funds.

While no one wants to be challenged with new fraud and corruption risks, the Commission understands that, since March 2020, agencies may have little choice but to depart from normal levels of control and supervision.

In particular, the routine practice of managing staff in an office environment becomes challenging when many members of staff are working remotely. Further complications may arise if a significant proportion of public officials take leave because they are sick or caring for a friend or family member. This could precipitate a number of workarounds (that is, inventive ways to breach procedure or exploit loopholes) that may be tempting for individuals at risk of engaging in corrupt conduct.

In so saying, the Commission emphasises that, while the majority of employees are honest and trustworthy, there remains the possibility in any organisation for unscrupulous employees to take improper advantage of diminished control or supervision.

The Commission appreciates that it may be difficult for agencies to maintain anti-corruption controls in their current form. Clearly, there are more pressing issues but the necessity to modify some controls should not justify abandoning attempts to prevent, detect and investigate misconduct. Even during a period of enormous disruption, agencies can take reasonable steps to protect public funds from misuse.

In issuing this corruption prevention advice, the Commission, in addition to recommending the adoption of precautions against the abovementioned corruption risks, is also concerned to see that funds provided by the federal and NSW governments as stimulus and support measures are protected from both opportunistic and systemic fraud and corruption perpetrated by the unscrupulous.

## Corruption trends during periods of disruption and economic downturn

While not conclusive as to all or any particular agency of government, the evidence nonetheless tends to show that some forms of corruption and serious misconduct become more prevalent during periods of significant disruption and economic downturn.<sup>1</sup>

The well-known Fraud Triangle tells us that a combination of (1) financial pressure, (2) opportunity and (3) rationalisation, is conducive to fraud. The COVID-19 pandemic and the related economic downturn have intensified all three points of the triangle.

1. Employees, suppliers and customers (and their families) may be experiencing actual or anticipated financial hardship (for example, an official's spouse loses their job, a supplier's work dries up, superannuation or other investments lose a large proportion of their value, or a public official becomes concerned about being made redundant).
2. Agencies' controls and normal levels of supervision may weaken or cease to function (for example, normal segregation of duties may not be in place or IT systems may not be accessible).
3. Perpetrators may find it easier to rationalise dishonest behaviour (for example, individuals may find it morally justifiable to engage in fraud if it is in response to exigent circumstances, or if they perceive others getting away with it).

In addition, fraud and corruption risks may, of course, arise externally to the agency at specific points in the supply chain.

At the time of the 2008–2011 global financial crisis (GFC), the Commission experienced an increase in complaints alleging corrupt conduct. The GFC triggered high levels of white collar crime in countries that experienced financial crises. In some cases, however, it seems that the GFC, and economic downturns more generally, led to a greater focus on the bottom line, which caused a number of historical fraud cases to be unearthed.

For an unknown period of time, agency operations will not be on a business-as-usual (BAU) footing. However, agencies that can move their control environment back to BAU as quickly as possible, will lower the chances of corrupt conduct. Once this happens, it may be useful to direct audit activities towards identifying suspicious anomalies or exceptions that emerged during the pandemic.

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<sup>1</sup> See for example: Deloitte's media release of 23 March 2020, "Deloitte warns of spike in bribery & corruption due to CoVid-19", (available [here](#)); the July 2011 Australian Institute of Criminology paper, *Fraud vulnerabilities and the global financial crisis* (available [here](#)); the 2009 PricewaterhouseCoopers advice, *Fraud in a Downturn* (available [here](#)); and the 18 March 2020 Transparency International feature *Corruption and the Coronavirus* (available [here](#)).

## Risks associated with working from home

It is self-evident that working from home (WFH) entails a loss of manager-employee and peer-to-peer interaction that normally takes place in an office environment. Both literally and figuratively, COVID-19 means that staff are being left to their own devices, which is often associated with an increase in corrupt conduct in the limited number of employees who lack integrity. The Commission recommends that agencies consider the following as a way to address this risk.

- Managers should make occasional telephone or video conference contact with their staff. Complete isolation from management and team norms can breed absenteeism and lapses in judgment.
- Prohibit staff from allowing family members to use agency hardware and systems and ask staff to refrain from using their home printer for confidential agency documents.
- Remind staff not to use social media to post photographs of their home office or work station.
- Make a record of agency IT equipment and other valuables that staff have borrowed to use from home.
- Establish protocols for using electronic signatures, especially if staff are used to paper forms and giving approval by applying a written signature.

## Risks associated with procurement and purchasing

Procurement activity is difficult to coordinate at the best of times. But in the current circumstances, the Commission anticipates that agencies will be under increased pressure to:

- engage in emergency procurement
- agree to contract variations
- use direct negotiations and other exemptions to competitive procurement processes
- pay suppliers quickly, especially if they are small businesses
- rely on staff to purchase items using agency-issued credit cards.

These procurement practices may be entirely appropriate in the circumstances, but historically, they have also been associated with corrupt conduct.

Agencies should also be aware that, in the current circumstances, some existing budgets will inevitably be underspent by the end of the financial year. This creates a risk that available

funds will be diverted to an improper purpose or spent for the sake of consuming the allocated budget.

The Commission recommends that agencies consider the following to address these procurement risks.

