

With the consent of the Committee on Friday 27 March 2015, (Decision 21\3171) all Decisions and Supporting Documents were moved from the Confidential Section of Council's Minutes into the Open Section.



Business Papers

Risk Management & Audit Committee Meeting

**Friday, 27 March 2015
9:00am**

Notice of Meeting

To the Lord Mayor and Aldermen

You are invited to attend the Risk Management & Audit Committee Meeting to be held in Meeting Room 1, Level 1, Civic Centre, Harry Chan Avenue, Darwin, on Friday, 27 March 2015, commencing at 9.00 am.



ANNA MALGORZEWICZ
ACTING CHIEF EXECUTIVE OFFICER

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CITY OF DARWIN

RISK MANAGEMENT & AUDIT COMMITTEE

FRIDAY, 27 MARCH 2015

MEMBERS: Mr Iain Summers (Chairman); Member R K Elix; Member S J Niblock; Mr Craig Spencer.

OFFICERS: Chief Executive Officer, Mr Brendan Dowd; General Manager Corporate Services, Dr Diana Leeder; Team Coordinator Risk Audit & Safety, Mr Tony Simons; Manager Strategy & Outcomes, Ms Vanessa Green; Finance Manager, Mr Miles Craighead; Executive Assistant Corporate Services, Ms Misha Peck.

Enquiries and/or Apologies: Misha Peck
E-mail m.peck@darwin.nt.gov.au - PH: 89300 539
OR Phone Committee Room 1, for Late Apologies - PH: 89300 519



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Risk Management & Audit Committee Meeting – Friday, 27 March 2015

1. MEETING DECLARED OPEN

2. APOLOGIES AND LEAVE OF ABSENCE

2.1 Apologies

2.2 Leave of Absence Granted

THAT it be noted Member R K Elix is an apology due to a Leave of Absence previously granted on 24 February 2015, for the period 24 March 2015 to 30 March 2015.

2.3 Leave of Absence Requested

3. DECLARATION OF INTEREST OF MEMBERS AND STAFF

3.1 Declaration of Interest by Members

3.2 Declaration of Interest by Staff

4. CONFIDENTIAL ITEMS

4.1 Closure to the Public for Confidential Items

Common No. 1944604

THAT pursuant to Section 65(2) of the Local Government Act and Regulation 8 of the Local Government (Administration) Regulations the meeting be closed to the public to consider the following Items:-

<u>Item</u>	<u>Regulation</u>	<u>Reason</u>
7.1	8(c)(iv)	information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person
9.1-9.14	8(c)(iv)	information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person

Risk Management & Audit Committee Meeting – Friday, 27 March 2015

5. CONFIRMATION OF MINUTES PERTAINING TO THE PREVIOUS RISK MANAGEMENT & AUDIT COMMITTEE MEETING

5.1 Risk Management & Audit Committee Meeting held on Friday, 07 March 2014

THAT the minutes of the previous Risk Management & Audit Committee Meeting held on Friday, 07 March 2014, tabled by the Chairman, be received and confirmed as a true and correct record of the proceedings of that meeting.

5.2 Risk Management & Audit Committee Meeting held on Friday, 31 October 2014

THAT the minutes of the previous Risk Management & Audit Committee Meeting held on Friday, 31 October 2014, tabled by the Chairman, be received and confirmed as a true and correct record of the proceedings of that meeting.

6. BUSINESS ARISING FROM THE MINUTES PERTAINING TO THE PREVIOUS RISK MANAGEMENT & AUDIT COMMITTEE MEETING

6.1 Business Arising

7. INFORMATION ITEMS

7.1 Review of Outstanding Audit Issues Register Common No. 422690

*The Outstanding Audit Issues Register is **Attachment A**.*

THAT the Committee resolve under delegated authority:-

THAT the Outstanding Audit Issues Register as at 12 March 2015, be received and noted.

CITY OF DARWIN RISK MANAGEMENT & AUDIT COMMITTEE REGISTER OF OUTSTANDING AUDIT ISSUES

EFFECTIVE DATE: 27 MARCH 2015

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
<p>116</p> <p>ASSET MANAGEMENT & FINANCIAL SUSTAINABILITY REVIEW</p> <p>Access Economics and Jeff Roorda & Associates (Nov 2009)</p>	<p>1. Review policy against updated NAMSPLUS Policy template.</p>	<p>Manager Technical Services</p>	<p>May 2014 (amended from May 2013)</p>	<p>November 2013: Draft completed to go to Asset Management Steering Committee in December prior Council in February 2014. New revised recommendations as per November 2013 report</p>	
	<p>2. Establish and Asset Management working group. The focus of the group will be to implement AM improvement program from a technical perspective.</p>	<p>Manager Technical Services</p>	<p>May 2013</p>	<p>November 2013: Completed October 2013 New revised recommendations as per November 2013 report</p>	
	<p>3. Complete documentation on key asset management tasks, roles and responsibilities.</p>	<p>Manager Technical Services</p>	<p>February 2014 (amended from May 2013)</p>	<p>November 2013: Draft completed and to be approved by the Asset Management Steering Committee in December 2013. New revised recommendations as per November 2013 report</p>	
	<p>4. Ensure that the current register is kept up to date and asset condition is monitored and reported as part of the annual review of the works programme. To be done by developing relevant procedures.</p>	<p>Manager Technical Services</p>	<p>February 2014 (amended from May 2013)</p>	<p>November 2013: New construction and planning checklists include ensuring asset packs are completed for all projects. Asset procedure being updated to reflect checklists.</p>	
	<p>5.a. Complete Strategy using NAMSPLUS template on completion of the updated Asset Management Plans b. Ensure the AM strategy covers the following areas: . Identify assets that are critical to the council's operations and outline risk management strategies for these assets. . Include specific actions required to improve council's asset management capability and projected resource requirements and timeframes</p>	<p>Manager Technical Services</p>	<p>August 2014 (amended from August 2013)</p>	<p>November 2013: Asset Management Strategy has been drafted and requires adoption of asset management plans and policy to be completed. New revised recommendations as per November 2013 report</p>	
	<p>6. Set up a formal process for corporate risk reporting for any residual high risks from Risk/AMPs to Council and Audit Committee</p>	<p>Manager Technical Services with TC Risk Audit & Safety</p>	<p>November 2013</p>	<p>New revised recommendations as per March 2013 report New revised recommendations as per November 2013 report</p>	
	<p>7. Ensure AMP risks are included in the corporate risk register and reported to COG/council/audit committee for acceptance of residual risk.</p>	<p>Manager Technical Services with TC Risk Audit & Safety</p>	<p>November 2013</p>	<p>New revised recommendations as per March 2013 report New revised recommendations as per November 2013 report</p>	
	<p>8. Review business processes and document to ensure audit trail for financial transactions, asset register updates and annual reporting.</p>	<p>Manager Finance with Manager Technical Services</p>	<p>February 2014</p>	<p>New revised recommendations as per March 2013 report New revised recommendations as per November 2013 report</p>	
	<p>9. Provide a knowledge management strategy to continue to identify skills and knowledge needed for the technology/data options and audit trail, security etc.</p>	<p>Manager Technical Services</p>	<p>February 2014</p>	<p>New revised recommendations as per March 2013 report New revised recommendations as per November 2013 report</p>	
	<p>10. Develop and implement a maintenance and inspection management policy/framework and complete condition assessment manuals for all asset classes as required.</p>	<p>Manager Technical Services</p>	<p>May 2014</p>	<p>New revised recommendations as per March 2013 report New revised recommendations as per November 2013 report</p>	
	<p>11. a. Develop Asset Management Improvement Program (AMIP). Program to include all improvement tasks identified in Council's Asset and Risk Management Plans and Strategy. b. Provide a data improvement programme as part of the asset management improvement programme based on benefit/costs/risk.</p>	<p>Manager Technical Services</p>	<p>May 2014</p>	<p>New revised recommendations as per March 2013 report New revised recommendations as per November 2013 report</p>	

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
122	REVIEW OF FRAUD MANAGEMENT ARRANGEMENTS Deloitte August 2011	<p>2.2.5 (1.2.4) Financial services (finance, payroll) procedures require further enhancement and updating.</p> <ul style="list-style-type: none"> Updating information based on changes in approval limits or resulting from system upgrades Noting the dates when the procedure was adopted and last adopted as well as the date of its next review Updating position titles move with the procedure especially in the case delegated officers were significant approval limits Identifying and noting the procedure owner Ensuring each section heading includes the appropriate text/instructions or, if deemed inapplicable is removed from the procedure Clarifying which position is responsible for the following listed procedures, either by preparing the procedures in the third person or including an overall statement at the beginning of the procedure. 	Manager Finance	March 2012 Amended to December 2012 Amended to May 13 Amended to Oct 2013 Amended to May 2014 Amended to July 2014 Amended to October 2014	See Report in Agenda for June 2012. See Report in Agenda for March 2013. See Report in Agenda for August 2013. New revised recommendations as per March 2014 report See Minutes from item 10.1 May 2014 meeting. See Minutes from item 9.4 August 2014 meeting.
137	ASSET MANAGEMENT PLAN (original OAI 116 arising from Asset Management & Financial Sustainability Review Nov 09 Access Economics and Jeff Roorda & Associates)	<p>Presentation on system improvements on the Asset Management Plan</p>	Manager Technical Services	March 2014 Amended to December 2014	See Agenda item 9.5 March 2013 meeting See Minutes from item 9.6 May 2014 meeting.
139	ASSESSMENT OF PROCUREMENT PROCESSES Deloitte August 2013	<p>3.3.6 a) Guidelines should be established for non-standard (smaller) suppliers, roles and responsibilities outlined, processes explained and practices tailored, as applicable.</p> <p>3.3.6 b) The guidelines should also support improved event planning by including:</p> <ul style="list-style-type: none"> Timeframes for how many weeks/days in advance the event organisers should provide Financial Services with creditor documentation, seek preapprovals, raised purchase orders, etc. Timeframes should also be set within which Financial Services are to process the provided documentation, including any resulting invoices Options and/or requirements for seeking preapproval every quarter for a certain amount of items and amounts related to upcoming events in the next quarter or for major upcoming events to ensure documentation is gathered and processed timely An event planning checklist that could also be developed to include, among other steps, documentation that needs to be gathered and steps undertaken in terms of financial management of events. 	Manager Finance General Manager Corporate Services	March 2014 Amended to May 2014 Amended to July 2014 Amended to October 2014	See Report in Agenda for March 2014. See Minutes from item 10.1 May 2014 meeting See Minutes from item 9.5 August 2014 meeting This matter is very minor in nature and relates to the ad hoc engagement of suppliers for minor services. Suppliers will not have an ABN and are paid by cheque which is a slower process. Manage through information to suppliers at time of engagement and advise re timing of payments. TRANSFER TO COMPLETED ISSUES REGISTER MARCH 2015

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
139	ASSESSMENT OF PROCUREMENT PROCESSES Deloitte August 2013	<p>Credit cards - Credit Card policy and procedures require updating</p> <p>3.4.2 a) The approval practice is currently in place but this should be reflected in the policy to ensure staff are aware of good practice.</p> <p>Reliability of Monitoring & Reporting Processes</p> <p>1 The Manager Strategy and Outcomes to ensure all KPIs reported in Interplan are supported by accurate and reliable source documentation. This documentation should be retained (either electronically within Interplan or in hard copy) for each Progress Report. These requirements should be clearly documented and communicated to management and staff across the council.</p>	General Manager Corporate Services	March 2014 Amended to May 2014 Amended to July 2014 Amended to October 2014	See Report in Agenda for March 2014. See Minutes from item 10.1 May 2014 meeting See Minutes from item 9.5 August 2014 meeting
		<p>Lack of Linkage within Strategic Performance framework</p> <p>2.1 Review the Strategic Performance Framework to ensure only those plans required in the process are included and that each cascades from the previous to ensure linkages. A pragmatic approach should be taken with this review to ensure the plans are relevant and will be applied.</p>	Manager Strategy & Outcomes	June 2014 Amended to 31 December 2014	New revised recommendations as per March 2014 report
		<p>Lack of Linkage within Strategic Performance framework</p> <p>2.2 Include both a City and Council Vision with separate Council strategic goals.</p>	Manager Strategy & Outcomes	June 2014 Amended to 31 December 2014	New revised recommendations as per March 2014 report
		<p>Lack of Linkage within Strategic Performance framework</p> <p>2.3 Gain business ownership in strategic direction. The business needs to be involved in the strategic planning development process as well as its application throughout the year. They should be questioning any operational activities not contributing to the agreed strategic direction. The agreed strategic direction should be reflected in actions and performance assessments, including staff appraisals.</p>	Manager Strategy & Outcomes	June 2014 Amended to 31 December 2014	New revised recommendations as per March 2014 report
140	STRATEGIC PERFORMANCE FRAMEWORK BDO December 2013	<p>Inappropriate Key Performance Measures</p> <p>3.1 Using the information provided as a result of this Internal Audit project, review the suite of KPIs focussing on what is key, measurable and relevant, as well as including both lead (or real time) and lag indicators.</p> <p>Inefficient Reporting Processes</p> <p>4.1 Based on business area needs, CoD should develop a standard suite of reporting to be produced from Interplan.</p> <p>4.2 CoD should also review the process to record and update information in Interplan to improve its efficiency. Revised processes should then be rolled out across the organisation. Business areas should then be encouraged to use Interplan rather than alternative sources.</p>	Manager Strategy & Outcomes	June 2014 Amended to December 2014	New revised recommendations as per March 2014 report
			Manager Strategy & Outcomes	December 2013 Amended to 30 September 2014	New revised recommendations as per March 2014 report

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
141	<p>AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 AUDIT CLOSING REPORT MERIT PARTNERS</p>	<p>Council should ensure that values reported in the valuation report match the values reported in the fixed asset register.</p> <p>1.1 Agreed that the valuation report and the fixed asset register should agree. In future agreed amendments to the valuations will require the valuation report to be amended and updated.</p> <p>1.2 Agreed that assets accounting including any revaluation should be occurring in a timely manner and prior to audit visit.</p> <p>1.3 All asset accounting and revaluation timelimes for 2013/14 have been reviewed, restructured, better resourced and programmed to target completion on or about 30/06/14.</p> <p>1.4 Additional asset audit work has been programmed in for 2013/14 in advance of the year-end relating to the revaluation of infrastructure assets</p> <p>1.5 Noting: the Asset Accountant resigned prior to year end exacerbating resourcing issues, the original misclassification of DEC assets as land was in 2011/12, the issue of the DEC valuation was queried with the Valuer's by the Manager Finance but no adjustment transpired until following the discussion with Audit.</p> <p>Processes can be improved for future audits:</p> <p>2.1 It is proposed to engage additional independent IT support at year end to facilitate audit queries that are not accommodated by existing reports or features directly available to the Audit or Finance Team.</p> <p>2.2 All audit requests to Finance Team not satisfied immediately or assigned an agreed time are to be escalated to the Manager Finance.</p> <p>2.3 The Finance Manager and Management Accountant will hold staff training discussions, written guidance and be responsible for review work.</p> <p>Adopt approaches to negate the risks associated with high leave balances.</p> <p>3.1 An issue is the standard six-week annual leave for the Northern Territory.</p> <p>3.2 Council has implemented an option of cashing out but is also continuing to monitor that people do take reasonable leave.</p>	<p>Manager Finance</p>	<p>August 2014</p>	

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
142	<p>CONTROL SELF-ASSESSMENT August 2014</p>	<p>Corporate Information:</p> <ul style="list-style-type: none"> a) Records management file structure is dictated by sentencing & disposal schedule provided by NTG. <ul style="list-style-type: none"> • Records Management is undergoing performance audit and structural reorganisation • Target of 50% compliance to be achieved by December 2014 as part of implementation of audit recommendations b) Corporate Information use NTG EDMS rules and naming conventions. City of Darwin has dedicated thesaurus. Rules, thesaurus and naming conventions monitored by Records Branch when new files created. Disposal of files is guided by disposal schedule <ul style="list-style-type: none"> • Records Management is undergoing performance audit and structural reorganisation • Records Management Policy to be adopted by COG and implemented across the organisation as part of the audit recommendations c) File owner required to approve disposal of files <ul style="list-style-type: none"> • Records Management is undergoing performance audit and structural reorganisation • Disposal schedule has been implemented but disposals have not yet been actioned due to Records Section review process still being conducted • Records Management Policy to be adopted by COG and implemented across the organisation as part of the audit recommendations <p>Business Services: Contracts Section conducts periodic training of Council staff</p> <ul style="list-style-type: none"> • Last training conducted on two years ago, principally due to lack of response from staff to attend • Discuss with Training and Development Officer content of training and schedule on Training Calendar as mandatory training for staff involved in developing tender specifications or acting as contract superintendents <p>Climate Change & Environment Environment Management check off that the cash collections from the Weighbridge have been receipted. Report should be provided to Waste Manager monthly on banked takings. Currently Waste Officer receives daily Mandalay report but only aware of banking amounts if discrepancy occurs and reported by Customer Services</p>	<p>Records Manager</p>	<p>December 2014</p>	<p>See Minutes from item 9.3 August 2014 meeting</p> <p>This matter is now being addressed by management as part of the overall review of records management section and the introduction of an improved version of Council's EDRMS TRANSFER TO COMPLETED ISSUES REGISTER MARCH 2015</p>
			<p>Manager Business Services</p>	<p>December 2014</p>	<p>This matter has been addressed through the implementation of the new electronic tendering process. All staff who currently participate in tender assessment have been trained. Training is provided to any new staff member TRANSFER TO COMPLETED ISSUES REGISTER MARCH 2015</p>
			<p>Manager Climate Change and Environment</p>	<p>December 2014</p>	<p>This recommendation will need to be revisited as it appears inconsistent with business practise. Will be addressed as part of the upgrade to the Control Self-Assessment System TRANSFER TO COMPLETED ISSUES REGISTER MARCH 2015</p>

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
ENVIRONMENTAL MANAGEMENT SYSTEM ASSESSMENT DELOITTE August 2014 143	3.1 Environmental advocacy groups and other stakeholders should be engaged further in the annual forum a) Develop database of key stakeholders including: <ul style="list-style-type: none"> • Electricity and water suppliers • Natural resource management groups • Environmental advocacy groups • Research bodies • Other similar sized organisations b) This database to be regularly updated for currency (biannually) c) This database to be used as invite list for CC&E Forum and other information sharing opportunities	Manager, Climate Change & Environment December 2014			
	3.2 Reporting processes against environmental KPIs should be further clarified. a) Update Standard Operating Procedure 008 "Greenhouse Gas Emissions Reporting" to include: <ul style="list-style-type: none"> • Listing of assets included in the calculations • Council-approved target of 15% of 2008/09 emissions by 2016 	Manager, Climate Change & Environment December 2014			
	3.2 Reporting processes against environmental KPIs should be further clarified. b) Update Standard Operating Procedure 010 "Tree Planting Reporting" to include: Frequency of reports against KPIs	Manager Infrastructure Services December 2014			
	3.3 A formal central register for compliance with environmental legislation should be implemented and maintained. a) Develop a database of relevant federal and NT legislation. b) Database to be reviewed annually and as required when changes to legislation occur	Manager, Climate Change & Environment December 2014			
	3.4 Inspections and monitoring regimes should contain explicit reference to environmental issues a) Develop Standard Operating Procedure for site inspections and monitoring b) Develop checklist for inspections	Manager Climate Change & Environment and Manager Infrastructure Capital works March 2015			
3.5 Contractors' reports should contain explicit reference environmental issues or conditions. a) Develop standard reporting procedures for contractors b) Incorporate reporting procedures into contract documents c) Develop report database d) Reporting procedures to be updated annually and as required by the legislation register listed above	Manager Climate Change & Environment and Manager Contracts and Manager Infrastructure Capital Works July 2015				

OAI NO.	AUDIT NAME & AUDITOR	AUDIT ISSUE & REFERENCE	RESPONSIBLE OFFICER	AGREED COMPLETION DATE	IMPLEMENTATION STATUS
143	<p>ENVIRONMENTAL MANAGEMENT SYSTEM ASSESSMENT</p> <p>DELOITTE August 2014</p>	<p>3.6 Contractors should submit environmental management plans.</p> <ul style="list-style-type: none"> a) Develop template Environmental management Plan documents b) Incorporate requirements into standard contract documents <p>3.7 A standard set of environmental conditions based on legislative requirements should be written into contracts or leases.</p> <ul style="list-style-type: none"> a) Research and develop environmental clauses and conditions b) Incorporate into new leases and contracts c) Incorporate into reviewed leases and contracts <p>3.8 Leases and contracts should be regularly reviewed to account for changes in environmental legislation or conditions.</p> <ul style="list-style-type: none"> a) Compile relevant legislation b) Develop Standard Operating Procedure for review of leases and contracts c) Develop clause for review of all contracts and leases for environmental legislation <p>3.9 A data management program for the collection of the GHG emissions data should be established.</p> <ul style="list-style-type: none"> a) GHG Inventory data to be maintained in ECM for version control b) Investigate protection options available in Excel <p>3.10 The Operational Risk Assessment of the Office of the Chief Executive should be further updated (minor matter).</p> <ul style="list-style-type: none"> a) Update Operational Risk Assessment to include standard operating procedure in place for emissions reporting 	<p>Manager Climate Change & Environment and Manager Contracts and Manager Infrastructure Capital Works</p> <p>Manager Climate Change & Environment and Manager Contracts</p> <p>Manager Climate Change & Environment and Manager Contracts and Manager Infrastructure Capital Works</p> <p>Manager Climate Change & Environment</p> <p>Manager Climate Change & Environment</p>	<p>July 2015</p> <p>July 2015</p> <p>July 2015</p> <p>December 2014</p> <p>September 2014</p>	<p></p> <p></p> <p></p> <p></p> <p>This is a minor issue and has been completed as part of the 2014/15 review of the OCE Operational Risk Assessment TRANSFER TO COMPLETED ISSUES REGISTER MARCH 2015</p>

Risk Management & Audit Committee Meeting – Friday, 27 March 2015

8. ACTION ITEMS

**ENCL: RISK MANAGEMENT & AUDIT
NO COMMITTEE/CONF**

AGENDA ITEM: 9.1

PROGRESS REPORT ON CONTROL SELF-ASSESSMENT

REPORT No.: 15A0021 TS:mp

COMMON No.: 1536877

DATE: 27/03/2015

Presenter: Team Coordinator Risk Audit & Safety, Tony Simons

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to inform the Risk Management & Audit Committee on the progress of the Control Self-Assessment (CSA) program.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.3 Understand and manage Council's risk exposure

KEY ISSUES

- CSA was implemented in January 2012 following development and adoption of the operational risk assessments and the acceptance of CSA as an internal tool for extending audit capability
- Council has undertaken four assessments using the CSA methodology and 'Control Track' software
- The commercial rights to 'Control Track' software have been sold and the new owner has developed a front end risk analysis and risk management software package to improve functionality of the system and allow automation of updating of data between the risk registers and the CSA system
- The implementation of the new CSA system is dependent upon the completion of the improved risk assessments and risk registers
- Completion of the risk registers will not be achieved until the Municipal Plan is revised (March 2015) as the improvements to the risk assessments are directly linked to the departmental outcomes set out in the Municipal plan

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

THAT Report Number 150021 TS:mp entitled Progress of Control Self-Assessment, be received and noted.