- If an agency needs to perform emergency procurement, insist on involving at least two people in the process, which is preferable to giving one official end-to-end control.
- Emergency procurement carries more risk if the supplier is unknown to the agency or is not a member of an established prequalification scheme or contract.
- Where relevant, consult the Commission's [published guidance](#) on managing direct negotiations.
- If aspects of procurement need to take place outside an agency's online finance system (for example, if the normal financial delegate is offline or the system is inaccessible), at least document the decisions in an email or contemporaneous file note.
- Suppliers may have to rely on force majeure clauses in contracts. If contracts do not contain these clauses, agencies should be wary of forcing suppliers to meet impossible deadlines, which could encourage dishonest conduct.
- An agency should use existing management accounting reporting and data analytics to identify split invoices/payments, unusual transactions and unusual suppliers.

Another procurement-related risk is the theft of stock and other agency assets. In particular, individuals could take advantage of workplace disorder and the physical absence of staff to engage in theft. The Commission has already received a report detailing allegations that a public official has stolen toilet paper and hand sanitiser from the workplace and advertised the products for sale online.

Agencies are therefore encouraged to maintain or even enhance their normal physical security measures and take steps to secure valuable assets and information while the workplace is unpopulated.

## Risks associated with cyber fraud and online hoaxes

Reports of COVID-19-related cyber frauds have already begun to emerge. See, for instance, advice published by the Australian Competition and Consumer Commission<sup>2</sup> and the Australian Cyber Security Centre<sup>3</sup>. One source reports a 400% increase in coronavirus-related cyber fraud reports in March alone.<sup>4</sup>

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<sup>2</sup> COVID-19 (coronavirus) scams, 18 March 2020 (available [here](#)).

<sup>3</sup> Threat update: COVID-19 malicious cyber activity, 27 March 2020 (available [here](#)).

<sup>4</sup> J Kent *Working from home risks online security and privacy – how to stay protected*, The Conversation, 27 March 2020 (available [here](#)).

Many successful cyber frauds utilise a social engineering approach. That is, the frauds involve impersonating a trusted person, such as a senior manager or an officer from the organisation's IT department. In an environment where many staff are WFH and normal face-to-face interactions are limited, socially engineered cyber frauds are more likely to succeed. In addition, the COVID-19 pandemic has prompted a number of criminals to impersonate government agencies as part of an attempt to defraud citizens.

In addition to adhering to the NSW [Cyber Security Policy](#), agencies should:

- in the first instance, assume that any request to change a supplier's or employee's bank account number could be an attempted fraud (verify the request by telephoning the relevant supplier/employee, without relying on the contact information contained in a potentially false email message)
- be wary of adding new suppliers to the vendor master file, especially if they are not already on a NSW Procurement pre-qualified panel or scheme or if they have invoiced the agency without being issued a purchase order
- direct accounts payable staff to challenge any suspicious requests for payment, even if it purports to come from a senior manager or the agency head
- not pay invoices without performing a three-way match
- alert customers and citizens to attempts by third parties to impersonate the agency or its staff (make it easy for individuals to verify information by contacting the main switchboard of the agency)
- remind staff not to open emails or attachments or click on links from untrustworthy sources.

## Risk associated with stimulus funding and new programs

Some agencies are being tasked with rolling out significant new programs aimed at stemming the spread of the COVID-19 virus (for example, establishing emergency hotel accommodation for inbound residents that need to self-isolate). Other agencies have responsibility for programs aimed at stimulating the economy and assisting the economic victims of the pandemic.

While it is difficult to compare the current COVID-19 pandemic with earlier emergencies, publications such as the *2014 Report of the Royal Commission into the Home Insulation Program*, authored by Commissioner Ian Hangar QC (available at [this link](#)), can be instructive. The following are some lessons to bear in mind.

- If contracts have to be awarded in haste, agencies should still take the time to ensure that contractors understand and conform to public sector ethical obligations (for example, an agency statement of business ethics).
- To the degree possible, avoid giving a single official end-to-end control of a process. This limits the risk of corruption or favouritism but it also helps to manage the risk that a

program will stall if a key person becomes unwell or has to take carer's leave.

- Articulate clear responsibilities and lines of communication. Corruption, mismanagement and waste can thrive if staff do not understand the plan and cannot be made accountable for their actions.
- Do not allow exigent circumstances to be used as an excuse for subduing robust debate and frank advice.
- Delivering new programs or services in a compressed timeframe may be an uncomfortable experience for some public officials, who, by training, are more accustomed to carefully planned programs of work in a risk averse environment. It may therefore be necessary to seek advice from subject matter experts (possibly from other agencies).
- Fast delivery of new services can encourage workarounds and major departures from normal risk tolerances. If it is impractical to conduct a comprehensive risk assessment at the start of a program, management should still encourage staff to report any obstacles and workarounds as they arise.
- The focus is typically on rapid delivery, which could mean that issues such as regulatory compliance, due diligence and audit are neglected. While it may be necessary to consider these issues at a later point in time, they should not be forgotten altogether.
- In a fast-paced environment, staff may forget to create basic records about key decisions and why they were taken. Project managers should, therefore, appoint a minute taker or otherwise document key decisions, especially following meetings that are held via telephone or video conference.
- Hasty programs may entail hasty recruitment. This could mean that agencies are not able to complete their normal employment screening procedures before staff commence. However, a suitable alternative might be to complete employment screening as soon as possible after commencement.

## Maintaining public sector values and ethics

Agencies should have a fraud and corruption control program. Given the current circumstances, it is reasonable to expect that elements of those programs will need to be put on hold. Initiatives such as face-to-face training, design, implementation and testing or controls, rolling out new policy and conducting risk assessments may not be possible during the COVID-19 pandemic.