BACKGROUND

City of Darwin uses CSA as a means to extend its audit coverage to ensure that control monitoring is undertaken regularly for business processes identified on the operational risk assessments as having a high risk. Internal controls are reviewed for control effectiveness annually.

The CSA systems uses a two stage process of review of control effectiveness by core staff, and a review of assessment undertaken by business unit managers and General Managers.

Scale of effectiveness scores for the CSA system is as follows:-

- 5 Control is effective
- 4 Control is majorly effective
- 3 Partially effective
- 2 Requires significant improvement
- 1 Ineffective
- 0 Not rated

DISCUSSION

The implementation of the new version of 'Control Track' and its supporting risk management software will commence in March 2015.

It is expected that the next round of CSA will commence early in the new financial year, once resourcing dependencies are freed up following the preparation and presentation of the annual financial accounts.

The CSA software vendor was approached to ascertain if it would be possible to conduct a round of CSA under the old framework, however there are a number of barriers presented, not the least being the upgrades required to the existing data base to account for staff movements in key CSA areas.

It is not anticipated that staff users of the software will be impacted; main focus is on the risk management package and its impact will be mainly on the Team Coordinator Risk Audit & Safety as the master controller of the system.

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management & Audit Committee for consideration.

POLICY IMPLICATIONS

Nil

BUDGET AND RESOURCE IMPLICATIONS

Nil – there is no cost associated with the system upgrade.

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

Continue to maintain an effective internal control monitoring and assessment program to meet risk management objectives.

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

TONY SIMONS
TEAM COORDINATOR RISK
AUDIT & SAFETY

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

For enquiries, please contact Tony Simons on 8930 0573 or email:
 t.simons@darwin.nt.gov.au

ENCL: RISK MANAGEMENT & AUDIT
NO COMMITTEE/CONF

AGENDA ITEM: 9.2

PROGRESS REPORT ON THE RISK MANAGEMENT FRAMEWORK

REPORT No.: 15A0020 TS:mp

COMMON No.: 2363571

DATE: 27/03/2015

Presenter: Team Coordinator Risk Audit & Safety, Tony Simons

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to inform the Risk Management & Audit Committee (RMAC) on the progress of the review of the Risk Management Framework.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.3 Understand and manage Council's risk exposure

KEY ISSUES

- City of Darwin manages its risks under three areas :-
 - A Strategic Risk Assessment (SRA); reviewed *in toto* every four years as new Councils are elected;
 - Four departmental based Operational Risk Assessments (ORA); which are reviewed as and when changes are necessitated following outcomes from internal audits and Control Self-Assessment (CSA) reviews, and then *in toto* annually;
 - A Workplace Health and Safety Risk Assessment (WHSRA); which is reviewed annually
- RMAC receives and reviews revised assessments.

PAGE: 2
REPORT NUMBER: 15A0020 TS:mp
SUBJECT: PROGRESS REPORT ON THE RISK MANAGEMENT FRAMEWORK

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

THAT Report Number 14A0020 TS:mp entitled Progress of Risk Management Framework, be received and noted.

BACKGROUND

- The SRA was last reviewed in 2013 and is due for revision following the next Council general election in 2017 (amendments necessitated by internal audit and CSA outcomes have been made as and when required);
- The four departmental ORAs were last reviewed in October 2013. The process of annual review is 90 per-cent complete
- The WHSRA is due for review in January 2015; this process has commenced

DISCUSSION

The annual review of the four departmental ORAs commenced in October 2014.

Major improvements to the ORAs were made during the 2014 review, most notably being the changes to ensure that the “business process” elements of the ORAs reflected the key business objectives outlined in Council’s Municipal Plan.

This was undertaken to add further robustness and relevance to the ORAs by ensuring that the ORAs are aligned with the Municipal Plan as that document provides the key links between the Strategic Plan and operational business objectives and strategies.

During the project it became evident that some business process elements of the ORAs were not included in the current version of the Municipal Plan and vice versa.

In the future, reviews of the Municipal Plan and ORAs will be utilised to inform each other to ensure that both documents accurately reflect Council’s business objectives and strategies.

Preliminary work on preparation for the implementation of the new CSA software was undertaken in February 2015. The program will now include a new risk register component that automatically links risk and controls to the CSA program, obviating the need for the time consuming manual manipulation of data in both the ORAs and CSA.

Implementation of the new software will result in delays to the normally scheduled CSA process. Discussions were held with the software provider to ascertain whether CSA can be completed under the old program before roll-out of the new program commences however this is not practical.

PAGE: 3
REPORT NUMBER: 15A0020 TS:mp
SUBJECT: PROGRESS REPORT ON THE RISK MANAGEMENT FRAMEWORK

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management & Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Manager Strategy & Outcomes

POLICY IMPLICATIONS

Nil

BUDGET AND RESOURCE IMPLICATIONS

Nil

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

Continue to maintain an effective internal control monitoring and assessment program to meet risk management objectives.

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil.

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

TONY SIMONS
TEAM COORDINATOR RISK
AUDIT & SAFETY

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

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ENCL: NO	RISK MANAGEMENT & AUDIT COMMITTEE/CONF	AGENDA ITEM: 9.3
AUDIT CLOSING REPORT 2014		
REPORT No.: 15A0039 MC:mp	COMMON No.: 2251082	DATE: 27/03/2015

Presenter: Manager Finance, Miles Craighead

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to update the Risk Management & Audit Committee (RMAC) on progress in relation to decision 21/920 31/10/2014 including the final management response to the Audit recommendations.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.5 Responsible financial and asset management

Key Strategies

5.5.1 Manage Council's business based on a sustainable financial and asset management strategy

KEY ISSUES

- RMAC recorded a number of decisions at its last meeting.
- These decisions included the Committee being advised of the Final Management response to Audit observations and related matters.
- This report provides a full update of progress and actions relating to the decisions.

PAGE: 2
 REPORT NUMBER: 15A0039 MC:mp
 SUBJECT: AUDIT CLOSING REPORT 2014 - MANAGEMENT RESPONSE

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0039 MC:mp entitled Audit Closing Report 2014 - Management Response, be received and noted.
- B. THAT the current format of the "Management Discussion and Analysis" be replaced with an executive summary that might include frequently asked questions.

BACKGROUND

At its meeting held 31 October 2014 the Committee resolved under delegated authority as follows:

DECISION NO.21\3046 (31/10/2014)

Audited Financial Statements for the year ended 30 June 2014

Report No. 14A0175 MC:jm (31/10/2014) Common No. 2251082

- A. *THAT Report Number 14A0175 MC:jm entitled Audited Financial Statements for the year ended 30 June 2014, be received and noted.*
- B. *THAT the draft Financial Statements are suitable for certification by the Chief Executive Officer for inclusion in the Annual Report and presentation to Council before lodgement with the Minister and the Northern Territory Grants Commission in accordance with the statutory requirement. It was noted that the Chief Executive Officer's statement contains additional information that is not required under the Local Government Act and that these words could be removed, as the issues are covered by the management representation letter.*
- C. *THAT the final management responses to audit observations be tabled at the March 2015 Risk Management and Audit Committee meeting.*
- D. *THAT the request from the auditors about completing the notes to statements at an earlier date be noted and that management will work towards an improved timeframe in 2015.*
- E. *THAT the reserve balances be reviewed where the balances do not demonstrate any movement.*
- F. *THAT the key performance indicators in the management discussion and analysis relating to annual expenditure compared with budget have further explanatory notes added to clarify the manner in which the budget is varied during the year.*

PAGE: 3
 REPORT NUMBER: 15A0039 MC:mp
 SUBJECT: AUDIT CLOSING REPORT 2014 - MANAGEMENT RESPONSE

DISCUSSION

To the extent that the above Committee decision 21\2920 required specific actions the specific elements of the decision are reiterated below with accompanying update/comments.

C. *THAT the final management responses to audit observations be tabled at the March 2015 Risk Management and Audit Committee meeting.*

There were only 2 low risk matters raised by Audit. One related to the monthly GST/BAS and the other was in relation to the annual leave calculation.

The audit observation, effect and recommendation in relation to the monthly BAS is provided below and then following that this report sets out the final Management response:

City of Darwin

Observation	Effect	Risk category	Recommendation
<p>Preparation of Monthly BAS The Council prepares its monthly Business Activity Statement (BAS) based on information and data produced from the accounting system at the first day of every month.</p> <p>The Council's BAS, which is prepared on an accruals basis, is generally due for lodgement by the 23rd of each month.</p> <p>Invoices received post month end that are dated the previous month are entered into the Accounting system's Accounts Payable ledger, are recorded at the invoice date but are not captured in the BAS until the following month.</p> <p>For example, the June 2014 BAS is produced with data extracted from the accounting system on 1 July 2014. An invoice is received on 10 July 2014 and the invoice is dated 20 June 2014, is entered into general ledger as 20 June 2014 but any applicable GST on the invoice will not be claimed from the ATO until the July 2014 BAS is prepared and lodged.</p>	<p>The data within the monthly BAS is not complete and does not include all accrual balances pertaining to the period of activity.</p> <p>The Council is not claiming its full entitlement of input tax credits each month on a timely basis.</p>	Low	<p>The monthly BAS is prepared with data and information that includes invoices received and processed after month end (pertaining to the activity period), allowing sufficient time to prepare the statement by the due date.</p>

The final management response to the above audit observation, effect and recommendation in relation to the monthly BAS is provided below:

"This is a low risk issue and the costs of addressing it are considered to exceed the benefits."

The other low risk matter raised was the Annual Leave calculation and the audit report comments are set out below:

Observation	Effect	Risk category	Recommendation
<p>Annual Leave Calculation Australian Accounting Standards AASB 119 <i>Employee Benefits</i> requires employee benefits that are not expected to be settled within one year to be measured at the present value of the estimated future cash outflows to be made for these benefits. For annual leave provisions, not all entitlements are expected to be settled in 2014/15. This is a relatively new requirement.</p>	<p>The provision for annual leave has not been measured in accordance with the Accounting Standards. As a result the current year calculation may be misstated.</p>	Low	<p>Whilst not considered to be a material difference in the current year, the Council should measure the provision for annual leave in line with the requirements of the Accounting Standards.</p>

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 REPORT NUMBER: 15A0039 MC:mp
 SUBJECT: AUDIT CLOSING REPORT 2014 - MANAGEMENT RESPONSE

The final management response to the above audit observation, effect and recommendation in relation to the annual leave calculation is provided below:

“Agreed. Management will review this process for next year in consultation with Audit.”

D. THAT the request from the auditors about completing the notes to statements at an earlier date be noted and that management will work towards an improved timeframe in 2015.

Management will use its best endeavours to achieve this noting it is subject to when the templates become available. The Finance Manager will liaise and arrange for audit to provide guidance prior to the 30 June 2015 year end on its expectations for notes to the statements taking into account changes to standards and other arising issues.

E THAT the reserve balances be reviewed where the balances do not demonstrate any movement.

The reserves that did not show any movement in the 2013/14 financial statements were:

Reserve	\$(000's) 30/6/2014	Review comment
Coastal Foreshore Management	34	Utilised in 2014/15 in accord with Municipal Plan
Darwin General Cemetery	77	Municipal plan substantially utilises this during 2014/15
DEC Asset Replacement & Refurbishment	633	These funds are required for air conditioning replacement in the near future.
Disaster Contingency	2,519	The policy related to this fund requires a minimum balance of \$1M and \$600K is utilised in 2014/15 for emergency generators. The LTFP further reduces this reserve.
Environmental Reserve	111	LTFP predicts annual utilisations for protection work including Rapid Creek will deplete this fund by 30/6/2019.
Nightcliff Community Hall	64	This is substantially reduced for air conditioning in 2014/15.
Public Art	381	LTFP proposes that this be utilised by 30/6/2019
Purchase of land	154	Recommending a transfer to the Asset Replacement & Refurbishment Fund

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 REPORT NUMBER: 15A0039 MC:mp
 SUBJECT: AUDIT CLOSING REPORT 2014 - MANAGEMENT RESPONSE

Sale of land	250	Recommending a transfer to the Asset Replacement & Refurbishment Fund
Watering	579	LTFP proposes full utilisation by 30/6/2017 on water efficiency measures and irrigation.

The review was substantially conducted in conjunction with the Long Term financial Plan (LTFP) which is expected to be adopted by Council at its next ordinary meeting.

Other utilisations were already adopted in conjunction with the 2014/15 Municipal Plan and further review will take place with the preparation of the 2015/16 Municipal plan.

In two instances (purchase and sale of land) in view of the relatively minor amounts and the absence of a firm proposal replace land sales with other more strategic land it will be appropriate to consider the funds for transfer to the Asset Replacement & Refurbishment reserve for capital purposes. Accordingly a recommendation will be made to Council via its 2014/15 3rd quarter budget review.

F THAT the key performance indicators in the management discussion and analysis relating to annual expenditure compared with budget have further explanatory notes added to clarify the manner in which the budget is varied during the year.

The statutory timing requirements and lead time for printing requirements precluded any changes to the Annual Report 2013/14. However consideration might be given in advance of 2014/15 Annual Report as to what is an appropriate executive summary to accompany the Financial Statements. It may also be worth considering what might be some appropriate frequently asked questions that could be included.

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management and Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Financial Accountant
- Assets Accountant

POLICY IMPLICATIONS

Nil

BUDGET AND RESOURCE IMPLICATIONS

Nil

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REPORT NUMBER: 15A0039 MC:mp
SUBJECT: AUDIT CLOSING REPORT 2014 - MANAGEMENT RESPONSE

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

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ENVIRONMENTAL IMPLICATIONS

Nil

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MILES CRAIGHEAD
MANAGER FINANCE

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

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ENCL: NO	RISK MANAGEMENT & AUDIT COMMITTEE/CONF	AGENDA ITEM: 9.4
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 - OUTSTANDING ISSUES		
REPORT No.:	15A0043 MC:mp	COMMON No.: 2527584
		DATE: 27/03/2015

Presenter: Manager Finance, Miles Craighead

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to update the Risk Management & Audit Committee (RMAC) in relation to Outstanding Audit Issue (OAI) 141 Audited Financial Statements for the year ended 30 June 2013 – audit closing report items 1 to 3.2.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.5 Responsible financial and asset management

Key Strategies

5.5.1 Manage Council's business based on a sustainable financial and asset management strategy

KEY ISSUES

- Management comment on the 2013 final audit report was included in the OAI register
- The preparation of the 2014 financial statements for audit successfully addressed all the issues.
- It is recommended that the OAI 141 be amended to the status of complete.

PAGE: 2
 REPORT NUMBER: 15A0043 MC:mp
 SUBJECT: AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 - OUTSTANDING ISSUES

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0043 MC:mp entitled Audited Financial Statements For The Year Ended 30 June 2013 - Outstanding Issues, be received and noted.
- B. THAT Outstanding Audit Issue 141 be amended to the status of complete.

BACKGROUND

Issue 141 (items 1 to 3.2) was added to the OAI register by the RMAC following its considerations of the management comment relating to the audit report for the year ended 30 June 2013.

DISCUSSION

The following table lists the relevant items and comments on what actually took place during 2014 preparation of financial statements and audit.

NO.	REF NO.	ISSUE	COMMENT
141	Audited Financial Statements for the year ended 30 June 2013 – Audit Closing report (issues be added to the Operational Risk Register where applicable)	<p>1.0 <i>Council should ensure that values reported in the valuation report match the values reported in the fixed asset register.</i></p> <p>1.1 Agreed that the valuation report and the fixed asset register should agree. In future agreed amendments to the valuations will require the valuation report to be amended and updated.</p> <p>1.2 Agreed that assets accounting including any revaluation should be occurring in a timely manner and prior to audit visit.</p> <p>1.3 All asset accounting and revaluation timelines for 2013/14 have been reviewed, restructured, better resourced and programmed to target completion on or about 30/06/14.</p> <p>1.4 Additional asset audit work has been programmed in for 2013/14 in advance of the year-end relating to the revaluation of infrastructure assets.</p>	<p>For 2014 infrastructure revaluation all figures agreed.</p> <p>In 2013 the Assets Accountant resigned prior to the Audit which obviously created some issues. 2014 the new Assets Accountant completed all the work by 30 June and 80% of the assets accounting audit was completed during July. This was a very pleasing result.</p> <p>This arrangement worked well. For 2014 there was an agreed position/timing of additional work and separate fees relating to the infrastructure revaluation work.</p>

PAGE: 3
 REPORT NUMBER: 15A0043 MC:mp
 SUBJECT: AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 - OUTSTANDING ISSUES

		<p>1.5 Noting; the Asset Accountant resigned prior to year end exacerbating resourcing issues, the original misclassification of DEC assets as land was in 2011/12, the issue of the DEC valuation was queried with the Valuer's by the Manager Finance but no adjustment transpired until following the discussion with Audit.</p>	<p>NA – no response required</p>
141	<p>Audited Financial Statements for the year ended 30 June 2013 – Audit Closing report (issues be added to the Operational Risk Register where applicable)</p>	<p><i>2.0 Processes can be improved for future audits:</i></p> <p>2.1 It is proposed to engage additional independent IT support at year end to facilitate audit queries that are not accommodated by existing reports or features directly available to the Audit or Finance Team.</p> <p>2.2 All audit requests to Finance Team not satisfied immediately or assigned an agreed time are to be escalated to the Manager Finance.</p> <p>2.3 The Finance Manager and Management Accountant will hold staff training discussions, written guidance and be responsible for review work.</p> <p><i>3.0 Adopt approaches to negate the risks associated with high leave balances.</i></p> <p>3.1 An issue is the standard six-week annual leave for the Northern Territory.</p> <p>3.2 Council has implemented an option of cashing out but is also continuing to monitor that people do take reasonable leave.</p>	<p>Arrangements were in place for 2014 audit for the contractor to be available on specific days thus giving Audit another semi independent option for support and data extraction.</p> <p>This arrangement appeared to work well and as a result we did not receive unexpected complaints much later that there was a problem.</p> <p>The 2014 training discussions took place. Finance staff took ownership of their various areas and the institutional knowledge, organisation and leadership from the Management Accountant also helped a lot.</p> <p>The approach is as stated at the time. Management continues to monitor excess leave.</p>

PAGE: 4
REPORT NUMBER: 15A0043 MC:mp
SUBJECT: AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
2013 - OUTSTANDING ISSUES

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management and Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Financial Accountant
- Assets Accountant

POLICY IMPLICATIONS

Nil

BUDGET AND RESOURCE IMPLICATIONS

Nil

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MILES CRAIGHEAD
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DIANA LEEDER
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**ENCL: RISK MANAGEMENT & AUDIT
NO COMMITTEE/CONF**

AGENDA ITEM: 9.5

PROGRESS REPORT ON OUTSTANDING AUDIT ISSUE 142

REPORT No.: 15A0038 LC:mp

COMMON No.: 1536877

DATE: 27/03/2015

Presenter: Manager Business Services, Liam Carroll

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to inform the Risk Management & Audit Committee (RMAC) on the progress of implementation of recommendations relating to Outstanding Audit Issue (OAI) 142 (training of staff in tender assessment process).

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.3 Understand and manage Council's risk exposure

KEY ISSUES

- OAI 142 arose from the last round of Control Self-Assessment (CSA)
- Subsequent to the undertaking of the CSA, Council has implemented a program of electronic tender management
- There is a core group of 15 or so staff who regularly undertake this tender assessment all of whom are familiar with the process
- Training of new staff is conducted on an as need basis

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0038 LC:mp entitled Progress Report On Outstanding Audit Issue 142, be received and noted.
- B. THAT Outstanding Audit Issue 142 be transferred to the completed audit issues register.

PAGE: 2
REPORT NUMBER: 15A0038 LC:mp
SUBJECT: PROGRESS REPORT ON OUTSTANDING AUDIT ISSUE 142

BACKGROUND

CSA is used to ensure key controls are reviewed annually and reported to RMAC.

Control weaknesses and corrective actions are assigned as priority, and high priority issues are managed through the Outstanding Audit Issues Register.

DISCUSSION

During the 2014 round of CSA a potential control weakness was identified relating to training of staff in tender assessment.

The introduction of the electronic tender process ensures key tender assessment criteria are identified as part of the lodgement of documents by tenderers and so the need for specialised training in assessments is somewhat reduced.

This, together with the fact that current tender assessments are undertaken by a core group of Council staff, all of whom are well versed in assessment processes, reduces the risks pertaining to OAI 142.

It is therefore recommended that OAI 142 be transferred to the completed issues register.

Risk and control issues around tendering will be revisited by contracts staff and the Team Coordinator Risk Audit and Safety as part of the 2014/15 review of operational risk assessments.

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management & Audit Committee for consideration.

During the preparation of this report the following City of Darwin officer were consulted:-

- Team Coordinator Risk Audit and Safety

POLICY IMPLICATIONS

Nil

BUDGET AND RESOURCE IMPLICATIONS

Nil

PAGE: 3
REPORT NUMBER: 15A0038 LC:mp
SUBJECT: PROGRESS REPORT ON OUTSTANDING AUDIT ISSUE 142

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

Council continues to meet its obligations to understand and manage risk exposure.

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

LIAM CARROLL
MANAGER BUSINESS SERVICES

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

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ENCL:	RISK MANAGEMENT & AUDIT	AGENDA ITEM:	9.6
YES	COMMITTEE/CONF		
DEPRECIATION EXPENSE 2015			
REPORT No.:	15A0034 DL:mp	COMMON No.:	2999553
		DATE:	27/03/2015

Presenter: Finance Manager, Miles Craighead

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to seek comment from the Risk and Audit Management Committee on the projected depreciation expense 2014/15.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.5 Responsible financial and asset management

Key Strategies

5.5.1 Manage Council's business based on a sustainable financial and asset management strategy

KEY ISSUES

- Actual depreciation expense 2014/15 is expected to significantly exceed original budget.
- The original budget was based on the projected depreciation expense 2013/14 (in accord with the adopted budget parameters).
- The factors influencing actual depreciation expense this financial year are complex and include; revaluation of infrastructure assets as at 30 June 2014, a review of components (mainly roads), reviews of useful/remaining lives and significant recognition of asset additions including past years works in progress etc.
- Some of the increase is a one off effect and does not recur.
- Budget variations and disclosures to Council are considered necessary.

PAGE: 2
 REPORT NUMBER: 15A0034 DL:mp
 SUBJECT: DEPRECIATION EXPENSE 2015

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0034 DL:mp entitled Depreciation Expense 2015, be received and noted.
- B. THAT a report be prepared on Depreciation Expense 2015 for the Corporate & Economic Development Committee.

BACKGROUND

The following was resolved at the Chief Officers Group Meeting:

Accounting for Infrastructure Assets and Revaluation

Report No. 13A0203 (02/12/2013) Common No. 2649595

- A. *THAT Report Number 13A0203 MC:ns entitled Accounting for Infrastructure Assets and Revaluation, be received and noted.*
- B. *THAT the proposals to account for infrastructure assets be endorsed in principle subject to further updates/advice including costs before a final commitment is made and as the project progresses.*
- C. *THAT the proposed revaluation project timetable be endorsed.*

DECISION NO.21\1805 (19/02/14)

Revaluation Exercise for Roads and other Infrastructure Assets as at 30 June 2014

Report No. 14A0011 MC:ns (19/02/14) Common No. 2649595

THAT the Committee resolve under delegated authority:-

THAT Report Number 14A0011 MC:ns entitled Revaluation Exercise for Roads and other Infrastructure Assets as at 30 June 2014, be received and noted.

Both the above reports discussed in detail the need to ensure the infrastructure revaluation as at 30 June 2014 was prepared to facilitate improvements to Council's practices in relation to accounting for infrastructural assets. In particular the recognition of horizontal and vertical components for roads where the useful lives are significantly different including:

- Identification of horizontal sections
- Formation, earthworks or cutting
- Road base or pavement
- Running/wearing surface

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 REPORT NUMBER: 15A0034 DL:mp
 SUBJECT: DEPRECIATION EXPENSE 2015

It should be noted that none of this is considered to alter the Council's policies in relation to accounting for assets and depreciation. The work carried out has been a revaluation, an in depth review of relevant components and the associated useful lives. Thus it is an improvement and enhancement of the components and associated depreciation expense.

The revaluation increased infrastructure assets "fair value" by:

Revaluation (refer to note 14 to the Financial statements for the year ended 2014)				
	Fair value	Less Reval.	Fair value	
	Inc reval		Exc reval	% inc
Roads & pathways	521,112	175,106	346,006	50.61%
Stormwater drainage	320,821	8,659	312,162	2.77%
Other infrastructure	28,638	8,634	20,004	43.16%
Total infrastructure	870,571	192,399	678,172	28.37%

DISCUSSION

Actual depreciation 2014/15 is projected to significantly exceed budget as indicated in the following table:

<u>2014/15</u>	<u>2014/15</u>
<u>Depreciation Expense</u>	<u>\$</u>
One off depreciation adjustments	1.7M
Plus annual depreciation	20.8M
Total projected depreciation	22.5M
Original budget	16.8M

Up to 31 December 2014 the depreciation expense recognised in monthly financial reports presented to Council has been based on the original budget but with an explanatory note.

The original budgeted depreciation expense in turn, was based on previous years actual costs/trends due to the difficulty of making a reliable prediction given the complex and unknown factors such as the implications of revaluations, additions, disposals, reviews of components and remaining lives etc. However Finance did suggest around the time of the commencement of revaluation that on balance there were likely to be significant increases.

Within Local Government there are some different approaches including those which rely on a condition curve approach where depreciation recognised initially is less and then accelerates towards the end of the asset life. This is a complex area and was considered by the cross department revaluation team which ultimately preferred straight line depreciation as it was more transparent, could be easily managed

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REPORT NUMBER: 15A0034 DL:mp
SUBJECT: DEPRECIATION EXPENSE 2015

internally and also considered a reasonable reflection of the decline in asset value over its life.

The decisions and recommendations regarding useful asset lives and residual values were not within the expertise of Finance staff and thus came from recommendations by the Consultants in consultation with Infrastructure staff.

The degree of confidence with the calculated infrastructure depreciation annual recurring expense 2014/15 is high. Based on the agreed assumptions and parameters Finance has processed the data independently through the integrated Civica assets system to arrive at the same infrastructure depreciation expense figures for 2014/15 as the predictions supplied by the appointed valuers and advisers (APV).

The degree of confidence with the one off implications (additional \$1.7M) is lower and requires some refinement.

Attachment A to this report illustrates some of the detailed changes to take place in useful lives and depreciation rates as a result of the review in conjunction with the revaluation. These will be reflected at a summarised level in Note 1 in the audited Financial Statements 2014/15.

Attachment B to this report is the independent report on the revaluation of assets for the City of Darwin 2015 (prepared by APV) for perusal as/if required by Chief Officers.

CONSULTATION PROCESS

This report was considered by the Chief Officers' Group (COG) on 2 February 2015 and now referred to the Risk and Audit Management Committee for consideration.

Previous reports have been to COG and Council via Corporate & Economic Development Committee (see background above).

POLICY IMPLICATIONS

There are no proposed accounting policy changes from the point of view of the Financial Statement preparation. The policy continues to be one of identifying components and related useful lives.

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REPORT NUMBER: 15A0034 DL:mp
SUBJECT: DEPRECIATION EXPENSE 2015

BUDGET AND RESOURCE IMPLICATIONS

An additional depreciation expense of indicatively up to \$5.7M (above original budget) does not affect the Council's cash or fund flow budget. However it does require recognising a deterioration in Income Statement result by an indicative \$5.7M (from original budget).

This additional expense is proposed to be factored into the 3rd quarter budget review after preparing an appropriate report to the Corporate and Economic Development Committee.

In the meantime appropriate notes will be built into the monthly financial reporting and the 2nd quarter budget review.

Referring to the draft Long Term Financial Plan 2014-24 the depreciation expense of \$20.6M in there for the current year (base) is far more reflective and has made allowance for substantially all of these factors excluding the one off affect (at the time of writing this report).

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

The actions taken to improve the infrastructure asset accounting (mainly roads) are considered necessary to avoid the risk of audit qualification and the potential for adverse public perception about Council's accountability processes. Other NT Councils have recently incurred audit qualification for infrastructure accounting.

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

PAGE: 6
REPORT NUMBER: 15A0034 DL:mp
SUBJECT: DEPRECIATION EXPENSE 2015

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

For enquiries, please contact Miles Craighead on 8930 0523 or email:
m.craighead@darwin.nt.gov.au.

Attachments:

- Attachment A:** Summary of Useful lives and Residual Values
Attachment B: Valuation of City of Darwin (Infrastructure) 30 June 2014 (APV)

Summary of Useful Lives and Residual Values						
Asset Category	Components	Type	Useful lives 2015	Residual values 2015	Useful lives 2014	Residual values 2014
Sealed roads						
	FORMATION		NA	100%	75	0%
	PAVEMENT		86	30%	75	0%
	SURFACE					
		Asphalt -STD	25	0%	75	0%
		Brick Pavers	18	0%	75	0%
		Chip Seal	18	25%	75	0%
		Fibredec	20	0%	75	0%
		Gravel	15	0%	75	0%
		Liquid Road	18	0%	75	0%
Kerb & Channels						
	LEFT KERB		80	40%	80	0%
	RIGHT KERB		80	40%	80	0%
Carparks						
	FORMATION		NA	100%	70	0%
	PAVEMENT		86	30%	70	0%
	SURFACE					
		Asphalt	25	0%	70	0%
		Chip Seal	18	0%	70	0%
		Concrete	50	0%	70	0%
		Gravel	30	0%	70	0%
Footpaths						
		Asphalt	30	0%	30-50	0%
		Chip Seal	30	0%	30-50	0%
		Concrete	50	0%	30-50	0%
		Gravel	30	0%	30-50	0%
		Pavers	20	0%	30-50	0%
		XAG	50	0%	30-50	0%
Roundabouts						
		Other (traffic islands, roundabouts, etc.)	50	0%	50	0%
Shared Paths						
		Asphalt	30	0%	30-50	0%
		Chip Seal	30	0%	30-50	0%
		Concrete	50	0%	30-50	0%
		Pavers	20	0%	30-50	0%
		XAG	50	0%	30-50	0%
Walkways						
		Asphalt	30	0%	30-50	0%
		Chip Seal	30	0%	30-50	0%
		Concrete	50	0%	30-50	0%
		Gravel	30	0%	30-50	0%
		Pavers	20	0%	30-50	0%
		XAG	50	0%	30-50	0%
		Grass	80	0%	30-50	0%
		No surface	80	0%	30-50	0%
Driveways						
		Stone	30	0%	50	0%
		Tiles	15	0%	50	0%
		Asphalt	30	0%	50	0%
		Chip Seal	30	0%	50	0%
		Concrete	50	0%	50	0%
		Pavers	20	0%	50	0%
		XAG	50	0%	50	0%
		Gravel	30	0%	50	0%
Stormwater Drains			80	0%	80	0%
Stormwater Pits			80	0%	80	0%
Open Line Drains			60	0%	50	0%
Traffic Signals			35	0%	35	0%
Subsoil Drainage			80	0%	30	0%



Valuation

of

City of Darwin

Infrastructure Assets
Roads, Stormwater & Other
Assets

Revaluation of Non
Current Assets in
Accordance with
Australian Accounting
Standards

30 June 2014

Reference: 11914

Final Report: 30 June 2014

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Date:	Prepared by:	Approved by:
30 June 2014	B McLaren / D Edgerton	Alfio Ponticello

Introduction



This valuation was completed by APV Valuers & Asset Management under instruction from City of Darwin. We have no financial interest (past, present or prospective) in the assets covered in this document and this valuation is free of any bias.

The valuation was undertaken on the following basis:

Asset class	Basis of valuation	Effective date of valuation
Roads & Pathways Stormwater drainage Other Infrastructure assets (traffic signals, car parks	Fair Value	30 June 2014

Assets Not Included within the Valuation Scope

There are a number of asset classes which are not included within this financial reporting valuation. These are as follows:

- Portable and attractive assets
- Landscaping (soft)
- Second or other additional driveways constructed on individual premises

Inspection and provision of this valuation is in advance of the valuation date and therefore it is assumed that there is no material change in asset values within the intervening period. If material changes to assets occur before 30 June 2014, we reserve the right to revise the valuation accordingly. Changes may include:

- Recognition of new assets or deletions (sold / demolished / written off) since inspection
- Recognition of major capital works completed since inspection
- Recognition of impairment issues within existing assets since inspection

Instructions

In accordance with the instructions issued by the City of Darwin we have inspected the Roads, Storm Water & Other infrastructure assets situated within City of Darwin boundaries to carry out a revaluation of the non-current assets for financial reporting purposes in accordance with the Australian Accounting Standards. These included (where appropriate) –

- AASB 13 Fair Value Measurement
- AASB 116 Property Plant and Equipment
- AASB 5 Assets Held for Sale
- AASB 136 Impairment

The valuation was conducted in accordance with specific instructions provided by council. These included using the straight-line method of depreciation and adopting Residual Values (where indicated) for all calculations.

This assessment is solely for the use of the City of Darwin and cannot be relied on by any other party for any purpose whatsoever without our express written permission. No responsibility whatsoever will be accepted for photocopied signatures.

Definitions

In accordance with AASB 13 Fair Value Measurement the following definition has been applied for Fair Value. It should be noted that as a consequence of the adoption of AASB 13 Fair Value Measurement the previous definition in all other accounting standards has been changed to reflect the new definition.

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Except in the circumstance of an asset held for sale (valued in accordance with AASB 5 Assets Held for Sale), the balance of the portfolio is valued in accordance with AASB 116 Property Plant and Equipment at Fair Value.

Special Factors

The Valuers declare that they have no pecuniary interest past, present or prospective in the subject assets and this valuation is free of any bias.

Asset Recognition Thresholds

After discussions with the City of Darwin asset recognition thresholds have been adopted for each asset class at the following levels;

Table 1 - Asset Recognition Thresholds

Asset class	Level
Roads & Pathways Stormwater drainage Other Infrastructure assets (traffic signals, car parks)	\$5000

Certificate of Value

LOCATION: City of Darwin

ASSET DESCRIPTION: The whole of the within described infrastructure assets

DATE OF INSPECTION: 8 May 2014

DATE OF VALUATION: 30 June 2014

VALUATION:

In our opinion the respective fair values of the assets covered by this valuation report are assessed as follows. Depending on the nature of the asset and valuation approach adopted, the Gross is disclosed either at Replacement Cost (RC) or Market Value (MV):

Asset	Gross (RC or MV)	Accumulated Depreciation	Fair Value
Road	356,441,609	87,710,670	268,730,939
Kerb and Channel	71,221,732	13,431,283	57,790,449
Car Park	23,929,950	6,957,562	16,972,388
Footpath	44,965,830	9,660,615	35,305,214
Roundabout	722,304	288,173	434,131
Shared	13,370,583	4,025,546	9,345,037
Walkways	4,737,079	1,746,025	2,991,054
Stormwater Drain	282,582,125	131,739,494	150,842,631
Stormwater Pit	30,902,661	18,270,485	12,632,176
Driveway	29,652,533	5,073,666	24,578,867
Open Drain	5,734,089	1,870,309	3,863,780
Traffic Signal	4,708,500	2,454,100	2,254,400
Subsoil Drainage	1,601,877	116,241	1,485,636
Total	\$870,570,870	\$283,344,168	\$587,226,702

These may be apportioned in accordance with the attached schedule of values.

Signed for and on behalf of APV Valuers & Asset Management



Bryce McLaren

30/06/2014

AASB 13 Fair Value Disclosures

AASB 13 Fair Value Measurement introduces a range of –

- New concepts
- New processes
- New disclosure requirements

The new concepts include maximising the use of relevant observable inputs and minimise the use of unobservable inputs. There are three levels -

- **Level 1:** are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2:** are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** are unobservable inputs for the asset or liability.

While superficially the changes from the pre-AASB 13 version of AASB 116 appear minor, the impact of the changes results in the need for some subtle changes in the valuation process and the presentation of data. These changes include –

- the process to develop the valuations
- the creation of different asset classes (Asset Hierarchy: based on level of valuation input and nature of the assets and associated valuation techniques and inputs) for the purpose of AASB 13 disclosures
- additional information required to enable entities to fulfil new disclosure requirements.

As a consequence of the new requirements of AASB 13 Fair Value Measurement, the APV methodology and outputs of the valuation have been enhanced. This includes –

- Valuation Report incorporating –
 - Analysis of the valuation results
 - Detailed methodology and description about the valuation processes used
 - Detailed description of valuation inputs and techniques
 - Narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs
 - Quantitative information about the significant unobservable inputs
 - Details around the selection of highest and best use where it is deemed to be different than its current use.

- Excel spreadsheets setting out –
 - Significant valuation inputs and techniques
 - Level of Valuation Input reported for each asset
 - Asset Class for each asset to enable new disclosures per AASB13
- Draft Disclosure Notes
 - Suggests disclosures to be incorporated into the financial statements
 - Designed to satisfy the requirements of AASB 13 Fair Value
- Suggested Policy
 - Covering key areas of the AASB 13 Fair Value Measurement
 - Designed to simplify the valuation process and associated disclosure requirements

Suggested Policy Note

The policy of the entity is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

Specific Information

The following information sets out a range of information required to be incorporated into the disclosure notes. They include –

- Details around the selection of highest and best use where it is deemed to be different than its current use.
- Suggested description of the valuation techniques and inputs
- Sensitivity of the fair value measurement to changes in unobservable inputs
- Suggested description of the valuation processes

Highest and Best Use

There were no assets valued where it was assumed that the highest and best use was other than its current use.

Valuation Techniques and Inputs

The following table summarises in a tabular format the valuation inputs and techniques used to determine the Fair value for each asset class.