In addition, it will be difficult to express the appropriate care for and trust in staff, if they are simultaneously being messaged with warnings about the threat of fraud and corruption. While it is important to return to BAU as soon as possible, a useful but simple approach involves reminding staff of their ethical obligations as public officials.

Most public officials should be acutely aware that the citizens of NSW are relying on their honesty and diligence in the current environment. So, brief reminders about these obligations can be effective and should complement existing staff communications.

Likewise, senior and middle and line managers can be reminded of the importance of setting the right ethical tone for their staff.

## Further information and assistance

Like many agencies, the Commission has arranged for the majority of its staff to WFH during the COVID-19 pandemic. However, the Commission is still open for business and NSW government agencies are encouraged to keep reporting allegations of corrupt conduct.

Please note the following:

- complaints or reports must be made by email ([icac@icac.nsw.gov.au](mailto:icac@icac.nsw.gov.au)) or by using the reporting forms on [our website](#)
- the Commission will continue to assess all complaints and reports that it receives
- agencies and complainants will not be able to make complaints or reports over the telephone or in person (to the degree possible, all correspondence will be electronic)
- corruption prevention advice, including advice about the material in this guidance, can be requested at [icac@icac.nsw.gov.au](mailto:icac@icac.nsw.gov.au) or through:

**Lewis Rangott**  
Executive Director, Corruption Prevention  
[lrangott@icac.nsw.gov.au](mailto:lrangott@icac.nsw.gov.au).

## COVID-19 – Overview and Implications

The FY21 budget process has been developed to provide detailed financial information for the Executive and Councillors, with a reference back to services (objectives, service levels etc.). This process has drawn on the work undertaken by Managers last year to develop their service templates in the Business Area Plans.

COVID 19 now throws in another perspective. To this end, additional information has been provided in next year's budget to respond to recovery priorities.

Councillors will need to have conversations around critical/core and non-core services, as well as service levels. This exercise will enable the City to better serve the community at a time they are relying heavily on government and in particular local government to meet even their basic needs. In response to COVID-19, the FY21 draft budget contemplates:

- i. Temporary reductions in levels of service, which would not compromise the overall provision of service;
- ii. Suspension or deferment of operating projects and activities;
- iii. Addressing any negative social or economic impacts as a result of changes above; and
- iv. Factoring in what the longer term consequences may be, particularly in a recovery situation;

So essentially, two budgets are produced, a *business as usual* budget, and an *alternative* budget. The alternative budget has been prepared on the basis of reduced operations for the first six months of the year, with the City entering into recovery and resumption phases in 2021.

COVID-19 has and will continue to cause disruption to the City's operating environment and its ability to achieve its strategic objectives. The following describes the impacts of the disruption on the Directorate operations and the wider community as it relates to these business operations.

### Business Impacts:

- Financial
  - Funds for some project initiatives will need to be refunded in future budgets.
  - Staff were expecting to negotiate a new Enterprise Agreement for 2020-2023. This has not recommenced as the Executive focussed initially on reviewing the Retention Incentive assessment process and since then have been focused on COVID19 response and recovery.
- Reputational
  - Major projects are continuing (Novelli Pavilion, Cross Park Pavilion, Bedforddale Fire Station)
  - Positive organisational leadership has been needed to enable quick and proactive response to business continuity and community needs by Council and all business areas.
  - Community expectations for support are higher than usual as the reliance on local government in times of crisis is inevitable, therefore the City has developed a tool box of new or targeted activities that respond swiftly to address community needs (residents and businesses).
  - Prioritising projects and expenditure has been complex but necessary to provide Council with the flexibility to respond to a 'zero rate increase", decreasing revenue, decreasing interest earnings, decreasing interim rates and increasing charitable rate exemptions as well as responding and recovering from COVID19. .
  - Negotiations on the Enterprise Agreement have not recommenced.
- Legal and Regulatory
  - The City has endeavoured to avoid any Fair Work disputes in response to actions taken due to COVID 19 by being compliant and compassionate in its dealings with staff.
- Contractual
  - Efforts have been made to ensure that contractual terms have been complied with regarding notifications for force majeure events and variations needed to respond to COVID19.
- Business Objectives
  - Meetings continue to be held either on site (with social distancing) or virtually.
  - Projects, strategies and objectives prior to COVID-19 are being re-evaluated as the downturn in the economy has transformed the operational environment these projects were originally planned for.
  - A significant change to on line meetings and connectivity has resulted in a reprioritisation of some recruitment considerations. e.g. need for face to face interviews or review of current vacant positions.

- Service Level
  - As travel restrictions ease on international, interstate and intrastate travel, the number of customers at the Visitor Centre is expected to increase. Any long term changes on customers are yet to be determined. The City would need to adapt and be flexible to the ongoing demands and customer needs.
  - As public events and festivals resume, the ability to have physical presence to promote Armadale as a destination (e.g. pop-up Visitors Centre) has been reduced. This not only impacts on the service level to members but reduces the exposure of Armadale as a place to visit.
  - There is an expected increase in businesses contacting the City as they face financial stress as a result of the ongoing disruptions. This will require the City to have a set of initiatives and resources designed to assist local small businesses in need of help.
  - The Pandemic Emergency has had a significant impact on the City's Communications Team. The Team has responded accordingly, implementing a number of initiatives, including ITK (In The Know), COVID19 Information Hub and supporting the Mayor in her important leadership role. Redeployment of marketing staff from other teams has assisted with a centralised approach enabling the delivery of consistent and clear messaging in addition to coping with an increased workload.
  - There has been no noticeable drop in Human Resources service levels.