Table 2 – Valuation Inputs and Techniques

Asset	Level of Valuation Input	Valuation Technique	Gross (RC or MV)	Accumulated Depreciation	Fair Value	Depreciation Expense
Road	3	Cost Approach	356,441,609	87,710,670	268,730,939	7,299,175
Kerb and Channel	3	Cost Approach	71,221,732	13,431,283	57,790,449	534,163
Car Park	3	Cost Approach	23,929,950	6,957,562	16,972,388	556,060
Footpath	3	Cost Approach	44,965,830	9,660,615	35,305,214	994,350
Roundabout	3	Cost Approach	722,304	288,173	434,131	14,446
Shared	3	Cost Approach	13,370,583	4,025,546	9,345,037	390,283
Walkways	3	Cost Approach	4,737,079	1,746,025	2,991,054	155,051
Stormwater Drain	3	Cost Approach	282,582,125	131,739,494	150,842,631	3,532,277
Stormwater Pit	3	Cost Approach	30,902,661	18,270,485	12,632,176	386,283
Driveway	3	Cost Approach	29,652,533	5,073,666	24,578,867	694,623
Open Drain	3	Cost Approach	5,734,089	1,870,309	3,863,780	95,223
Traffic Signal	3	Cost Approach	4,708,500	2,454,100	2,254,400	134,529
Subsoil Drainage	3	Cost Approach	1,601,877	116,241	1,485,636	20,023
Total			\$870,570,870	\$283,344,168	\$587,226,702	\$14,806,485

The following provides some suggested disclosures. They will require tailoring by City of Darwin council as appropriate.

Valuation techniques used to derive fair values

(i) Recurring fair value measurements

The following methods are used to determine the fair value measurements.

Road Network and Stormwater Infrastructure

All road network infrastructure assets were valued using level 3 valuation inputs using the cost approach.

The approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres or similar capacity could be supported from market evidence (level 2) other inputs (such as estimates of residual value, useful life, pattern of consumption and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs. The observable market evidence used to support the unit rates included evidence from actual construction contracts, comparison to rates adopted by reference councils and against industry construction cost guides.

During the year there were a number of new projects completed where the actual cost was recorded and the impact of depreciation at year end was negligible. While these could be classified as valued at level 2 given the low proportion of the total portfolio that these represented and the likelihood that in future valuations they would most likely be valued at level 3 we have adopted a policy that all road network infrastructure assets are deemed to be valued at level 3.

The quantitative disclosures of the remaining service potential relating to each corresponding condition score for each of the patterns of consumption utilised in this valuation are as follows:

% RSP of Depreciable Amount		
Consumption Score	Description	Straight-Line
0	New or very good condition – very high level of remaining service potential.	100%
1	Not new but in very good condition with no indicators of any future obsolescence and providing a high level of remaining service potential.	85%
2	Aged and in good condition, providing an adequate level of remaining service potential. No signs of immediate or short term obsolescence.	50%
3	Providing an adequate level of remaining service potential but there are some concerns over the asset's ability to continue to provide an adequate level of service in the short to medium term. May be signs of obsolescence in short to mid-term.	25%
4	Indicators showing the need to renew, upgrade or scrap in near future. Should be reflected by inclusion in the Capital Works Plan to renew or replace in short-term. Very low level of remaining service potential.	10%
5	At intervention point. No longer providing an acceptable level of service. If remedial action is not taken immediately the asset will need to be closed or decommissioned.	0%
6	Theoretical end of life.	

Fair Value Sensitivity to Unobservable Inputs

The following table provides a summary of the unobservable inputs and an assessment of the sensitivity of these to the fair value measurement.

Table 2 - Fair Value Sensitivity to Unobservable Inputs

Asset	Unobservable Inputs	Sensitivity to Unobservable Market Inputs (%)		Amount of Potential Impact	
		Lower	Upper	Lower	Upper
Road and Stormwater Infrastructure (Cost approach)					
	Condition of the asset where based on condition as supplied by client	(4.00)%	4.00%	-\$23,489,068	\$23,489,068
	Relationship between asset consumption rating scale and the level of consumed service potential.	(4.00)%	4.00%	-\$23,489,068	\$23,489,068

Suggested description of valuation processes

The following provides some suggested disclosures. They will require tailoring by council as appropriate.

Valuation processes

The council engages external, independent and qualified Valuers to determine the fair value of the entities land, buildings, infrastructure and major plant on a regular basis. An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from the fair value. If any variation is considered material a revaluation is undertaken either by comprehensive revaluation or by applying an interim revaluation using appropriate indices.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period and discussed between the Finance Manager, CEO, valuation team, Council and Audit Committee. As part of this process the team presents a report that explains the reasons for the fair value movements.

As at 30 June 2014 a comprehensive revaluation was undertaken for all asset classes subject to revaluation by APV Valuers and Asset Management.

The main level 3 inputs used are derived and evaluated as follows –

Asset Condition – The nature of road network infrastructure is that there are a very large number of assets which comprise the network and as a result it is not physically possible to inspect every asset for the purposes of completing a valuation. As a consequence reliance is placed on the accuracy of data held in the asset management system and its associated internal controls. This includes regular planned inspections and updates to the system following maintenance activities and renewal treatments. Likewise, especially for storm water network infrastructure, a large portion of the portfolio is located underground and may only be inspected on an irregular basis.

To provide assurance over the accuracy of this information and taking into account the cost-benefit of undertaking physical inspections the valuation relies upon a sampling approach (APV conducted a 10% sample of each asset type) where the data held in the system is verified by a physical inspection. While the sampling approach, combined with internal controls associated with the asset management system, provides a high level of comfort over the

condition data held in the asset management system it does not provide a guarantee that all the data is correct and the condition as recorded is valid as at the date of valuation.

- **Relationship between asset consumption rating scale and the level of consumed service potential** – Under the cost approach the estimated cost to replace the asset is calculated and then adjusted to take account of an accumulated depreciation. In order to achieve this, the Valuer determines an asset consumption rating scale for each asset type based on the inter-relationship between a range of factors. These factors and their relationship to the fair value require professional judgment and include asset condition, legal and commercial obsolescence and the determination of key depreciation related assumptions such as residual value, useful life and pattern of consumption of the future economic benefit.

The consumption rating scales were based initially on the past experience of the valuation firm and industry guides and were then updated to take into account the experience and understanding of council's own engineers, asset management and finance staff. The results of the valuation were further evaluated by confirmation against council's own understanding of the assets and the level of remaining service potential.

Valuation Results

General

Darwin is Australia's most northern city boarding on the East Timor sea. The city is often referred to as Australia's gateway to Asia. The city has a diverse community with large defence force base, LNG and mining services driving the economy. Darwin port and Darwin -Adelaide rail link make an important contribution to growth of the city. The council services a population of 77,000 people over half of greater Darwin total population. The council covers the early infrastructure of roads and storm water in Darwin development.

Analysis of Results

Fair Value as % of Gross (or Nominal) Replacement Cost

The results have been analysed in the following (Table 4) and confirm that the valuation results are reasonable and within our expectations. This is based on –

- The result reflect the ground stability and weather conditions as well as the council maintenance programme and councils maintenance program of the storm water network through the cleaning storm water facilities prior to the monsoon season. These conditions are quite different from those experienced by councils on the east coast.
- The results are comparable with the adjoining council (Palmerston Council) and also with other councils throughout Australia that APV has provided the valuation for. The results are comparable in terms of condition, remaining service potential, unit rates and the underlying assumptions. This is to be expected as most councils tend to maintain their assets in a reasonably good condition in order to satisfy the level of expectation (service level) demanded by the residents.

Table 3 - Analysis of Fair Value to Gross

Asset Class	Gross (RC or MV)	Fair Value	WDV as % Gross
Road	\$356,441,609	\$268,730,939	75.4%
Kerb and Channel	\$71,221,732	\$57,790,449	81.1%
Car Park	\$23,929,950	\$16,972,388	70.9%
Footpath	\$44,965,830	\$35,305,214	78.5%
Roundabout	\$722,304	\$434,131	60.1%
Shared	\$13,370,583	\$9,345,037	69.9%
Walkways	\$4,737,079	\$2,991,054	63.1%
Stormwater Drain	\$282,582,125	\$150,842,631	53.4%
Stormwater Pit	\$30,902,661	\$12,632,176	40.9%
Driveway	\$29,652,533	\$24,578,867	82.9%
Open Drain	\$5,734,089	\$3,863,780	67.4%
Traffic Signal	\$4,708,500	\$2,254,400	47.9%
Subsoil Drainage	\$1,601,877	\$1,485,636	92.7%
Total	\$870,570,870	\$587,226,702	67.5%

Comparison to Previous Valuation

It should be noted that the previous valuation was not provided by APV. While we have attempted to make comparison of the APV financial reporting valuation figures to existing asset register book values there are a number of key factors which do not allow a reasonable comparison or explain the reason for variation between the two. These include lack of understanding of the valuation methodology and access to the work papers (including assumptions and algorithms) used to determine the previous values. Any explanation between the two values would require additional discussions directly with the previous valuer.

The following table provides a summary of changes between the values reported in the previous financial statements and this valuation. The results have been analysed and confirm that the valuation results are reasonable and within our expectations. This is based on –

- The change in Gross would generally appear reasonable and the increase in Fair Value is also consistent with the first time application of residual values.
- The result reflect the current replacement value of the asset
- The assets condition has been taken into consideration

Table 4: Analysis to previous values

Asset	Gross (RC or MV)			Fair Value		
	2013	2014	Var (%)	2013	2014	Var (%)
Road	\$277,732,318	\$356,441,609	28.3%	\$138,967,372	\$268,730,939	93.4%
Kerb and Channel	\$63,408,669	\$71,221,732	12.3%	\$33,019,295	\$57,790,449	75.0%
Car Park	\$12,281,654	\$23,929,950	94.8%	\$10,198,945	\$16,972,388	66.4%
Footpath	\$34,748,272	\$44,965,830	29.4%	\$26,895,456	\$35,305,214	31.3%
Roundabout	\$1,043,685	\$722,304	-30.8%	\$726,272	\$434,131	-40.2%
Shared	\$9,469,195	\$13,370,583	41.2%	\$5,290,642	\$9,345,037	76.6%
Walkways	\$3,034,474	\$4,737,079	56.1%	\$1,944,709	\$2,991,054	53.8%
Stormwater Drain	\$280,089,741	\$282,582,125	0.9%	\$148,907,426	\$150,842,631	1.3%
Stormwater Pit	\$22,682,533	\$30,902,661	36.2%	\$12,648,656	\$12,632,176	-0.1%
Driveway	\$24,760,959	\$29,652,533	19.8%	\$21,040,262	\$24,578,867	16.8%
Open Drains	\$5,511,638	\$5,734,089	4.0%	\$1,481,479	\$3,863,780	160.8%
Traffic Signal	\$1,592,779	\$4,708,500	195.6%	\$599,442	\$2,254,400	276.1%
Subsoil Drainage	\$1,105,522	\$1,601,877	44.9%	\$930,472	\$1,485,636	59.7%
TOTAL	\$737,461,438	\$870,570,870	18.0%	\$402,650,426	\$587,226,702	45.8%

Asset	Depreciation Expense Estimate					
	2013	2014 Est	Var (%)	2014 Est	2015 est	Var (%)
Road	\$3,419,586	\$4,100,816	19.9%	\$4,100,816	\$7,299,175	78.0%
Kerb and Channel	\$661,727	\$794,072	20.0%	\$794,072	\$534,163	-32.7%
Car Park	\$146,350	\$175,620	20.0%	\$175,620	\$556,060	216.6%
Footpath	\$687,135	\$824,541	20.0%	\$824,541	\$994,350	20.6%
Roundabout	\$17,395	\$20,874	20.0%	\$20,874	\$14,446	-30.8%
Shared	\$183,086	\$220,665	20.5%	\$220,665	\$390,283	76.9%
Walkways	\$74,030	\$89,226	20.5%	\$89,226	\$155,051	73.8%
Stormwater Drain	\$2,918,805	\$3,539,417	21.3%	\$3,539,417	\$3,532,277	-0.2%
Stormwater Pit	\$241,857	\$290,240	20.0%	\$290,240	\$386,283	33.1%
Driveway	\$530,234	\$636,259	20.0%	\$636,259	\$694,623	9.2%
Open Drains	\$94,135	\$112,962	20.0%	\$112,962	\$95,223	-15.7%
Traffic Signal	\$33,332	\$39,995	20.0%	\$39,995	\$134,529	236.4%
Subsoil Drainage	\$30,709	\$33,780	10.0%	\$33,780	\$20,023	-40.7%
TOTAL	\$9,038,381	\$10,878,467	20.4%	\$10,878,467	\$14,806,485	36.1%

Valuation Methodology

Basis of Valuation

The valuation has been provided for financial reporting purposes and conducted in accordance with the prescribed requirements including the various relevant Australian Accounting Standards.

- AASB 13 Fair Value Measurement
- AASB 116 Property Plant and Equipment
- AASB 5 Assets Held for Sale
- AASB117 Leases
- AASB 136 Impairment

AASB 13 Fair Value

This new standard introduces the new definition for Fair Value and is defined as follows:

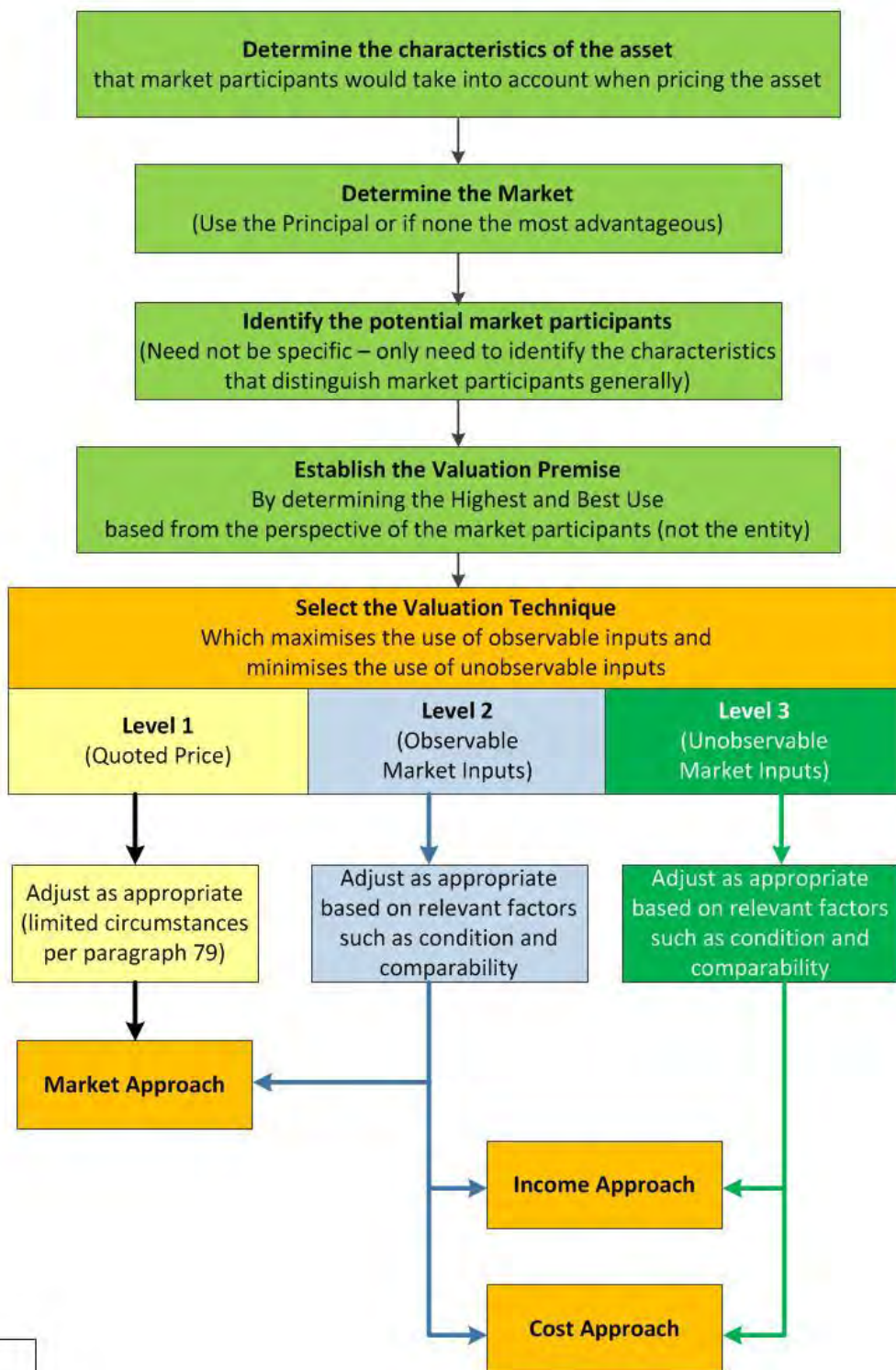
"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"

The valuation has been undertaken taking into account the requirements of AASB 13 Fair Value Measurement. This included establishing the nature of the asset, characteristics important to market participants, the appropriate market and the valuation premise. Having maximized the level of valuation input the appropriate valuation technique was adopted to determine Fair Value.

The following approaches were deemed appropriate –

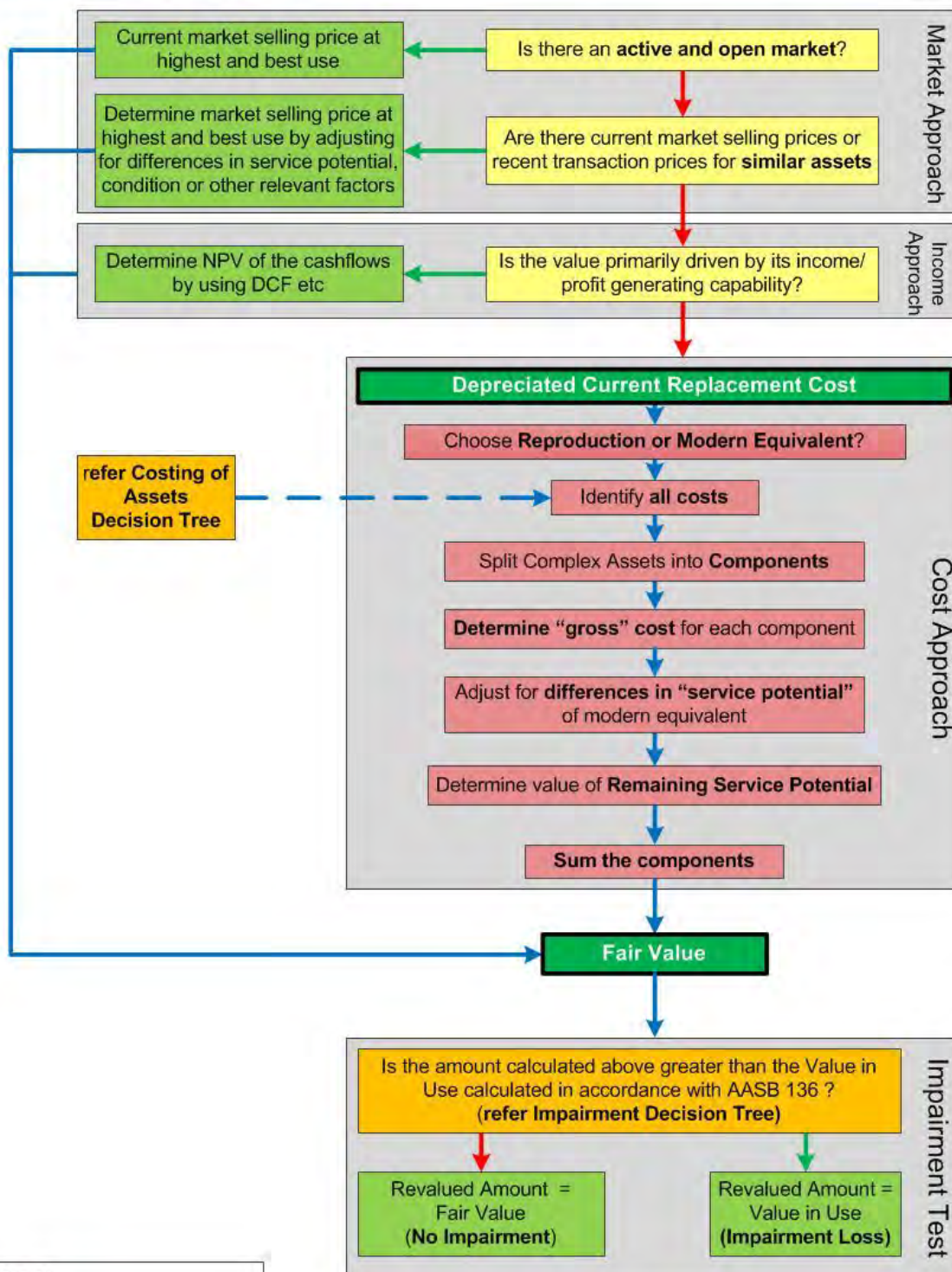
- Specialised assets including infrastructure assets (cost approach)

The following decision trees set out the process for determining Fair Value under AASB 13 and the key standards applied for this valuation.



AASB 116 "Property Plant and Equipment" Fair Value Decision Tree

As at 31 Dec 2012



LEGEND

- Yes ← (green arrow)
- No ← (red arrow)
- Input ← (blue arrow)

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Valuation Techniques

The following valuation basis has been adopted for the various assets owned by the City of Darwin. APV's valuation spread sheets indicates the basis adopted for the valuation of each asset.

Cost Approach

As this method is based on determining the Depreciated Replacement Cost the valuation methodology is intrinsically linked to the concept of Depreciation as defined in the Australian Accounting Standards. Fair Value measures the relative level of remaining service potential embodied within the asset whereas depreciation expense measures the rate of consumption of the service potential.

In accordance with the depreciation requirements of AASB 116, "complex assets" are componentised and depreciated separately. All assets above the revaluation threshold are componentised.

To determine the Depreciated Replacement Cost we applied the following process –

- Determine the Replacement Cost (Gross)
- Determine the Depreciable Amount by assessing the Residual Value
- Assessing the level of remaining service potential of the Depreciable Amount using a Consumption Rating Scoring matrix. This provides an objective scoring method that considers both the holistic factors (functionality, capacity, utilisation, obsolescence, etc) and component specific factors (such as physical condition and maintenance history).

The process used by APV has been developed over many years taking into account our extensive knowledge and experience of valuation as well as accounting and auditing. The process essentially involves dissecting the asset lifecycle into a range of phases and using a stepped approach to determine the rate of depreciation. It can be diagrammatically represented as follows.

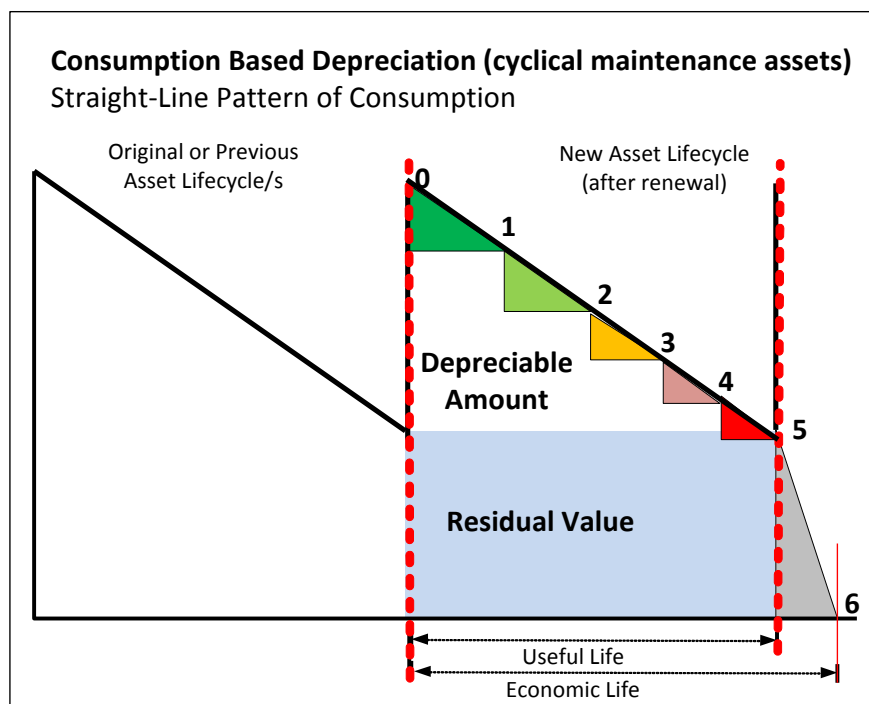


Figure 1: Consumption Based Depreciation Model

The Consumption Based Depreciation methodology used by APV significantly improves the accuracy and objectivity of valuations by placing less (or no reliance) on factors that are highly subjective and by adopting asset management concepts more closely reflects the reality of where the assets are within their asset lifecycle.

Components

Infrastructure assets valued using the cost approach have been componentised as per Table 6: Components. These components have been determined based on the relative materiality of the cost and that each typically reflects a different useful life or pattern of consumption. The components also include a number of small services. While not necessarily material they have been separated out due to the need to provide information into the asset management planning process.

Table 5: Components

Asset class	Component
Sealed roads	Seal Pavement Formation
Culverts	RCBC RCP
Kerb and channel	Left kerb Right kerb Traffic islands Roundabout
Footpaths and cycleway	Concrete Bitumen Pavers

Valuation Inputs

The key valuation inputs used to determine the Depreciated Replacement Cost were –

- Gross Replacement Cost (based on actual dimensions and unit rates derived from market evidence)
- Residual Value (based on consideration of likely future asset management treatment)
- Pattern of Consumption (straight-line as instructed by council)
- Consumption score (based on physical characteristics as well as potential impact of changes in functionality, capacity, obsolescence and legal and other limits)

Please note that under the Consumption Based Depreciation model Useful Life is not used as an input in the calculation of the Fair Value (Depreciated Replacement Cost). This is because the calculation is based on condition and other relevant factors. Typically age has little if no impact on the level of remaining service potential.

Unit Rates

The following unit rates were adopted in determining the Gross Replacement Cost.

Sealed Road Rates				
Hierarchy	Component	Type	Rate	Unit
2 Sub Arterial	Formation	STD	11.77	sqm
3 Primary	Formation	STD	10.93	sqm
4 Secondary	Formation	STD	10.27	sqm
5 Local	Formation	STD	9.59	sqm
6 Industrial Collector	Formation	STD	10.27	sqm
7 Industrial Local	Formation	STD	9.59	sqm
8 Unclassified CBD	Formation	STD	10.27	sqm
9 Tourist	Formation	STD	10.27	sqm
2 Sub Arterial	Pavement	STD	56.90	sqm
3 Primary	Pavement	STD	51.91	sqm
4 Secondary	Pavement	STD	48.77	sqm
5 Local	Pavement	STD	44.40	sqm
6 Industrial Collector	Pavement	STD	48.77	sqm
7 Industrial Local	Pavement	STD	44.40	sqm
8 Unclassified CBD	Pavement	STD	48.77	sqm
9 Tourist	Pavement	STD	48.77	sqm
2 Sub Arterial	Surface	Asphalt	36.70	sqm
3 Primary	Surface	Asphalt	35.31	sqm
4 Secondary	Surface	Asphalt	33.09	sqm
5 Local	Surface	Asphalt	31.41	sqm
6 Industrial Collector	Surface	Asphalt	33.09	sqm
7 Industrial Local	Surface	Asphalt	31.41	sqm
8 Unclassified CBD	Surface	Asphalt	33.09	sqm
9 Tourist	Surface	Asphalt	33.09	sqm
5 Local	Surface	Brick Pavers	119.47	sqm
2 Sub Arterial	Surface	Chip Seal	39.00	sqm
3 Primary	Surface	Chip Seal	39.00	sqm
4 Secondary	Surface	Chip Seal	39.00	sqm
5 Local	Surface	Chip Seal	39.00	sqm
6 Industrial Collector	Surface	Chip Seal	39.00	sqm
7 Industrial Local	Surface	Chip Seal	39.00	sqm
8 Unclassified CBD	Surface	Chip Seal	39.00	sqm
9 Tourist	Surface	Chip Seal	39.00	sqm
3 Primary	Surface	Fibredec	39.19	sqm
4 Secondary	Surface	Fibredec	37.10	sqm
8 Unclassified CBD	Surface	Fibredec	36.10	sqm
7 Industrial Local	Surface	Gravel	19.16	sqm
4 Secondary	Surface	Liquid Road	7.00	sqm
8 Unclassified CBD	Surface	Liquid Road	7.00	sqm

Kerb and Channel Rates				
Hierarchy	Component	Type	Rate	Unit
URBAN STREETS	Kerb	KG	87.77	m
URBAN STREETS	Kerb	LB	87.77	m
URBAN STREETS	Kerb	KO	61.30	m
URBAN STREETS	Kerb	CO	87.77	m
URBAN STREETS	Kerb	SL	87.77	m
URBAN STREETS	Kerb	SG	87.77	m
URBAN STREETS	Kerb	SO	61.30	m
URBAN STREETS	Kerb	KB	87.77	m
URBAN STREETS	Kerb	FL	61.30	m
Car Park Rates				
Hierarchy	Component	Type	Rate	Unit
On	Formation	STD	9.59	sqm
Off	Formation	STD	10.26	sqm
On	Pavement	STD	44.40	sqm
Off	Pavement	STD	47.51	sqm
On	Surface	ASPHALT	31.41	sqm
On	Surface	CHIPSEAL7	7.00	sqm
On	Surface	CONCRETE	157.43	sqm
On	Surface	GRAVEL	19.16	sqm
Off	Surface	ASPHALT	33.61	sqm
Off	Surface	CHIPSEAL7	7.49	sqm
Off	Surface	CONCRETE	168.45	sqm
Off	Surface	GRAVEL	20.50	sqm
Foot Paths				
Hierarchy	Component	Type	Rate	Unit
Std	Surface	Concrete	70.00	sqm
Pedestrian	Surface	Concrete	83.37	sqm
Pedestrian	Surface	ASPHALT	59.73	sqm
Pedestrian	Surface	XAG	109.58	sqm
Pedestrian	Surface	PAVERS	137.25	sqm
Pedestrian	Surface	CHIPSEAL	52.63	sqm
Pedestrian	Surface	Gravel	22.10	sqm

Roundabouts				
Hierarchy	Component	Type	Rate	Unit
Roundabouts	Surface	CONCRETE	117.00	sqm
Roundabouts	Surface	XAG	169.00	sqm
Roundabouts	Surface	ASPHALT	65.00	sqm
Roundabouts	Surface	CHIPSEAL	45.50	sqm
Roundabouts	Surface	PAVERS	169.00	sqm
Roundabouts	Surface	ASPHALT	65.00	sqm
Roundabouts	Surface	GRAVEL	32.50	sqm
Roundabouts	Surface	TILES	195.00	sqm
Roundabouts	Surface	STONE	195.00	sqm
Roundabouts	Surface	Landscape	-	sqm
Roundabouts	Surface	Turfstone	92.30	sqm
Roundabouts	Kerbing	KO	82.41	m
Roundabouts	Kerbing	CO	125.33	m
Roundabouts	Kerbing	SL	125.33	m
Roundabouts	Kerbing	SG	125.33	m
Roundabouts	Kerbing	SO	82.41	m
Roundabouts	Kerbing	KB	125.33	m
Roundabouts	Kerbing	FL	82.41	m
Open Drains				
Hierarchy	Component	Type	Rate	Unit
Open Drains	Excavation		25.40	cum
Open Drains	Floor	Concrete	102.00	sqm
Open Drains	Floor	Crush Rock	37.00	sqm
Open Drains	Floor	Natural	-	
Open Drains	Wall	Concrete	119.00	sqm
Open Drains	Wall	Stone Pitch	83.60	sqm
Open Drains	Wall	Crush Rock	83.60	sqm
Open Drains	Wall	Wire Mattress	60.00	sqm
Subsoil Drainage				
Hierarchy	Component	Type	Rate	Unit
Standard	Stormwater	Aggregate pipe-90	69.61	m
Standard	Stormwater	PVC pipe-90	69.61	m

Residual Value

Under AASB 116 **Residual Value** is defined as -

the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

This results in an assessment of the Residual Value when the asset may be either renewed (resulting in a new asset and therefore disposal of the existing asset) or a decision is made to decommission the asset. This follows the asset management approach as demonstrated in Figure 1: Consumption Based Depreciation model.

The residual value is based on an assessment of the costs that would be involved to restore the asset back to “as new” if it were ever to reach the “unacceptable level of service” phase due to physical deterioration.

For example, when a pipe reaches a point in its lifecycle that it must be repaired, the entity commonly has two choices. They can dig the pipe up and replace it or, they might use a sleeve to reline it. If the cost of the re-sleeving is 60% of the gross Replacement Cost and it restores the service potential back to 100% then it can be argued that the residual value (represented by the existing hole and old pipe) represents a Residual Value of 40%.

Pattern of Consumption

In accordance with paragraph 60 of AASB 116 Property Plant & Equipment, depreciation is based on the most appropriate pattern of consumption. The straight-line pattern was used for all valuations as instructed by council.

Consumption Score

In order to assess the level of remaining service potential the following Consumption Scoring system was applied.

Table 6: Consumption Scoring Scale

Phase Points	Description
0 H - 0M	New or very good condition – very high level of remaining service potential.
1H – 1M	Not new but in very good condition with no indicators of any future obsolescence and providing a high level of remaining service potential.
2H – 2M	Aged and in good condition, providing an adequate level of remaining service potential. No signs of immediate or short term obsolescence.
3H – 3M	Providing an adequate level of remaining service potential but there are some concerns over the asset’s ability to continue to provide an adequate level of service in the short to medium term. May be signs of obsolescence in short to mid-term.
4H – 4M	Indicators showing the need to renew, upgrade or scrap in near future. Should be reflected by inclusion in the Capital Works Plan to renew or replace in short-term. Very low level of remaining service potential.
5H – 5M	At intervention point. No longer providing an acceptable level of service. If remedial action is not taken immediately the asset will need to be closed or decommissioned.
6 - End of Life	Theoretical end of life.

NB: The “H” denotes the top rating of range and the “M” denotes the midpoint of the range

It should be noted that this scale is not a Condition Score. The scoring process included consideration of a range of factors in addition to physical condition. They included -

Table 7: Key Assessment Factors

Holistic Level	Component Level
Functionality	Physical Condition
Capacity	Breakage & Repair History
Utilization	
Safety	
Obsolescence	
Equitable Access	

Sometimes assets reach a stage where decisions are made to decommission or write-off the asset. In these instances the assets would have previously been fully written-down to the residual value. The APV consumption based methodology recognises that the assets are to be fully written-down to nil. In these rare instances the process requires the estimation of “number of years to decommissioning”. The “consumption” score of the asset is used to calculate the Fair Value and this figure is then divided by the Remaining Useful Life to determine the depreciation expense.

The following consumption score shows the relative value of the “residual value”

Table 8: Consumption Scores for Obsolescence

Score	% of RV
5H	100%
5M	66.7%
6H	33.3%
6M	0%

Depreciation Methodology

The project specifications required the provision of certain information which would be required for the calculation of depreciation expense. The methodology has been developed fully in accordance with the requirements of AASB 116 “Property Plant and Equipment” and appropriate State based requirements.

In relation to the calculation of depreciation expense, AASB 116 requires –

Paragraph 6 (definitions) –

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity;
- or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

- 43. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- 50. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- 60. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

In determining the estimated rate of depreciation and the estimate of Depreciation Expense for each component consideration was given to –

- Useful Life
- Residual Value
- Pattern of Consumption
- Current stage of the asset lifecycle (rated based on the Consumption Scores)

A depreciation rate (expressed as a percentage of the Depreciable Amount) was determined based on the assessed Pattern of Consumption and Consumption Score.

This rate was then applied against the Depreciable Amount. The result of this approach is that where the pattern of consumption applied was straight-line, the depreciation rate applied was consistent irrespective of the assessed consumption rating of the component.

In the rare circumstances of assets deemed no longer required for use and identified as being obsolete, depreciation expense was based on the assessed value divided by the estimated time to demolition.

Valuation Processes

General

APV has undertaken the financial reporting valuation for City of Darwin in accordance with the Australian Accounting Standards. The valuation reporting has involved the confirmation of completeness of asset registers, physical inspection of the assets and capturing data such as the asset age, type, condition and then compiling information and assessing the value of the assets. Throughout this process, APV ensured quality management procedures were implemented to achieve the most accurate asset valuation reporting.

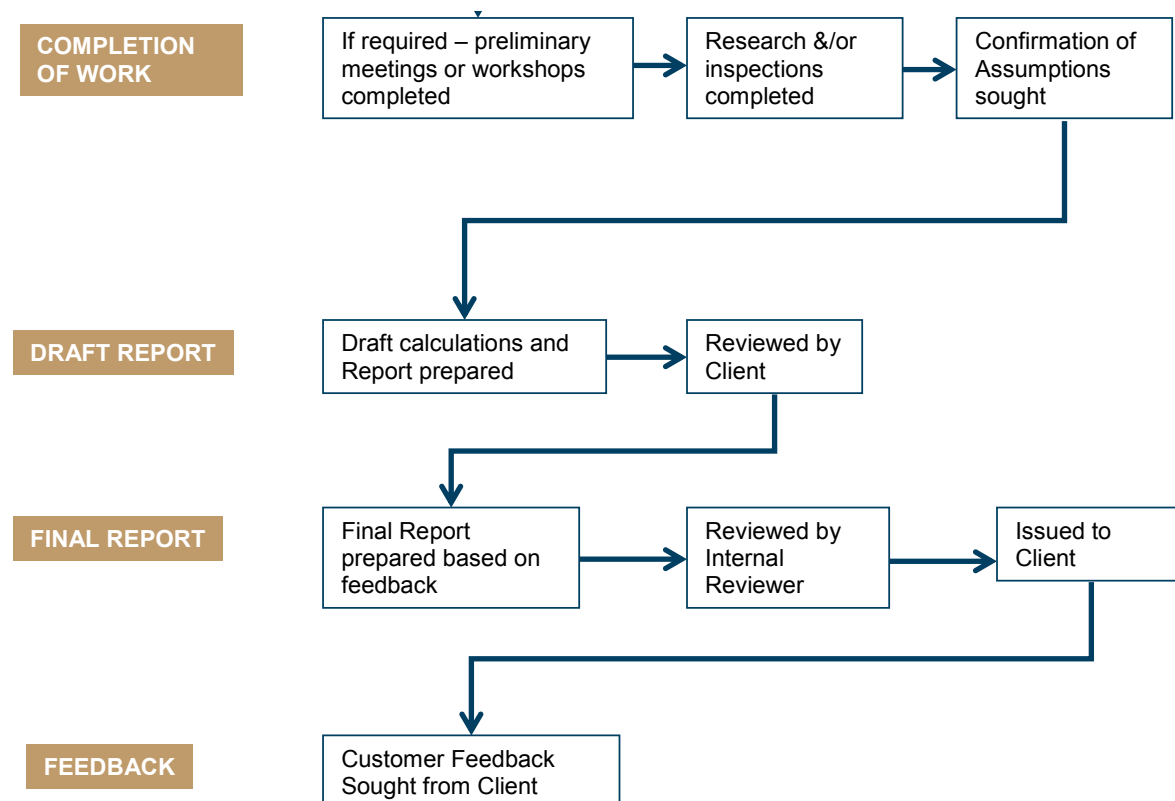
Project Staff

The following table sets out the officers used to undertake the valuation along with details of their experience and qualification.

PERSONNEL	QUALIFICATIONS	ROLE & EXPERIENCE
MANAGEMENT		
Mr Alf Ponticello Managing Director Project Manager Registered Valuer	Registered Valuer: NSW: VAL14829 QLD: 1816 Bachelor of Business (RP. Val & Administration)	Experience :Senior Valuer – Over 22 years experience in carrying out Local Government and Public Body valuations
Mr David Edgerton Director Methodology	Asset Accounting, Asset Management & Methodology. Bachelor of Commerce Fellow CPA Australia Member – IPWEA CPA Australia’s Representative – AAMCoG	Experience: Author: CPA Australia’s “Guide to public sector physical asset valuation and depreciation under accrual based accounting standards” Contributing Author – IPWEA NAMS Australian Financial Management Guidelines Author – CPA Australia’s national Asset Accounting and Asset Management in the Public Sector program. Over 20 years with Qld Audit Office including Manager of Local Government and Contract Auditors Section
INFRASTRUCTURE, PLANT & EQUIPMENT VALUERS		
Mr Bryce McLaren Role: On Site Inspections	Technical Trade Qualifications Certificates in Pumping Technology, Pneumatics, Hydraulics, Electrical Design, Steam & Gas	Valuer – Plant, Equipment & Infrastructure Assets. 30+yrs experience in Civil & Mechanical Projects including Project management

Quality Management

Quality management processes involved taking a number of steps to ensure asset information was accurate and complete, and that provided information could be relied upon with confidence. The process followed by APV incorporated the following steps.



In undertaking the Financial Reporting Valuation for City of Darwin, APV were provided with the following asset information from City of Darwin:

- Financial Asset Register
- Various asset management spreadsheets
- Details of additions, disposals

APV liaised with City of Darwin to confirm that the above provided documents were accurate to the best of their knowledge. Based on that confirmation, APV has undertaken a number of processes to validate the accuracy of information of each of the documents as follows:

Financial Asset Register

- APV staff reviewed the financial register and queried certain assets before undertaking inspections
- APV staff were either accompanied by City of Darwin staff during inspections or the details of unlisted potential assets were discussed with City of Darwin staff to correctly identify assets. This ensured that assets contained within the register were crosschecked against their description, location and ownership detail
- Any additional assets that were found during the site inspections were captured and if they were confirmed to be City of Darwin assets, then they were included with the valuation.