**Social Impacts:**

- The continuation of projects has contributed to maintaining a sense of 'normal'.
- Significant social impacts are expected to arise as a result of the imminent downturn in the economy. Mental health, financial stress and domestic violence are just some of the expected consequences in our society.
- The City has "ramped up" its social media presence and activities, in addition to a number of other channels as a response measure to social isolation.
- Working from home has had impacts on the wellbeing of some individual's. This is a new area of focus for Human Resources.

**Economic Impacts:**

- Through projects continuing the City has been able to maintain employment in the construction and design sectors.
- Unprecedented unemployment is expected in Australia, including a wide range of businesses closing down. Although government stimulus packages have been released, not all small businesses are eligible or some simply do not have the capacity or financial backing to stay afloat. There is likely to be some businesses in the City that do not reopen.
- Some operators may look to the City to assist financially struggling businesses in the form of providing rate relief, or the removal or reduction in fees and charges or the provision of grants. Council will determine the City's response to these issues during the budget process, particularly the rate setting process.
- As the City increases its recovery activities, Communications support for promotion and marketing of economic development initiatives will increase in 2020/21.

**Recovery Impacts:**

- The City has contributed through its capital works program to maintaining employment in the construction and design sectors.
- Opportunity exists to deliver targeted and meaningful projects specifically tailored to assist either vulnerable members of the community or small local businesses.
- A focus on recovery related projects has redirected some of the City's resources from delivering projects.
- Communications is a critical and essential component of a successful recovery phase. It is important to be in control of the message. This revolves around keeping the community informed on the City's responses, services, facilities, community support and assistance. It will also be important for the City to continue with important community messaging on behalf of government, as a whole of government response.
- Welfare of staff is the largest area of recovery impact for Human Resources.

## Service Criticality Definitions for Pandemic

The following criteria has been prepared to assist the Business Continuity Planning (BCP), Business Impact assessments (BIA) and BCP Responses and actions, with particular emphasis on a Global Pandemic event. The COVID19 Response Team have used these definitions to determine the City's critical activities during the pandemic. **Importantly this is not to be read as a view of services in a business as usual environment.**

### Definitions

<b>Service:</b>	<p>A service is an activity of the City that results in customer or public benefit, or a governance/corporate activity, which supports the delivery of services.</p> <p>A service is:</p> <ul style="list-style-type: none"><li>• significant in its cost (at least \$400,000), with anything under considered a sub-service.</li><li>• capable of being outsourced</li><li>• able to be defined in terms of FTE and Contracts</li><li>• not considered an input cost;</li><li>• is measurable and able to be benchmarked</li></ul>
<b>Sub Service:</b>	<p>A sub-service is any other activity carried out by the City for the benefit of a customer or the community, which does not meet the threshold for a service as above, but is definable and can be attributed to an expense of the City.</p>
<b>Enabling Service:</b>	<p>An enabling service is an internal service type such as finance, human resources and ICT, which support the delivery of the non-internal services.</p>
<b>Statutory service</b>	<p>A service the City is obligated to provide under Statute, such as Building Licence approvals.</p>
<b>Non Statutory Core Service</b>	<p>A service not required to be provided under any Statute, but considered core because it is unlikely to be withdrawn – such as the provision of parks. The discretion is in the scope and level of service – i.e. number and size of parks, mowing and fertilising programs etc. These services are typical in most Local Governments across W.A.</p>
<b>Non Statutory Non-Core Service</b>	<p>A service not required to be provided under any statute but considered non-core because the provision of the service is at the discretion of the local government.</p>
<b>Function:</b>	<p>Functions contribute to the operations of a service. They are actions which may be performed by a device, a person or a department which produce a result. Generally functions are a component of a sub service. E.g. administration, procurement, record keeping or supervision.</p>
<b>Critical:</b>	<p>Where the MAO* is five (5) days or less.</p> <p>Disruption to the service or function will result in an unacceptable increase in risks to public health and safety.</p> <p>Disruption to an enabling service will compromise a critical health and safety service.</p> <p><i>Examples: Health Services, Ranger Services (Animal Control), Emergency Management Services, Waste Services, Payroll, IT Business Systems, Accounts Payable</i></p>
<b>Essential:</b>	<p>Where the MAO* is greater than five (5) days but less than thirty one (31) days.</p> <p>Disruption to the service or function will result in:</p> <ul style="list-style-type: none"><li>• Reputational risks</li><li>• Financial risks</li><li>• People risks</li><li>• Service/asset risks</li></ul> <p><i>Examples: Development Applications, Financial Reporting, Mowing parks and reserves, Accounts receivable</i></p>
<b>Non-Essential:</b>	<p>Where the MAO* is greater than thirty one (31) days.</p> <p>Disruption to the service or function will result in no risks to public health and safety.</p> <p>Disruption to an enabling service will not compromise a critical health and safety service.</p> <p><i>Examples: AFAC, Arena, Social Planning, Branch Library operations, Local History Programs, Outside Jurisdiction Certification Services, Asset Data Management, Environmental Services project delivery.</i></p> <p><i>*Maximum Allowable Outage</i></p>

### **Council & Executive Services Service Statement**

**Future Direction:** Leadership  
**Business Area:** CEO's Office Administration

Sub Services	Type
Mayoral & Councillor Support	Non Statutory Core
Strategy and Governance	Statutory
Advocacy	Non Statutory Non Core
CEO & Corporate Support	Non Statutory Non Core
Council Meeting Support	Statutory
Executive Leadership Team Support	Non Statutory Non Core
Organisational Management Team Support	Non Statutory Non Core

#### **Service Description**

Provide support to the Mayor and Councillors in their decision making and representative role. Provide a transparent, consistent and coordinated approach to supporting the Chief Executive Officer and the broader organisation to provide strategic direction and alignment in the delivery of organisational goals and objectives. The Chief Executive Officer (CEO) provides leadership to the organisation, is responsible for the overall management of the local government's functions and implementation of Council's strategic direction for the City and directly oversees the following key areas:

- City Projects
- Economic Development and Tourism
- Human Resources
- Marketing and Communications
- Mayor's Office.

The Chief Executive Officer, along with the Executive Team and staff, is responsible for implementing the decisions of Council and providing a range of services.

#### **Service Objectives**

To provide the leadership, facilities and infrastructure that will serve the needs of the City's local and wider communities by:

- Delivering the objectives of the City's Strategic Community Plan in a cost effective manner;
- Leading and contributing, as part of the Executive, to the strategic development of the City; and
- Ensuring that accurate advice and information is available to the Council so that informed decisions can be made.

#### **Levels of Service**

- A number of strategies and plans within the Integrated Planning and Reporting Framework (IPRF) are in place to ensure the City's resource capabilities are matched to the community's needs
- Meeting documentation is provided within agreed timelines and to a standard that enables sound decision making
- Mayoral administrative and research support levels are well defined
- Councillors are provided with training & development opportunities
- Strategies and partnerships have been developed to advocate for development and investment in the City
- A culture of strategic thinking is promoted within the Executive and Management Team for the implementation of the City's Strategic Community Plan and Corporate Business Plan.
- Executive support to the CEO and Executive Leadership team are well managed
- Mayoral and Councillor support service levels are well defined
- Mayoral and Civic events are coordinated in consultation with the Mayor and CEO.

#### **Operation and Funding**

<b>Delivery Model</b>	A mixture of in house and contracted out
<b>FTE</b>	4.0
<b>Net cost of service</b>	\$2.4m incorporated into the Chief Executive's Office expenditure which includes elected member attendance fees and allowances
<b>Funding</b>	Municipal Funding

**Assumptions and Uncertainties**

- Review of the *Local Government Act 1995*
- Service Delivery & Organisational Review
- Bi-annual Local Government Elections.

**Potential Changes to Service Level or Service Scope**

Nil

**Performance Measures**

Service Performance Measure <i>What indicator will be used to measure the performance of this service?</i>	Baseline 2018/19 <i>What is the current measure?</i>	4 Year Direction/ Target <i>Direction: e.g. Increase/decrease Specific Target: e.g. X% higher</i>
Review of the Strategic Community Plan	Desktop review every two years and major review every four years.	Requirements met 100% of the time
Reporting on actions in the Corporate Business Plan	Reported quarterly	Quarterly
Review of Service Delivery	No current baseline measurements	Service delivery information provided annually to Council as part of the budget process. Major review of one service undertaken each year.
Method and quality of reporting to Council	Council agenda provided to Councillors at least 72 hours prior to the Council meeting	Council agenda provided to Councillors at least 72 hours prior to the Council meeting – 100% of the time
Civic events and hospitality are well coordinated and managed	Not currently measured	Debriefings held following events with 95% satisfaction rating

**COVID-19 Business Continuity**

The services and functions of the City's Council and Executive services have been assessed against the Business Continuity criteria set by the COVID-19 Response Team. The assessment is provided below.

Sub Services	Criticality
Mayoral & Elected Member Support	Essential
Strategy and Governance	Critical
Advocacy	Essential
CEO & Corporate Support	Critical
Council Meeting support	Critical
Executive Leadership Team support	Critical
Organisational Management Team support	Non-Essential

## AUDIT UPDATE

City of Armadale Audit Committee

5 August 2020



### 1. OAG RESPONSE TO CORRUPTION AND CRIME REPORT INTO MISCONDUCT RISKS WITH ACCESS TO CONFIDENTIAL INFORMATION IN THE OFFICE OF THE AUDITOR GENERAL

It is regrettable that a former OAG employee has been the subject of a CCC finding of misconduct related to the destruction of an information storage device.

During the CCC investigation of that matter it was discovered the individual had retained audit information on their encrypted OAG laptop contrary to policy and practice, and an explicit directive regarding security of a particular sensitive dataset. There was no unauthorised access to the police dataset by the individual who had it for a legitimate audit purpose – our 2016 data analytics audit. While there is no evidence the sensitive dataset ever left a secure environment, the fact it was not removed from the officer's OAG laptop at the conclusion of the audit, for storage only within the OAG's secure audit filing system, is not acceptable.

The behaviour of this individual is not reflective of all OAG employees and the high standards of professional conduct demanded by the Office. Entities can be assured that OAG auditors are acutely aware of the trust that comes with our responsibilities and regard information security as a top priority.

The CCC report is a timely reminder to all entities that provide sensitive datasets to any third party to have conversations with them around how their information will be securely maintained.

We want to assure all our audited entities of our safe handling and storage of their data and encourage discussions with us on any residual concerns to ensure they can retain confidence in our processes and the commitment of our audit teams to properly managing their data.

### 2. FINANCIAL AUDIT UPDATE

The audit entrance meeting was held with the Audit Committee Chair and Management on 10 February 2020. Interim testing for the 30 June 2020 financial statement audit of the City has been completed. Interim management letter has been issued in draft for management comments. There were 16 findings identified, 5 significant, 8 moderate and 3 minor.

IS Audit has not yet commenced and was delayed because of COVID-19. The IS Audit is scheduled to commence in mid-August.