Meetings and Discussions

APV and City of Darwin have partaken in regular discussions regarding valuation methodology, assumptions, completeness of asset data and information provided to APV. APV staff have further communicated with personnel within specific City of Darwin departments to further clarify information specific to a particular asset.

These discussions have been quite extensive and included conference calls on numerous occasions which were subsequently supported by minutes. Typically these included discussions on support for unit rates, appropriateness of assumptions, formulas and information to be included in the report.

Confirmation of Assumptions

APV standard assumptions were sent to City of Darwin for validation and approval allowing for City of Darwin input where changes reflect the particular nature of the City of Darwin assets. Validation of changed assumptions is the responsibility of the council. In this instance, council have modified the APV standard assumptions. Assumptions are attached to this report.

Valuation of a Complete and Accurate Asset Register

APV have undertaken the previously described quality management processes to ensure all assets for the relevant asset classes have been captured and included with the financial reporting valuation. To provide assurance over the completeness and accuracy of the asset listing a number of processes were employed. These included –

- Seeking an understanding of the processes employed by City of Darwin to ensure the asset listing provided to APV was complete and accurate. These included -
 - Updating of maintenance records and the asset register where faults are reported or maintenance/capex work undertaken
 - Reconciliations between the Asset Register and Asset Management Systems (including GIS systems)
 - Reconciliations to ensure all new capital acquisitions are recorded on a timely basis in the Asset Management system
 - Reconciliations and process to ensure all contributed assets are recorded in the asset register on a timely basis
- APV selecting a number of random locations and by using either NearMaps or while undertaking the physical inspections that all assets in that location were recorded in the asset listing.

Sources of Data

By nature the valuation process requires the capture of a range of data, research regarding a range of assumptions and the exercise of significant professional judgement. Each valuation is slightly different to others depending upon the quality of the asset register and data (including asset management data) provided by the entity, geographical or environmental factors, and depth of market to support market based assumptions.

In determining the valuations data was sourced from the following –

Indicators of Obsolescence or other high level factors

APV's proposal stipulated that council is responsible for ensuring all relevant information is provided to the valuer and that being external party to the council the valuer is not in a position to know or understand all council policies, politics or intimate details of the future strategic direction of the council. The proposal requests a range of information including and details of -

- Obsolescence and impairment
- Processes used to validate the completeness and accuracy of the asset register
- Confirmation of Methodology and Data

During the valuation the valuer requested both verbal and where possible documentation regarding these aspects. Where assets were identified as possibly being subject to obsolescence further enquiries were made with council to ascertain the level and likelihood of such events. Where relevant: appropriate comments were recorded in the valuation spreadsheet against the relevant asset.

Replacement cost (including indices) where cost approach was used

We use a range of sources (in order of priority) including–

- Actual construction or purchase prices for recent projects paid by the specific entity. This may include further enquires with the supplier to ensure we have adjusted for any recent price movements. Depending on the complexity of the project it may also involve disaggregating the overall cost into greater detail.
- Appropriate APV database where we record details of actual cost from recent projects that we source directly from our clients. Preference is provided to nearby locations.
- Rawlinson's Construction Guide or similar guides (such as Cordells)

- Development of costs using first principles, to assist in this process we have developed a number of models for specific asset types (such as fencing)
- Benchmarking against other valuations

As per AASB 13 allowance was then made to adjust for condition and comparability.

Condition assessment and confirmation of attributes

The physical inspection of the asset is a critical aspect of the process. Apart from confirming condition the process also involves validation of key attributes such as material type, dimensions, etc.

For assets valued using the cost approach (except where noted below) all were physically inspected. This included validation of physical dimensions and characteristics.

Sampling approach –

- A sampling approach was used for lateral assets which were able to be visually inspected (such as roads, footpaths, etc). For assets not inspected reliance on condition was placed on information provided by council staff and reliance was placed on the GIS and other asset management systems in relation to key attributes. The sample size was 10%

Assets Not Inspected -

- Some assets (such as underground pipes and pits) were unable to be inspected due to their nature and the cost involved in undertaking extensive engineering assessments
- Where available, reliance was placed on condition assessment and attribute data maintained within the council's asset management and GIS systems. As this data is used on a day-to-day basis to manage these assets it was considered to be the most reliable (and available) source of information.

Where such data was not readily available we developed a range of assumptions based on the expected physical condition and attributes given the age of the asset and typical design characteristics. These assumptions were reviewed and confirmed as reasonable by council staff.

Relationship between consumption score and level of consumed service potential

The depreciation methodology employed is detailed above. Essentially it includes development of a consumption profile. The consumption profile provides an objective mechanism to translate the

assessed consumption score to an estimate of the depreciated replacement costs taking into account the typical asset lifecycle phases and estimated pattern of consumption of the future economic benefit. The consumption profile is based on the relationship between the percentage of remaining useful life (%RUL) and percentage of remaining service potential (%RSP). As such they involve a level of professional judgement and represent unobservable market evidence (level 3 inputs).

The straight-line pattern was used for all valuations as instructed by council.

Limitations

- **The warranty of the valuation fully complying with the accounting standards** is limited to the quality and extent of information supplied by the entity as requested in the proposal. This may include information such as the existence of assets, location, condition, potential obsolescence and confirmation of relevant assumptions relied upon by APV for the purposes of completing the valuation.
- **The valuation was prepared on the basis that full disclosure** of all information and facts which may affect the valuation was made to us by all parties. We cannot accept any liability or responsibility whatsoever for the valuation unless full disclosure has been made.
- In accordance with our standard practice, the **valuation will be solely used by the party to whom it is addressed**. Reliance on it by a third party (other than for external audit purposes) cannot be regarded as reasonable, and no responsibility to any third party is or will be accepted for the whole or any part of its contents. No responsibility whatsoever will be accepted for photocopies of the whole or any part of the valuation or for photocopied signatures.
- Other than for the purposes of financial statement disclosure, neither the whole nor any part of the valuation nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.
- **Physical inspections were undertaken to the extent required to enable APV to assess the level of remaining service potential**. As a consequence, inspections did not include (unless specifically detailed in the scope of works):
 - soil analysis or geological studies
 - testing for substances such as asbestos, chemical or toxic wastes, or other potentially hazardous materials which could adversely affect the value of the asset. The value as assessed by us is on the assumption that there is no material within the property that would cause a loss in value. No responsibility is accepted or assumed with regard to the existence or otherwise of any such conditions, and the recipient of this report is advised that the valuers are not qualified to detect such substances. We would require separate instructions together with appropriate engineering advice to enable us to identify the existence and extent of such substances, quantify the impact on values or estimate the remedial cost.
 - structural surveys of improvements or examinations for timber infestation.

- Where inspections were not undertaken by APV (such as where reliance was placed on a sampling approach) **reliance was placed on either condition data supplied by the entity and/or the extrapolation of results from actual inspections.**
- **Market Movement: This valuation is current as at the date of valuation only.** The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three months from the date of valuation.

Schedule of Values

- Roads, etc
- Valuation Assumptions

**ENCL: RISK MANAGEMENT & AUDIT
YES COMMITTEE/CONF**

AGENDA ITEM: 9.7

ASSESSMENT OF ASSET MANAGEMENT PROCESSES - DELOITTE 2014

REPORT No.: 15A0040 MC:mp COMMON No.: 1713107

DATE: 27/03/2015

Presenter: Manager Finance, Miles Craighead

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to advise the Risk Management & Audit Committee (RMAC) on Deloitte 2014 Assessment of Asset Management Processes and management comments thereon.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.5 Responsible financial and asset management

Key Strategies

5.5.1 Manage Council's business based on a sustainable financial and asset management strategy

KEY ISSUES

- In 2014 Deloitte provided an independent assessment of Council's asset management processes.
- The Deloitte assessment has been annotated with Management responses.
- Some of the Deloitte recommendations were classified as minor and it is not considered these should be included in the outstanding audit issues.

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 2014

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0040 MC:mp entitled Assessment Of Asset Management Processes - Deloitte 2014, be received and noted.
- B. THAT Management agreed recommendations not yet completed be added to the Outstanding Audit Issues Register (with the exception of the table on minor matters).
- C. THAT the following Outstanding Audit Issues be removed from the register as they are covered by the more up to date Deloitte assessment of asset management processes which will provide an improved focus:
 - a. Outstanding Audit Issue 116 "Asset Management & Financial Sustainability Review" (stemming from Access Economics and Jeff Roorda & Associates reviews).
 - b. Outstanding Audit Issue 237 Asset Management Plan – originally part of Outstanding Audit Issue 116.

BACKGROUND

The Deloitte independent assessment of Council's asset management processes was part of Council's 2014 internal audit program agreed with the RMAC.

DISCUSSION

The Deloitte 2014 "Assessment of Council's Asset Management Processes" with Management response is provided in **Attachment A** to this report and includes:

1. A number of main recommendations (section 3).
2. A summing up of past reports and outstanding issues (section 4).
3. Recommendations on minor matters.

Where the main recommendations are agreed to by Management and there are outstanding actions these should be included in the Outstanding Audit Issues (OAI) register.

The summing up of past reports indicates 4 main issues/actions which would substantially clear past outstanding issues:

"As presented in Section 4.1, there are 19 outstanding actions / recommendations to be implemented (out of a total of 33 recommendations) and the majority of these could be closed off by addressing the four actions below:

- *Establishing and formalising an Asset Management Steering Group*
- *Finalising and formalising individual asset management plans*

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- *Implementing a new asset management system within the Technical Services Branch*
- *Mapping out and formalising associated workflows and operational procedures, through cooperation and communication between the Financial Services Branch and the Technical Services Branch.”*

The above mentioned 4 main issues/actions are already more than satisfactorily included in the section 3 main recommendations.

It is considered that by removing the existing very detailed OAI and replacing them with the more up to date Deloitte recommendations agreed to by Management will remove the out of date matters and create a better focus on the main objectives.

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and is now referred to the Risk Management and Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Manager of Technical Services

POLICY IMPLICATIONS

The recommendations of the Deloitte assessment include a review of specific asset related policies and procedures which Management has agreed to review during 2015. Some of these may form internal policies (procedures) rather than external or publicly published policies, but this will depend on the results of the agreed review.

The review of asset related policies will cover the following matters, noting that a number are currently up to date - but may require change and reconsideration in conjunction with the implementation of the new Asset Management System:

- Asset Capitalisation Policy
- Asset Data Management Policy
- Asset Disposal Policy
- Asset Overview Policy
- Asset Revaluation Policy
- Asset Received Free of Charge Policy
- Acquisition and Capitalisation Procedure
- Disposal Procedure
- Sale Procedure
- BIS [Business Information Systems] to Works Review Reconciliation Procedure

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- Portable and Attractive Assets Procedure
- Monthly Depreciation Run Procedure.

BUDGET AND RESOURCE IMPLICATIONS

The Management agreed actions are expected to be accommodated substantially within existing budgeted resources.

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Asset Management Planning should recognise and address environmental implications.

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MILES CRAIGHEAD
MANAGER FINANCE

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

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Attachment A: Assessment of Asset Management Processes - Deloitte 2014

City of Darwin

Assessment of Asset Management Processes

August 2014

Distribution

Party	Title
Chief Officers Group	Members, City of Darwin
Risk Management and Audit Committee	Members, City of Darwin
Mr Tony Simons	Risk and Occupational Health and Safety (OHS) Advisor, City of Darwin
Mr Miles Craighead	Finance Manager, City of Darwin
Ms Nadine Douglas	Manager Technical Services, City of Darwin
Ms Julie Crisp	Partner, Deloitte Touche Tohmatsu

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Inherent Limitations

The Services provided are advisory in nature and have not been conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management’s responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the City of Darwin personnel. We have not attempted to verify these sources independently unless otherwise noted within the report.

Limitation of Use

This report is intended solely for the information and internal use of the City of Darwin in accordance with our letter of engagement of 2 April 2014, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than the City of Darwin for our work, for this report, or for any reliance which may be placed on this report by any party other than the City of Darwin.

Confidential - this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

1 Executive Summary

1.1 Objective and scope

This engagement required Deloitte to assess the City of Darwin's asset management processes.

The purpose of the engagement was to:

- Examine and comment on the City of Darwin's approach to total asset management, including alignment between management systems controlled by both the Technical Services Branch of the Infrastructure Services Department and the Financial Services Branch of the Corporate Services Department
- Identify weaknesses inherent in the current system
- Make necessary recommendations to improve identified deficiencies in existing asset management processes.

1.2 Work performed

We conducted the engagement through the following two phases:

- a) **Phase 1 - Assessment of Asset Management Processes:** this phase focused on:
 - i. Assessing and commenting on measures in place to address the following associated risks identified in the City of Darwin's strategic and operational risk assessments:
 - Relevant Strategic Risks*
 - o The City of Darwin does not implement and manage effective corporate governance and risk management frameworks
 - o The City of Darwin does not implement processes to identify and implement contemporary best practice business systems

Relevant Operational Risks – Financial Services

- o The City of Darwin does not have an approved policy to manage asset acquisitions and disposals
- o The City of Darwin does not develop and maintain a register of portable and attractive items
- o Failure to ensure correct rates of depreciation are applied to correct asset classes as per taxation guidelines
- o Failure to ensure asset management systems used in Financial Services and Asset Management Branches are aligned and integrated

Relevant Operational Risks – Technical Services

- o Failure to develop and promote asset management policies, standards and procedures
- o Failure to develop and implement a robust infrastructure asset condition inspection program
- o Failure to develop and implement corporate and individual infrastructure asset management plans

- o Failure to ensure all assets are subject to three-yearly revaluation
 - o Failure to develop, implement and maintain a corporate asset register
 - o The City of Darwin is reliant on a limited number of qualified staff to maintain asset management systems
 - o Asset register software failure.
 - ii. Confirming asset management plans are in place to manage critical assets
 - iii. Examining asset maintenance processes to determine whether controls are effective over planning, monitoring and recording of assets
 - iv. Assessing and commenting on the quality of asset management systems ('Authority') and integration across multiple asset management platforms
- b) **Phase 2 - Assessment of Asset Management Control Effectiveness:** this phase examined effectiveness and compliance with the following specific internal controls for the period from 1 July 2013 to 31 March 2014:
- i. Asset Management Steering Group in place and meets quarterly
 - ii. Development of procedures undertaken for data collection and asset management
 - iii. Cyclic reviews undertaken of policies, standards and procedures
 - iv. Asset management roles and responsibilities allocated to specific individuals across the organisation
 - v. Implementation of asset sustainability review recommendations will ensure policies, standards and procedures are developed and monitored
 - vi. Assets surveyed on a cyclical program, depending on class of asset
 - vii. Corporate asset management plan sets out the survey classes and cycles
 - viii. Asset data stored on Map Info and Corporate Asset Register
 - ix. Dedicated Officers utilise the Australian Infrastructure Financial Management Guidelines as a reference to ensure asset revaluations are consistent and meet legislative requirement for local governments.
- c) **Phase 3 – Asset Management Advisory Services:** this phase involved the following:
- i. Examining the November 2009 asset sustainability report to understand the initial recommendations suggested
 - ii. Comparing initial recommendations with how they have been translated into actionable items, through discussions with key staff, examination of the December 2012 follow up report and the outstanding issues register from November 2013
 - iii. Identifying objectives that the City of Darwin aims to achieve with its asset management processes and systems and assess whether the recommendations from 2009 and 2012 are still relevant
 - iv. Assist in translating the results of procedures (i) through (iii) above into actionable items and, where applicable, providing suggestions on how the recommendations can be implemented.

1.3 Summary of findings, risks addressed and recommendations

1.3.1 Summary of findings and risks addressed – Phases 1 and 2 (internal audit component of the engagement)

A summary of the issues identified as part of Phases 1 and 2 of the engagement and the associated risks addressed is included in the table below. The risk rating of the issues is based on the impact the implementation of our recommendations would have on associated residual risk. We used the City of Darwin's risk rating criteria (presented in Appendix B) for this purpose.

Refer to Section 3 for the detailed findings.

Detailed finding reference	Finding description	Associated risk (from the October 2013 ORA)	Risk reference	Residual risk rating	
				Current (from ORA)	Suggested post-implementation recommendation should be adopted
3.1	Selected asset management procedures have not been finalised.	Failure to develop and promote asset management policies, standards and procedures			
3.2	Asset management policies and procedures have not been reviewed in accordance with the established review frequency.	Failure to develop and promote asset management policies, standards and procedures	IS ORA #57	High	Medium
3.3	The Asset Management Steering Group has not been formally established.	Failure to develop and promote asset management policies, standards and procedures			
3.4	Individual asset management plans have not been finalised and implemented.	Failure to develop and implement corporate and individual asset management plans	IS ORA #60	High	Medium
3.5	Current asset management systems do not provide for an adequate corporate asset register.	Failure to develop, implement and maintain a corporate asset register	IS ORA #62	Medium	Low
<p><u>Legend:</u> ORA – Operational Risk Assessment IS – Infrastructure Services</p>					

We have also raised six minor matters that do not present a significant level of risk exposure but could assist in further improving asset management processes. Refer to Appendix A for more information.

1.3.2 Summary of recommendations – Phase 3 (advisory component of the engagement)

As part of this phase of the engagement, we followed up on recommendations from previous asset sustainability reviews. Refer to Section 2 for more information on procedures undertaken and the associated work results.

Overall, we noted that there are 19 outstanding actions / recommendations to be implemented (out of a total of 33 recommendations) but that the majority of these could be closed off by addressing the four actions below:

- Establishing and formalising an Asset Management Steering Group
- Finalising and formalising individual asset management plans
- Implementing a new asset management system within the Technical Services Branch
- Mapping out and formalising associated workflows and operational procedures, through cooperation and communication between the Financial Services Branch and the Technical Services Branch.

The above also aligns with our findings and recommendations resulting from Phases 1 and 2 of the engagement (highlighting gaps related to internal controls intended to mitigate the operational risks identified through the City of Darwin's operational risk assessments) as well as our understanding of line management's requirements related to asset management (explored as part of Phase 3 of the engagement). Refer to Section 4 for more information.

1.4 Acknowledgement

We would like to take this opportunity to thank the City of Darwin's management and employees for their co-operation and assistance during the course of this engagement.

Julie Crisp
Partner
Deloitte Touche Tohmatsu
August 2014

2 Summary of Work Results

2.1 Assessment of Asset Management Processes

As part of our assessment of the City of Darwin's asset management processes, we focused on:

- i. Assessing the measures that the City of Darwin has set in place to address the relevant strategic and operational risks noted in Section 1.2 above
- ii. Confirming asset management plans are in place to manage critical assets
- iii. Examining asset maintenance processes to determine whether controls are effective over planning, monitoring and recording of assets
- iv. Assessing and commenting on the quality of asset management systems ('Authority') and integration across multiple asset management platforms.

2.1.1 Examination of the measures that the City of Darwin has set in place to address relevant strategic risks

As part of this assessment, we examined relevant policies and procedures in place and considered how they address the following strategic risks:

- The City of Darwin does not implement and manage effective corporate governance and risk management frameworks
- The City of Darwin does not implement processes to identify and implement contemporary best practice business systems.

The policies and procedures we examined were:

- Asset capitalisation policy
- Asset disposal policy
- Asset revaluation policy
- Asset acquisition and capitalisation procedures
- Asset sale procedures
- Records and information corporate policy
- General council property policy
- Plant and equipment policy
- Asset data management policy
- Asset overview policy
- Asset received free of charge policy
- Asset disposal procedures
- Asset management corporate policy
- Risk management corporate policy
- Land acquisition, disposal and lease policy

Our inspection of the above policies and procedures resulted in a number of recommendations for improvement. Refer to Findings 3.1, 3.2 and 3.5 for more details.

2.1.2 Examination of the measures that the City of Darwin has set in place to address relevant operational risks related to the Financial Services Branch of the Corporate Services Department

As part of this assessment, we examined relevant policies, procedures and practices in place and considered how they address the following operational risks:

- The City of Darwin does not have an approved policy to manage asset acquisitions and disposals
- The City of Darwin does not develop and maintain a register of portable and attractive items
- Failure to ensure correct rates of depreciation are applied to correct asset classes as per taxation guidelines
- Failure to ensure asset management systems used in Financial Services and Asset Management Branches are aligned and integrated.

We examined the policies to manage asset acquisitions and disposals and noted that the policies are in place and are to be reviewed in December 2014 in accordance with the set review frequency.