### 3. OAG REPORTS RECENTLY TABLED IN PARLIAMENT

We have recently tabled in Parliament the following reports which you may wish to review as the recommendations may have relevance to your agency. All reports are available from our website – [www.audit.wa.gov.au](http://www.audit.wa.gov.au)

#### July 2020 – Working with Children Checks – Ensuring Compliance

The audit objective was to assess whether the WA Health system and the Departments of Education and Justice complied with their Working with Children Check requirements. We found all 3 entities understood the need for Working with Children Cards but none fully complied with their obligations or could not be sure that everyone who needed a card, had one. The report contains a number of recommendations to ensure entities manage their working with children obligations. These are relevant to all public sector entities who work with children not just those audited.

#### June 2020 – Regulation of Consumer Food Safety by Local Government Entities

The audit objective was to determine whether local government entities effectively regulate consumer food safety in food businesses. We found weaknesses that increase the risk that unsafe food practices are not addressed and the public consumes hazardous food. All Western Australia local government entities are encouraged to consider the findings and recommendations in this report against their own practices so that the public can be confident that the food they consume is safe and can demonstrate fair and equitable regulatory approaches to food businesses in their local area.

In this audit we also examined how effectively the Department of Health monitors consumer food safety. However, this part of the audit was put on hold due to the ongoing COVID-19 pandemic. We plan to table findings specific to the Department of Health at a later date.

#### June 2020 - Western Australian Public Sector Audit Committees – Better Practice Guide

This stand-alone better practice guide provides better practice principles and guidance to accountable authorities, audit committee members and senior managers with responsibility for audit committee activities. Tailored for public sector entities, the principles and practices outlined in this guide generally apply to all audit committees. The guide includes a toolkit with useful resources for all entities.

#### June 2020 – Information Systems Audit Report 2020 - Local Government Entities

This report looked at information security practices and general computer controls across 10 local government entities and found 150 computer control issues. Weaknesses can compromise the confidentiality, integrity and availability of entities' information systems. All entities need to act on the findings and recommendations of this report – not just those audited.

#### May 2020 – Regulation of Asbestos Removal

The audit objective was to assess if WorkSafe effectively regulates asbestos removal. We found significant gaps limit the effectiveness of WorkSafe's regulation of asbestos removal. WorkSafe's regulatory actions are not risk-based, documentation is weak, and there is a lack of rigour and

transparency in licensing approval controls. The recommendations in this report can be applied to the diverse regulatory regimes of other entities.

#### May 2020 - Local Government Contract Extensions and Variations

The report found contract management policies and procedures at most of the sampled local government entities lacked appropriate guidance for staff to correctly and consistently process extensions and variations. Some contract extensions did not have evidence of contractor performance reviews, some variations were not approved by delegated officers and contract registers were missing key information required for effective contract management. The report contains recommendations and better practice guidance to assist all local government entities, including those not audited, to improve their contract management processes.

#### April 2020 – Control of Monies Held for Specific Purposes

The report found sampled State government entities generally had appropriate controls, policies and procedures in place to support the control of monies held for specific purposes. The report includes better practice guidance that may be useful for entities managing COVID-19 funds.

### 4. SELECTED IN-PROGRESS AUDITS

We are currently conducting the following audits which may be of interest to your agency. To find out more information and anticipated tabling dates as well as our forward work program visit [www.audit.wa.gov.au](http://www.audit.wa.gov.au)

#### DLGSC's regulation and support of local government

The objective is to assess whether the Department of Local Government, Sport and Cultural Industries effectively regulates and supports local government entities.

#### Local government waste management

The objective is to determine whether local government entities plan and deliver effective waste management services to their communities.

#### Grant administration

The objective is to determine if policies, procedures and controls over grant administration are adequate and effectively implemented to ensure that grants are awarded equitably, expended for the intended purposes and contribute to the intended program outcomes.

#### Regulation of consumer food safety – part 2

The objective is to determine whether the Department of Health effectively regulate consumer food safety in food businesses.

#### Managing the impact of plant and animal pests – follow-up audit

The objective is to assess whether the Department of Primary Industries and Regional Development has effectively addressed findings from the 2013 report *Managing the impact of Plant and Animal Pests: A state-wide Challenge*.

#### Contracted-out maintenance

The is to determine whether the Department of Finance effectively manages its contracted out maintenance of buildings.

### Managing unauthorised discharge of minor pollutants

The objective is to assess if the Department of Water and Environmental Regulation and local government entities effectively regulate the unauthorised discharge of minor pollutants by businesses that do not require a licence (operators).

### Delivering essential services to remote Aboriginal communities – Follow-up audit

The objective is to assess progress made by the Department of Communities towards effectively meeting its responsibilities to deliver services to remote Aboriginal communities since our 2015 report.

### Major projects – status reports

The objective is to report to Parliament on the status of a selection of major projects.

## 5. ACCOUNTING STANDARDS

The following Accounting Standards have been issued or revised. The key changes have been included for your information only. Your finance staff will need to consider the impact on your financial statements, in the context of any Treasury pronouncements.

Nº	Accounting Standard	First year end	Summary
1	<p>AASB 15 <i>Revenue from Contracts with Customers</i>  AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>  AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i>  AASB 2016-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i>  AASB 1058 <i>Income of Not-for-Profit Entities</i>  AASB 2018-4 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors</i></p>	31 December 2019	<p>Under the new standards, the timing of revenue recognition may change.</p> <p>AASB 15 (including amendments in AASB 2016-3) introduces new requirements for recognising revenue when performance obligations are satisfied. The current requirements for NFP entities focus on when they obtain control of a contribution. AASB 2016-8 provides guidance to assist implementation of AASB 15 by NFP entities, including when there is a donation component as well as a performance obligation. AASB 2016-7 defers the application date of AASB 15 to 1 January 2019 for NFP entities. AASB 2018-4 provides guidance on accounting for revenue from licences by NFP public sector licensors.</p> <p>Under AASB 1058, a NFP entity will recognise income immediately for the excess of the initial carrying amount (generally fair value) of the asset acquired over the consideration paid/payable and any other related amounts (such as revenue or a contract liability for a performance obligation under AASB 15, a contribution by owners, a lease liability (e.g. a peppercorn lease), a financial liability (e.g. prepaid rates received by a local government) or a provision, as applicable). An exception is a financial asset received to acquire or construct a recognisable non-financial asset (i.e. a capital grant) which will result in an initial liability, with income recognised when or as the obligation is satisfied.</p> <p>AASB 2019-6 amends AASB 15 and AASB 1058 to allow NFP entities to elect not to apply those standards to research grants until the year ending 30 June 2020 (due to difficulties encountered by December reporters with research grants).</p> <p>The AASB Staff FAQs have been published to provide guidance on some common implementation issues including research grants and NFP schools.</p>

	<p>AASB 2019-6 <i>Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities</i></p> <p>AASB Staff FAQs: AASB 15, AASB 1058 and AASB 16</p>		
2	<p>AASB 9 <i>Financial Instruments</i></p>	31 December 2018	<p>New standard AASB 9 changes the classification and measurement of financial assets.</p> <p>Key changes include a new approach for recognising provisions for bad/doubtful debts from the date of initial recognition of the receivable based on expected credit losses.</p> <p>In addition, for entities that have or may be considering hedge accounting, requirements have been simplified to eliminate the retrospective hedge effectiveness test.</p>
		31 December 2019	<p>AASB 2016-8 (outlined above in relation to the revenue standards) also amends AASB 9 to provide guidance that non-contractual receivables arising from statutory requirements (e.g. rates, taxes and fines) have to be initially accounted for as if they were financial assets.</p>
3	<p>AASB 16 <i>Leases</i></p> <p>AASB 2018-8 <i>Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities</i></p> <p>AASB 2019-2 <i>Amendments to Australian Accounting Standards – Implementation of AASB 1059</i></p> <p>AASB 2019-8 <i>Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases</i></p>	31 December 2019	<p>For lessees, new standard AASB 16 removes the distinction between operating leases and finance leases, and requires all leases (except short-term leases and leases of low-value assets) to be recognised as right-of-use (ROU) assets and lease liabilities on the balance sheet. This will result in the grossing-up of the balance sheet and higher expense in the early years of the lease term (similar to the current finance lease treatment).</p> <p>Lessor accounting remains similar to current practice, i.e. lessors continue to distinguish between operating leases and finance leases.</p> <p>AASB 2018-8 provides a temporary option for NFP lessees to either measure the ROU assets at cost or at fair value for concessionary leases. If the cost approach is used, additional disclosures about the concessionary leases are required. The AASB intends to reassess the optional measurement approach when further guidance has been developed to assist NFP entities in fair valuing concessionary leases. AASB 2019-8 specifies that ROU assets arising under concessionary leases can be treated as a separate class of ROU assets to those arising under non-concessionary leases.</p> <p>Refer to the section on AASB 1059 below for the impact of AASB 2019-2.</p>
4	<p>AASB 1059 <i>Service Concession Arrangements: Grantor</i></p> <p>AASB 2018-5 <i>Amendments to Australian Accounting</i></p>	31 December 2020	<p>The standard applies to service concession arrangements (Public Private Partnership arrangements) that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services.</p>

	<i>Standards – Deferral of AASB 1059</i> AASB 2019-2 <i>Amendments to Australian Accounting Standards – Implementation of AASB 1059</i>		<p>The standard will require the grantor to recognise a service concession asset (e.g. infrastructure, previously unrecognised intangible asset) and, in most cases, a service concession liability. The service concession liability will be accounted for, depending on the terms and conditions, under:</p> <ul style="list-style-type: none"> <li>the financial liability model (if the grantor pays the operator); or</li> <li>the 'grant of a right to the operator' (GORTO) model (if the operator is not paid by the grantor but by third party users).</li> </ul> <p>Also, the timing of recognition will generally be earlier than under current practice.</p> <p>AASB 2019-2 makes amendments to AASB 16 and AASB 1059 to:</p> <ul style="list-style-type: none"> <li>change the modified retrospective method for measuring the GORTO liability and the financial liability at transition</li> <li>modify AASB 16 to provide a practical expedient to grantors of service concession arrangements so that, for assets that would be recognised as service concession assets under AASB 1059, the entity would not have to apply AASB 16 but would continue to apply its existing accounting policy in the year before AASB 1059 becomes effective.</li> </ul>
5	<i>AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material</i>	31 December 2020	The AASB 2018-7 amendments to AASB 101 clarify the definition of material and its application by improving the wording of the definition and accompanying explanation. They also align the definition across AASB Standards and other publications.
6	<i>AASB 2019-7 Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations</i>	31 December 2020	<p>Applicable to the WA Annual Report on State Finances (ARSF).</p> <p>AASB 2019-7 makes amendments to AASB 1049 to:</p> <ul style="list-style-type: none"> <li>provide optional relief for the General Government Sector (GGS) financial statements and the Whole of Government (WoG) financial statements from disclosure of: <ul style="list-style-type: none"> <li>the GFS key fiscal aggregates where they differ from the corresponding GAAP key fiscal aggregates; and</li> <li>a reconciliation of the two measures of key fiscal aggregates</li> </ul> </li> <li>where the entity elects to adopt the optional relief – require additional disclosures.</li> </ul>
7	<i>AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i>	30 June 2022	<p>This Standard sets out a new, separate disclosure Standard to be applied by all entities (including public sector entities) that are reporting under Tier 2 of the Differential Reporting Framework in AASB 1053. This Standard has been developed based on a new methodology and principles to be used in determining the Tier 2 disclosures that are necessary for meeting user needs, to replace the current Reduced Disclosure Requirements (RDR) framework.</p> <p>Please see <a href="#">AASB 1060 Key Facts</a>.</p>