The City of Darwin also has a register of portable and attractive items. We noted, however, that the register is kept on an Excel spreadsheet, as well as in Authority. Reconciliations are performed on a daily basis to ensure that portable and attractive assets recorded in the Excel spreadsheet and Authority is reconciled. Refer to Appendix A for the associated minor matter raised.

Management advised the City of Darwin is not, as a local government entity, required to apply depreciation rates in accordance with taxation guidelines. Rates are determined and provided by external valuers and applied accordingly. Refer to Appendix A for the associated minor matter raised.

2.1.3 Examination of the measures that the City of Darwin has set in place to address relevant operational risks related to the Technical Services Branch of the Infrastructure Services Department

As part of this assessment, we examined relevant policies, procedures and practices in place and considered how they address the following operational risks:

- Failure to develop and promote asset management policies, standards and procedures
- Failure to develop and implement a robust infrastructure asset condition inspection program
- Failure to develop and implement corporate and individual infrastructure asset management plans
- Failure to ensure all assets are subject to three-yearly revaluation
- Failure to develop, implement and maintain a corporate asset register
- The City of Darwin is reliant on a limited number of qualified staff to maintain asset management systems
- Asset register software failure.

We noted that there are procedures still in draft phase that are yet to be finalised, approved and implemented as discussed further in Finding 3.1.

The condition of assets is to be checked every four years. These checks are performed on a cyclical basis and are not all performed in the same year. Stormwater assets are inspected using a sample of 5% which is then extrapolated over the balance of the stormwater assets value for revaluation purposes.

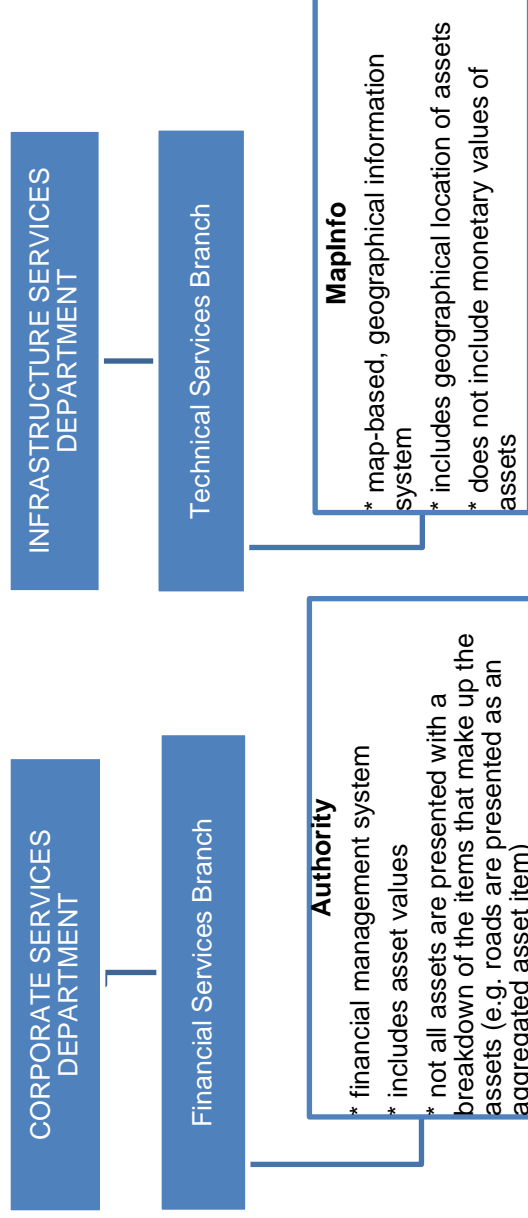
The City of Darwin developed a Corporate Asset Management Plan in 2009. This plan is currently being used more as a strategy than a plan, as discussed in Section 2.1.4 below.

Data received regarding the valuation of assets is monitored by key senior personnel to ensure that all assets are revalued over a three-year cycle.

The Corporate Asset Register for the Infrastructure Services Department is in the form of geographical location information maintained within MapInfo. MapInfo can be viewed by all City of Darwin staff, but only the IT department and staff working with the particular assets are authorised to make changes to the data. The Technical Services Branch use MapInfo as the asset register for that Branch and the data is backed up on a daily basis consistent with other IT systems by the City of Darwin's IT team.

There is no reconciliation performed between the asset information within MapInfo and the asset information held within Authority. This is discussed in more detail in Section 2.1.6.

The diagram below depicts ownership over and key features of the two systems mentioned above:



We understand that a skills matrix related to asset management within the Technical Services Branch is being developed. This in response to the recommendation in the 2012 asset sustainability report to develop a knowledge management strategy to continuously identify skills and knowledge required for asset management, for example relating to technology/data options and audit trail, security etc. Refer to Finding 3.5 and Section 4 for more information.

2.1.4 Confirmation of asset management plans in place to manage critical assets

There are currently no individual asset management plans in place to manage critical assets. The only relevant plan is the Corporate Asset Management Plan (established in 2009) which is used more as a strategy document to assist with:

- Levels of service
- Future demand
- Risk management
- Lifecycle management
- Financial planning
- Improvement program.

As part of this assessment, we examined the Corporate Asset Management Plan 2009 and concluded that it is sufficient to meet the requirements of a strategic asset management document.

We noted that the individual asset management plans are still in the development phase and have not yet been finalised, or implemented, as discussed in Finding 3.4.

2.1.5 Examination of asset maintenance processes to determine the effectiveness of controls over planning, monitoring and recording of assets

We have identified the following steps of the asset maintenance process, through discussions with the relevant staff member and examination of supporting process documentation:

Asset maintenance process	Staff member involved in process
Project conception	Various employees
Project assessment	Project Organiser
Project works	Project Supervisor
Project completion	Project Supervisor
Project finalisation	Project Supervisor
Asset registration	Asset Officer
Asset completed	Finance Officer

The value of assets that are in the development/installation phase are recorded and monitored through the capital works program which is updated on a weekly basis. This data is monitored by comparison to budgets and approved variances to expenditure.

Once an asset is finalised/installed/purchased, an asset management form is completed that contains the detail needed to be included in the asset register within Authority.

We examined the following documentation that is available to guide staff through the process:

- Assets process
- Design checklist
- Development checklist
- Construction checklist
- Guide to complete asset registration sheet

Apart from the system-related issues discussed in Section 2.1.6, we did not detect any issues with the process as documented in the documentation noted above.

2.1.6 Assess and comment on the quality of asset management systems ('Authority') and integration across multiple asset management platforms

We noted that the two asset management systems, Authority and MapInfo, are not integrated. There are no reconciliations performed between the asset management systems as Authority is the only asset management system containing financial data while MapInfo includes map-based information on asset location. Management advised that the City of Darwin has issued an expression of interest for a new asset register system. Refer to Finding 3.5 for more information.

As part of this assessment, we also examined relevant reports generated from Authority and noted some opportunities for improvement, as discussed in Appendix A.

2.2 Assessment of Asset Management Control effectiveness

As part of this phase we examined the effectiveness of and compliance with the following specific internal controls (as documented within the City of Darwin's operational risk assessments) for the period from 1 July 2013 to 31 March 2014:

- i. Asset Management Steering Group in place and meets quarterly
- ii. Development of procedures undertaken for data collection and asset management
- iii. Cyclic reviews undertaken of policies, standards and procedures
- iv. Asset management roles and responsibilities allocated to specific individuals across the organisation
- v. Implementation of asset sustainability review recommendations will ensure policies, standards and procedures are developed and monitored
- vi. Assets surveyed on a cyclical program, depending on class of asset
- vii. Corporate asset management plan sets out the survey classes and cycles
- viii. Asset data stored on Map Info and Corporate Asset Register
- ix. Dedicated Officers utilise the Australian Infrastructure Financial Management Guidelines as a reference to ensure asset revaluations are consistent and meet legislative requirement for local governments.

2.2.1 Asset Management Steering Group in place and meets quarterly

We were advised by management that the Asset Management Steering Group is not formally in place. An unofficial working group exists, consisting of the Manager Technical Services, the Finance Manager, the Asset Accountant and relevant personnel from the IT Team. The group reports to the Chief Officers' Group (COG) as needed. The group and its processes have yet to be formalised. Refer to Finding 3.3 for more information.

2.2.2 Development of procedures undertaken for data collection and asset management

As part of this assessment, we examined the following documentation:

- Authority 6.8 User Guide
 - Authority Entry Procedures.
- We also examined the following procedures:
- Acquisition and Capitalisation Procedure
 - Disposal Procedure
 - Sale Procedure
 - Authority to Works Review Reconciliation Procedure
 - Portable and Attractive Assets Procedure.

A walkthrough was performed to confirm how the data is transferred from the work order request to the asset register. The data collection and asset management processes observed were consistent with the above mentioned policies. No issues were noted that require reporting.

2.2.3 Cyclic reviews undertaken of policies, standards and procedures

We examined the following policies and procedures:

- Asset Capitalisation Policy
- Asset Data Management Policy
- Asset Disposal Policy
- Asset Overview Policy
- Asset Revaluation Policy
- Asset Received Free of Charge Policy
- Acquisition and Capitalisation Procedure
- Disposal Procedure
- Sale Procedure
- BIS to Works Review Reconciliation Procedure
- Portable and Attractive Assets Procedure

- Monthly Depreciation Run Procedure.

We were advised that the above policies and procedures have not been reviewed since 2012, but are scheduled to be reviewed between October and December 2014. The policies and procedures state that they are to be reviewed on an annual basis (discussed further in Finding 3.2).

2.2.4 Asset management roles and responsibilities allocated to specific individuals across the organisation

As part of our assessment, we undertook discussions with the following City of Darwin staff regarding their roles and responsibilities in relation to asset management:

- Michael Lowell – Asset Officer
- Jarrad Crawley – Assistant Asset Officer
- Aneta Leitner – Asset Accountant

We compared the position descriptions relating to the individuals' positions with the employees' understanding of their roles and responsibilities and did not note any significant misunderstanding or misinterpretation of roles and responsibilities.

2.2.5 Implementation of asset sustainability review recommendations to ensure policies, standards and procedures are developed and monitored

This was addressed during Phase 3 of the engagement. Refer to Section 4 for more information.

2.2.6 Assets surveyed on cyclical program, depending on class of assets

Key management personnel advised that assets are surveyed in line with the four-year revaluation inspections. There is no survey policy for assets as surveys are performed at the same time as the applicable revaluations.

There were no surveys performed during the period under our review.

2.2.7 Corporate asset management plan sets out the survey classes and cycles

We noted that there were no surveys performed during the engagement period. We were advised that surveys of assets are performed together with the revaluation of the asset or class of assets on a cyclical basis within four years. Thus asset condition reviews occur for all assets over a four--year period.

2.2.8 Asset data stored on MapInfo and the Corporate Asset Register

As part of this assessment, we selected a sample of asset items from the asset register within Authority and confirmed that the asset was also included in MapInfo. No discrepancies were identified. Our comparison did not include a comparison of financial data because MapInfo only includes geographical data. Please refer to Finding 3.5 for more information.

2.2.9 Dedicated officers utilise the Australian Infrastructure Financial Management Guidelines as a reference to ensure asset revaluations are consistent and meet legislative requirement for local governments

Management informed us that the engagement letters with external parties undertaking valuations require the valuations comply with General Accounting Practice. Refer to Appendix A for the associated minor matter raised.

2.3 Asset Management Advisory

As part of this phase of the engagement, we held discussions with management to get a clearer understanding of current asset management sustainability. Current systems, procedures and practices and areas for potential improvement were discussed with nominated managers.

During the course of our engagement, management informed us that some components of the asset sustainability consulting report issued in 2009 are no longer relevant. As a result, more attention has been given to the asset sustainability consulting report issued in 2012. The 2012 report was a follow-up report in which 2009 recommendations were reconfigured to be made more relevant to the City of Darwin's operations as they existed in 2012.

We have examined recommendations made in the 2012 report to establish whether these recommendations remain relevant and, if so, whether they have been implemented. We have also prepared associated recommendations for process improvement, where applicable. Refer to Section 4 for more information.

3 Detailed Findings – Phases 1 and 2

3.1 Selected asset management procedures have not been finalised.

Residual Risk Rating	
Current	Suggested post-implementation should be adopted
High	Medium

Observation

As discussed in Section 2.1.1, we examined relevant policies and procedures in place and considered how they address the City of Darwin’s following strategic risks:

- The City of Darwin does not implement and manage effective corporate governance and risk management frameworks
 - The City of Darwin does not implement processes to identify and implement contemporary best practice business systems.
- We noted that the following procedures are still being developed and have not been finalised nor implemented:

- Asset Register Data Collection and Maintenance (describes the procedures for accurately registering and maintaining the Asset register to ensure the correct status/location of assets are reflected in both MapInfo and Authority.)
- iPads and Pronto Forms (describes the procedures for accurate upload and entry of data into MapInfo to ensure high quality data is available to analyse with context to location and enable spatial information to be generated for the community)
- Updating GIS (MapInfo) (describes the procedures for accurate upload and entry of data into MapInfo to ensure high quality data is available to analyse with context to location and enable spatial information to be generated for the community)
- iPads (provides details on the setup of iPads including passwords and accounts and procedures for the use of iPads by staff).

Implications

Failure to develop, implement and manage the above procedures may result in:

- Inconsistent recording and updating of asset information
- Potential loss of asset-related corporate knowledge
- Failure to ensure asset management is undertaken in accordance with relevant accounting standards and legislative requirements.

Recommendation

The draft procedures should be finalised, implemented and made accessible to relevant employees. As discussed in Section 2.1.6, a new asset management system is being considered by the Technical Services Branch. The procedures should take into account any new system-related changes to the process, as and once applicable. In addition, input should be sought from the Financial Services Branch to ensure that the procedures align with relevant financial processes and procedures relevant to Authority.

Management Response

Agreed:

- –A new asset management system has been purchased by Council.
- All procedures are being reviewed and will be adopted through the AM Steering Committee following the implementation of the new Asset Management System.
- Technical and Financial Services are liaising closely to ensure that accounting standards are met. The infrastructure revaluation as at 30 June 2014 was accepted by audit and has improved componentisation in relation to GAAP (for roads both vertical and horizontal). This was based on a close and cooperative effort between the independent Valuer, Technical Services and Finance staff.
- Depreciation is now being recognised in 2014/15 based on the revaluation and reports provided to Management and Risk Management & Audit Committee.

Management Action Plan

Action: : On implementation of Asset Management System, develop and implement new procedures, and update existing draft procedures, where relevant in consultation with Finance.

Action Target Date: November 2015

Action Owner: Manager Technical Services in consultation with Manager Finance

3.2 Asset management policies and procedures have not been reviewed in accordance with the established review frequency.

Residual Risk Rating	
Current	Suggested post-implementation recommendation should be adopted
High	Medium

Observation

As discussed in Section 2.2.3 above, we examined the following policies and procedures to establish whether they are reviewed and updated regularly:

- Asset Capitalisation Policy
- Asset Data Management Policy
- Asset Disposal Policy
- Asset Overview Policy
- Asset Revaluation Policy
- Asset Received Free of Charge Policy
- Acquisition and Capitalisation Procedure
- Disposal Procedure
- Sale Procedure
- BIS [Business Information Systems] to Works Review Reconciliation Procedure
- Portable and Attractive Assets Procedure
- Monthly Depreciation Run Procedure.

These policy and procedures state that they are to be reviewed on an annual basis. We were advised that the policies and procedures listed above have not been reviewed since 2012. They are scheduled to be reviewed between October and December 2014. We also noted that these scheduled review dates contradict the set review frequency (i.e. the scheduled review dates are on a 2-year frequency while review requirements state they need to be reviewed annually).

Implications
<p>Failure to review policies, standards and procedures on a regular basis may result in:</p> <ul style="list-style-type: none"> • Guidance to staff not being updated with relevant process changes, system-related requirements or changes to legislation • Missed opportunities to regularly identify and address control gaps and improvements.
Recommendation
The City of Darwin should review policies, standards and procedures on a regular basis, in accordance with the set frequency.
Management Response
Agreed:
Responsibility for procedures, new and existing to be defined and then scheduled for review etc
Management Action Plan
<p>Action: Finalise list of policies, procedures and standards for asset management, define purpose of each, the responsible sections and schedule review dates</p> <p>Action Target Date: June 2015</p> <p>Action Owner: Manager Finance in consultation with Manager Technical Services</p>

3.3 The Asset Management Steering Group has not been formally established.

Residual Risk Rating	
Current	Suggested post-implementation recommendation should be adopted
High	Medium

Observation

Management advised that the Asset Management Steering Group currently has no formal authority. The initial Asset Management Steering Group that was established and consisted mainly of COG members to ensure their involvement in asset-related decision making. The group proved to be impractical due to difficulties in arranging meetings.

An unofficial working group consisting of the Manager Technical Services; Finance Manager; Asset Accountant; and relevant personnel from the IT Team currently makes recommendations on issues related to asset management for consideration by COG. The existence and processes of this group are yet to be formalised.

Implications

The lack of an appropriately established and formalised steering group may lead to:

- Delays in decision-making in the absence of COG involvement within the steering group as all recommendations related to asset management must be presented to COG for their subsequent approval / decision
- The lack of COG members' direct involvement in the work of the group presents a missed opportunity for the group to benefit from COG members' strategic input and guidance
- A missed opportunity to further increase cooperation between the different departments and to achieve a strategic link between the financial and non-financial aspects of the asset management process.

Recommendation

The City of Darwin should consider re-establishing the steering group in the form of an Asset Management Steering Group. To increase cross-departmental cooperation, membership should include the General Manager Corporate Services, General Manager Infrastructure, Manager Technical Services and Finance Manager. The group's roles, delegations, authority and key processes should be documented within a formal Terms of Reference. The group should identify key tasks or projects that need to be undertaken and assign a project manager/ responsible officer that will report to the group on progress. The group should meet at least quarterly and receive more regular updates from project managers. During the implementation of any new asset information system, as described in Finding 3.5, the group should consider meeting more frequently (i.e. on a monthly basis).

Management Response
Agreed.
It is considered that quarterly meetings would be sufficient with nominees actioning and reporting back on detailed issues.
Management Action Plan
Action: Schedule and update Terms of Reference for Asset Management Steering Committee Action Target Date: June 2015 Action Owner: Manager Technical Services

3.4 Individual asset management plans have not been finalised and implemented.

Residual Risk Rating	
Current	Suggested post-implementation recommendation should be adopted
High	Medium

Observation

As discussed in Section 2.1.3 above, the City of Darwin has a Corporate Asset Management Plan in place which was developed in 2009. This plan is, however, is used as a strategic guideline as it is very broad at the moment and does not outline planning for each individual asset. Individual asset management plans have not been finalised and implemented. The only individual asset management plan currently in development is the asset management plan for stormwater assets.

We were advised that the Asset Management Steering Group has responsibility for the development, finalisation and implementation of individual asset management plans. The City of Darwin is currently reviewing its approach to the Asset Management Steering Group, as discussed further in Finding 3.3, and this has caused delays in the development of individual asset management plans.

Implications

A lack of individual asset management planning may result in:

- Insufficient maintenance of assets and/or assets deteriorating and/or being neglected causing safety issues and financial consequences
- Decline in the quality of service delivered to the community leading to reputational damage
- Increase in public liability risk resulting from associated health and safety issues.

Recommendation

The City of Darwin should:

- Develop, finalise and implement individual asset management plans, taking into account relevant recommendations from the 2012 asset sustainability review report (refer to Section 4 for more information)
- Assign roles and responsibilities resulting from the plans and communicate these to relevant staff members
- Review asset management plans on a regular basis.

Management Response

Agreed:

**Asset Management Plans to be developed following new asset management system – drafts currently developed that require new data input.
(There is a completed draft asset management plan for the Darwin Entertainment Centre yet to be adopted by Council)**

Management Action Plan

Action: Finalise and implement Asset Management Plans

Action Target Date: November 2015

Action Owner: Manager Technical Services

3.5 Current asset management systems do not provide for an adequate corporate asset register.

Residual Risk Rating	
Current	Suggested post-implementation recommendation should be adopted
Medium	Low

Observation

Assets are recorded in two separate systems: Authority (maintained by the Financial Services Branch) and MapInfo (maintained by the Technical Services Branch). Authority is the City of Darwin's financial management system and includes information on the value of assets, whereas MapInfo only contains map-based information on the geographical location of assets. As a result, the two systems are not integrated nor in any way linked and there are no reconciliations performed between them. We also noted that for certain assets, such as roads, Authority only includes a one-line item without an associated breakdown of the asset items that make up the particular value.