## 6. AUDITING STANDARDS

The following Auditing and Assurance Standards have been issued or revised. The key changes and the impact on the audit have been included below for your information.

N°	Auditing Standard	First year end	Summary
1	ASA 540 <i>Auditing Accounting Estimates and Related Disclosures (Revised)</i>	31 December 2020	<p>ASA 540 was revised because developments in business environments, technology and financial instruments have given rise to new audit challenges. Further, an increasing use of estimates in preparing financial statements has increased the importance that users place on disclosures related to accounting estimates.</p> <p>The more significant changes include:</p> <ul style="list-style-type: none"> <li>i. An audit objective that related accounting disclosures should be 'reasonable' in the context of the financial reporting framework rather than 'adequate' used in the extant standard</li> <li>ii. Scalability to all accounting estimates is reinforced in the following ways: <ul style="list-style-type: none"> <li>• emphasis and detailed description of the concept of a "spectrum of inherent risks"</li> <li>• use of wording that indicates conditionality</li> <li>• emphasis that the higher the assessed risk of material misstatement (ROMM), the more persuasive the audit evidence needs to be</li> </ul> </li> <li>iii. Enhancing the auditor's application of professional scepticism and consideration of the potential for management bias, including: <ul style="list-style-type: none"> <li>○ enhanced risk assessment requirements</li> <li>○ more prescriptive requirements for obtaining audit evidence</li> <li>○ a requirement to "stand back" and evaluate the audit evidence</li> <li>○ use of stronger terminology in application material such as 'question' or 'challenge'</li> </ul> </li> <li>iv. Enhanced requirements and application material to address risk assessment include: <ul style="list-style-type: none"> <li>○ a separate assessment of inherent risk and control risk in order to drive a focus on consideration of inherent risk factors in identification and assessment of ROMM.</li> <li>○ the introduction of inherent risk factors for consideration of estimation uncertainty, complexity, subjectivity and other inherent risk factors.</li> </ul> </li> <li>v. Objectives-based requirements for each testing strategy based on methods, assumptions and data while considering inherent risk factors</li> <li>vi. More specific audit documentation requirements for accounting estimates.</li> </ul>

## 7. OTHER MATTERS OF INTEREST

Other matters that your agency may find of interest include:

### Governance

#### The Governance Institute of Australia – Conflict of Interest in the Public Sector

The Governance Institute of Australia has updated its Good Governance Guide on conflicts of interest in the public sector. The guide sets out the importance of identifying actual, perceived and

potential conflicts of interest however it is the declaration and management of the conflict of interest that is critical. The Good Governance Guide can be accessed on the Governance Institute Resource Centre (free for members). It is also free to the public as part of their public sector starter pack.

### [Audit Committees: A Guide to Good Practice](#)

The Auditing and Assurance Standards Board, the Australian Institute of Company Directors and The Institute of Internal Auditors- Australia have produced the third edition of [Audit Committees: A Guide to Good Practice](#). This guide provides a practical introduction to the role and responsibilities of an audit committee. The guide is primarily for directors and audit committees of Australian listed companies. However, directors and audit committees of not-for-profit, public sector and other private sector entities may also find this guide to be a useful reference.

## **Initiatives**

### [Decluttering the Financial Statements](#)

There is currently an ongoing initiative by entities preparing financial statements, standard-setting bodies and regulators to reduce the clutter that has accumulated in financial statements. The AASB has issued a paper entitled [Improving and Rationalising Disclosures](#).

### [Climate-related and Other Emerging Risks Disclosures](#)

The Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board's (AUASB) joint publication [Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2](#) (April 2019) considers how entities should disclose climate-related and other emerging risks.

Climate-related risks include those from potential acute or chronic natural disasters, change in climate patterns and the related technology, market, legal and changes in government policies risks.

Entities affected by climate-related risks include those in the financial sector such as banks, insurance groups, asset/investment owners and managers, and also in the non-financial sector such as in the energy, transportation, materials and buildings, and agriculture, forest and food product sectors. Currently, climate-related discussion in an annual report is predominantly included outside the financial statements, if at all.

The AASB/AUASB publication goes further. Given investor and other stakeholder statements on the importance of climate-related risks to their decision-making, the impact of the materiality definition and the AASB/IASB Practice Statement 2 *Making Materiality Judgements* is that entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and should also consider them for disclosure in their financial statements. For example, an entity may need to disclose its judgements and assumptions regarding climate-related risks in relation to asset impairment, fair value estimates, asset useful life estimates, provisions and expected credit losses, if considered material.

### [COVID-19 Financial Reporting Guidance](#)

The AASB has a dedicated page [COVID-19-Guidance](#) on its website providing links to relevant publications to support entities on COVID-19 financial reporting issues.