Management advised that the City of Darwin's has issued an expression of interest for a new asset register system that would be used by the Technical Services Branch. We examined the expression of interest document and noted that it contains details for the new asset register system to contain:

Minimum Requirements

- Asset inventory
- Ability to import/export data, in singular edits or bulk uploads without external support
- User friendly interface for data entry and manipulation
- User friendly viewing both on desktop and mobile devices for all staff
- Reporting – financial, condition, programming, summary data
- Field data collection and editing – with iPads/iPhones/tablets
- Ability to collect/edit/manipulate/report on data in a spatial format

Optional Features

- Links to Authority Financial system – budgets, actuals, cross-validation rules
- Links to document management system (ECM)
- Maintenance programming
- Work flows
- Risk planning
- Strategic planning and modelling.

As part of this engagement, we also examined relevant reports generated from Authority and noted a few opportunities for improvement, as discussed in Appendix A.

Implications

The current situation described above may result in insufficient or insufficient data required for:

- Monitoring the condition of assets
- Asset management planning and budgeting
- Monitoring and assessing required against actual levels of service.

This could lead to reputational damage as well as financial consequence due to a lack of appropriate planning, budgeting and resource allocation.

Recommendation

As discussed above, shortcomings of the current situation have been recognised and the first phase of the acquisition of a new system is under way. Once the new asset register system is sourced for the Technical Services Branch, however, the City of Darwin should ensure that the roll out is not undertaken in isolation. There should be regular communication and cooperation with the Financial Services Branch to ensure that asset management is designed in a holistic manner, taking into account both financial and physical aspects. The Asset Management Advisory Steering Group, once formalised, should have overall oversight over system implementation and support associated strategic planning and decision-making.

As part of the roll out, key aspects of the overall process design should be considered, such as:

- Asset registration
- Asset disposal
- Regular data checks of and updates to asset-related information
- Links between financial and other information and reporting (e.g. transfer files including relevant data between the two systems, assets to have unique identifiers by which they can be recognised in both systems)
- Audit trails
- Business continuity (e.g. back up processes).

The development of a knowledge management strategy to continue to identify skills and knowledge needed for the technology/data options and audit trail, security etc. should also be considered, as suggested in the 2012 asset sustainability report. We understand that the development of an associated skills matrix is underway within the Technical Services Branch.

There should also be a project implementation plan managed by a specific individual ensuring that all affected areas and personnel are consulted regarding required business functionality for the new system.

Management Response

Agreed

- A decision has now been made and a product called Asset Finder purchased and being implemented.
- Asset Finder is not integrated to Civica Authority at this stage.
- For 2014/15 Civica Authority assets Accounting Register is componentised and reflecting the infrastructure revaluation. Depreciation, disposal, acquisition, impairment and all other accounting entries are automated and integrated.
- Further considerations are necessary for the future regarding detailed procedures and degree of integration between accounting and asset management systems.

Management Action Plan

Action: Incorporating recommendations into new system and addressing as appropriate.

Action Target Date: May 2016

Action Owner: Manager Technical Services

4 Phase 3 Results and Recommendations

4.1 Results of follow up on implementation of asset sustainability review recommendations

As part of this phase of the engagement, we held discussions with management to get a clearer understanding of current asset management sustainability. Current systems, procedures and practices as well as areas for potential improvement were discussed with relevant managers.

During the course of our engagement, management informed us that since some components of the asset sustainability consulting report issued in 2009 were no longer relevant, more attention has been given to the asset sustainability consulting report issued in 2012. The 2012 report was a follow-up report in which 2009 recommendations were reconfigured to be made more relevant to the City of Darwin's current operations.

We have examined recommendations made in the 2012 report to establish whether these recommendations remain relevant and, if so, whether they have been implemented. We covered all of the recommendations made in the 2012 report as management advised that they all remain relevant. The table below includes the implementation status and the associated background information, as advised by relevant managers. We have also prepared associated recommendations for improvement, where applicable.

No.	2012 asset sustainability report recommendation (original text)	Implementation status	Implementation-related comments (as advised)	Phase 3 recommendation reference	Phases 1 & 2 recommendation reference
1	Strategic Longer Term Plan:				
1.1	Ensure future plans indicate likely service level and risk trends resulting from adopted long term financial plan.	In progress	This is a standard in the Asset Management Plan templates that Institute of Public Works Engineering Australia (IPWEA) provides and that the City of Darwin will be using.	4.2.2	3.4
1.2	Ensure that Strategy Plan [and] Management Plan performance measures line up with Asset Management Plan service levels.	In progress	Asset Management Plans are currently being developed.	4.2.2	3.4
1.3	Brief Council on the future outlook for infrastructure (any challenges/risks) and ensure implications are included in any future community engagement processes.	Completed (ongoing / as needed)	This is being provided on an ongoing basis as situations occur and Council are informed of the plans and strategies.	N/A	N/A
2	Annual Budget:				
2.1	Include commentary in the budget to provide a statement of whether the budget will achieve the [Strategy Plan] objectives and sustain current service levels.	Completed	The budget includes a variety of ratios and commentary regarding asset management.	N/A	N/A

No.	2012 asset sustainability report recommendation (original text)	Implementation status	Implementation-related comments (as advised)	Phase 3 recommendation reference	Phases 1 & 2 recommendation reference
3	Annual Report:				
3.1	Include "state of the assets" reporting in [the] annual report to show service level trends e.g. % or assets at Poor/Fair/Good condition, function and capacity. This will provide an annual snapshot of service level trends.	In progress	The annual report includes a variety of ratios and commentary regarding asset management. More details will be included once the Asset Management Plans are finalised.	4.2.2	3.4
3.2	Continue reviewing accounting practices in line with new Australian Accounting Standards and the Australian Infrastructure Financial Management Guidelines (AIFMG). Develop and implement asset accounting policies as required.	Completed	The Asset Management Policy contains the core requirements that are incorporated within the Australian Infrastructure Financial Management Guidelines.	N/A	N/A
4	Asset Management Policy:				
4.1	Review policy against updated IPWEA asset management plan policy template.	Completed	The Asset Management Policy is in line with the IPWEA policy template.	N/A	N/A
4.2	Annual review of policy implementation by the [Asset Management] steering [group] and audit committee.	Completed (not relevant/accepted)	The policy will only be reviewed every 4 years and not annually as recommended.	N/A	3.2
4.3	Ensure Council is briefed on their roles and governance responsibilities under the adopted [Asset Management] policy.	Completed	The policies which Council should take into consideration when making decisions, as well as an attachment of the current Asset Management Policy has been provided for Council's review/information.	N/A	N/A
5	Asset Management Strategy:				
5.1	Complete Strategy using IPWEA asset management plan policy template on completion of the updated Asset Management Plans.	In progress	Completion of this requires completion of the Asset Management Plans and Policy (including approval by Council). The Asset Management Policy has since been adopted. The strategy has been drafted but cannot be completed until the plans are adopted.	4.2.2	3.4

No.	2012 asset sustainability report recommendation (original text)	Implementation status	Implementation-related comments (as advised)	Phase 3 recommendation reference	Phases 1 & 2 recommendation reference
5.2	<p>Ensure the Asset Management Strategy covers the following areas:</p> <ul style="list-style-type: none"> a. The Asset Management Strategy must include a Council endorsed Asset Management Policy b. The Asset Management Strategy must identify assets that are critical to the council's operations and outline risk management strategies for these assets c. The Asset Management Strategy must include specific actions required to improve council's asset management capability and projected resource requirements and timeframes. 	In progress	Completion of this requires completion of the Asset Management Plans and Policy (including going to Council). The Asset Management Policy has since been adopted. The strategy has been drafted but cannot be completed until the plans are adopted.	4.2.2	3.4
5.3	Annually review the asset management strategy and update improvement plan as required.	In progress	This can only be implemented once the Asset Management Strategy has been finalised and implemented.	4.2.2	3.4
6 Asset Management Plans:					
6.1	Complete individual Asset and Risk Management Plans for major asset classes using the same IPWEA Asset and Risk Management templates.	In progress	Asset management plans have been drafted and a review of all existing service levels for infrastructure assets has been completed. This will be included in the asset management plans and also used to guide ongoing development of the plans and service levels for the City of Darwin.	4.2.2	3.4
6.2	Develop service levels for asset management plans using state of the assets reporting (condition / function / capacity) and link to costs.	In progress	The service level review has been undertaken and the information will be reflected in the Asset Management Plans.	4.2.2	3.4

No.	2012 asset sustainability report recommendation (original text)	Implementation status	Implementation-related comments (as advised)	Phase 3 recommendation reference	Phases 1 & 2 recommendation reference
7	Governance and Management:				
7.1	Establish an Asset Management working group. The focus of the group will be to implement Asset Management improvement program from a technical perspective.	In progress	The working group has been established. Meetings will occur quarterly and provide technical support to the Asset Management Steering Group. The group consists of maintenance team coordinators, asset officers and other relevant staff.	4.2.1 4.2.5	3.3
7.2	Ensure whole of life costing is continued to be used for all capital upgrade/expansion projects with a feedback loop into the long term financial program.	Completed	This is the City of Darwin's standard practice.	N/A	N/A
7.3	Set up a formal process for corporate risk reporting for any residual high risks from Risk/[Asset Management Plans] to Council and Audit Committee.	Completed	This is standard practice and the reason that the outstanding issues register includes asset management.	N/A	N/A
7.4	Complete documentation on key asset management tasks, roles and responsibilities.	Completed	Employee job descriptions have been implemented.	N/A	N/A
7.5	Develop Asset Management Improvement Program (AMIP). Program to include all improvement tasks identified in Council's Asset and Risk Management Plans and Strategy.	In progress	This will occur following the adoption of the relevant Asset Management Plans and Strategy.	4.2.2	3.4
8	Levels of Service:				
8.1	Update AMPs with state of the assets service levels for condition, function and capacity as per summary dashboards.	In progress	Asset Management Plans are not yet completed.	4.2.2	3.4
8.2	Continue to develop additional AMP scenarios as required to align with the long term financial plan and show service outcomes and risk consequences of long term financial plan resourcing levels.	In progress	Asset Management Plans are not yet completed.	4.2.2	3.4

No.	2012 asset sustainability report recommendation (original text)	Implementation status	Implementation-related comments (as advised)	Phase 3 recommendation reference	Phases 1 & 2 recommendation reference
9	Data and Systems:				
9.1	Ensure that the current register is kept up to date and asset condition is monitored and reported as part of the annual review of the works programme.	In progress	The current asset register is being updated as works are completed and asset packs received. New checklists have been developed to ensure processes are followed for all aspects of completing projects, including the submission of asset packs. A new system is being explored.	4.2.3	3.5
9.2	Provide a data improvement programme as part of the asset management improvement programme based on benefit/cost/risk.	In progress	Asset Management Plans are not yet completed.	4.2.2	3.4
9.3	Provide a knowledge management strategy to continue to identify skills and knowledge needed for the technology/data options and audit trail, security etc.	In progress	This has been incorporated with the skills matrix.	4.2.3	3.5
9.4	Develop and implement a maintenance and inspection management policy/framework and complete condition assessment manuals for all asset classes as required.	In progress	This is still outstanding.	4.2.2	3.4
9.5	Continue to formalise the annual review of rolling works programme as part of delivery programme.	Completed (ongoing)	This is currently an ongoing process.	N/A	N/A
10	Skills and Processes:				
10.1	Review business processes and documentation to ensure audit trail for financial transactions, asset register updates and annual reporting.	In progress	Addressed through financial procedures and scheduled auditing.	4.2.3 4.2.6	3.1 3.2 3.5
10.2	Document methodology for determining asset lives and financial reporting in an asset accounting policy.	In progress	Asset Management plans have been drafted and a review of all existing service levels for infrastructure assets has been completed. This will be included in the asset management plans and also used to guide ongoing development of the plans and service levels for Council.	4.2.2	3.4

No.	2012 asset sustainability report recommendation (original text)	Implementation status	Implementation-related comments (as advised)	Phase 3 recommendation reference	Phases 1 & 2 recommendation reference
10.3	Ensure [Asset Management Plan] risks are included in the corporate risk register and reported to COG/Council/audit committee for acceptance of residual risk.	Completed	These have been included in the corporate risk register.	N/A	N/A
10.4	Continue to utilise the Local Government training programs to further develop and broaden internal capacity.	Completed (ongoing)	This is an ongoing process.	N/A	N/A
11	Evaluation:				
11.1	Implement the improvement programme as per this report within available resources and report to Council/audit committee on improvement tasks that have risk consequences but are not resourced via Asset Management Steering [Group] and executive.	Completed	These have been implemented.	N/A	N/A
11.2	Annually review asset management maturity using IPWEA asset management plan maturity model.	In progress	This is currently being reviewed on ad hoc basis, but will be more consistent once the Asset Management Policies are finalised and implemented, along with a new Asset Management System.	4.2.2 4.2.3	3.4 3.5
11.3	Continue to ensure resources are available to collect and maintain service level, risk and condition data.	Completed (ongoing)	This process has been ongoing.	N/A	N/A

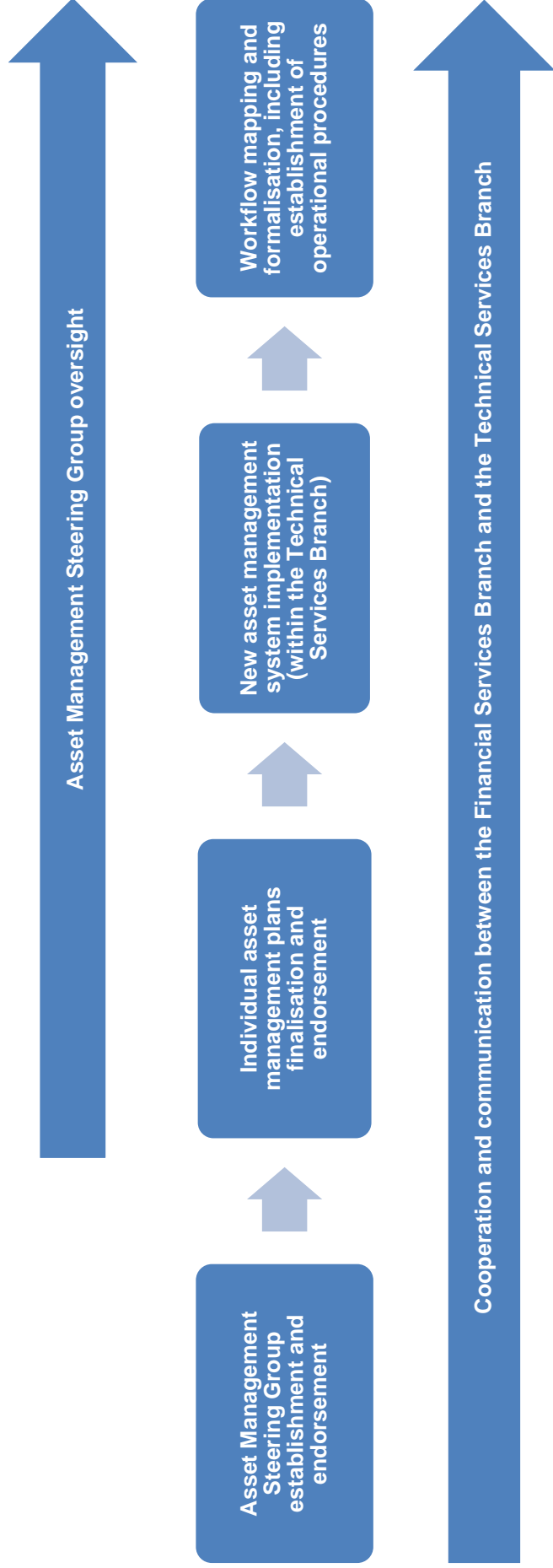
4.2 Key recommendations and proposed action plan

As presented in Section 4.1, there are 19 outstanding actions / recommendations to be implemented (out of a total of 33 recommendations) and the majority of these could be closed off by addressing the four actions below:

- Establishing and formalising an Asset Management Steering Group
- Finalising and formalising individual asset management plans
- Implementing a new asset management system within the Technical Services Branch
- Mapping out and formalising associated workflows and operational procedures, through cooperation and communication between the Financial Services Branch and the Technical Services Branch.

The above also aligns with our findings and recommendations resulting from Phases 1 and 2 of the engagement (intended to highlight gaps related to internal controls designed to mitigate the operational risks identified through the City of Darwin's operational risk assessments) as well as our understanding of line management's requirements and needs related to asset management (explored as part of Phase 3 of the engagement). Refer to Section 4 for more information.

We recommend that the City of Darwin undertakes the following action plan to address the remaining recommendations from the previous asset sustainability reviews and strengthen its asset management processes:



4.1.1 Asset Management Steering Group establishment and formalisation

To ensure that an appropriate governance structure is in place, that decision-making is streamlined and that assets are managed with direct strategic input from executive management, we recommend that the City of Darwin first addresses the establishment and establishment of the Asset Management Steering Group.

We were advised that the Asset Management Steering Group has responsibility for development, finalisation and implementation of individual asset management plans. As most of the outstanding recommendations are still pending due to delays in the development of individual asset management plans, this is another reason why the establishment and formalisation of this group should be addressed as a priority. Due to the fact that most plans have not yet been drafted, the group will have the opportunity to provide upfront input into the planning process and provide strategic guidance as needed.

To increase cross-departmental cooperation, membership should include the General Manager Corporate Services, General Manager Infrastructure, Manager Technical Services and Finance Manager.

The group's roles, delegations, authority and key processes should be formalised within a terms of reference. The group should identify key tasks or projects that need to be undertaken, assign a project manager/ responsible officer that will report to the group on progress. The group should meet at least quarterly and receive updates from project managers in the meantime. During the implementation of the new asset register system, the group should consider meeting more frequently (i.e. on a monthly basis).

4.1.2 Individual asset management plans finalisation and formalisation

As most of the outstanding recommendations are still pending due to delays in the development of individual asset management plans, we recommend that, as the second step, the individual plans are developed and approved by the Asset Management Steering Group.

The City of Darwin should:

- Develop, finalise and implement individual asset management plans, taking into account relevant recommendations from the 2012 asset sustainability review report (refer to the left column for more information)
- Assign roles and responsibilities resulting from the plans and communicate these to relevant staff members
- Review these plans on a regular basis.

Based on our discussions with relevant managers, the plans should outline the philosophy and principles behind the City of Darwin's asset management, service levels and characteristics of City of Darwin assets. Associated methodology and rationale for particular approaches to asset management should also be included, preferably in terms that can also be understood by non-technical staff and stakeholders. The maturity profiles of the assets should also be covered so that the City of Darwin can plan either replacement or refurbishment and also have information on the implications and practicalities around each option.

One example we were given during our discussions was regarding road surfacing. It is meant to last 15 years after which time it should be replaced but depending on its condition it can be refurbished instead. This information would be useful in making funding decisions and would be further captured in the long term financial plan.

At the moment there is no documented information endorsed by COG and therefore budgeting and planning is based on discussions between the relevant business units and the relevant staff members' experience and judgement. It also makes cash flow projections more difficult due to the lack of adequate structured information required to forecast large cash outflows.

The need for appropriate asset management planning is also driven by the possibility of harm to staff or the general public in cases where assets are not adequately maintained.

4.1.3 New asset management system implementation (within the Technical Services Branch)

Once the governance structure has been established (i.e. the Asset Management Steering Group, responsible for strategic decision-making and overall project management oversight) and the plans set out for the management of individual plans developed and formalised, the focus should further be placed on the new asset management system (asset register) that can then be used to capture the individual assets and key steps in the process of asset management.

As discussed in Finding 3.5, the shortcomings of the current system-related situation have been recognised and the first phase of the acquisition of a new system is under way. Once the new asset register system is sourced for the Technical Services Branch, the City of Darwin should ensure that the implementation is not undertaken in isolation. There should be regular communication and cooperation with the Financial Services Branch to ensure that asset management is designed in a holistic manner, taking into account both financial and physical aspects. The Asset Management Advisory Steering Group, once formalised, should have overall oversight over system implementation and support associated strategic planning and decision-making.

As part of the roll out, key aspects of the overall process design should be considered, such as:

- Asset registration
- Asset disposal
- Regular data checks of and updates to asset-related information
- Links between financial and other information and reporting (e.g. transfer files including relevant data between the two systems, assets to have unique identifiers by which they can be recognised in both systems)
- Audit trails
- Business continuity (e.g. back up processes).

4.1.4 Workflow mapping and formalisation, including formalisation of operational procedures

A lack of properly developed, endorsed and communicated operational procedures can lead to:

- Inconsistent recording and updating of related assets
- Potential loss of asset-related corporate knowledge as key information may not be captured
- Failure to ensure asset management is undertaken in accordance with relevant accounting standards and legislative requirements.

To avoid the above and to ensure adequate asset management practices are applied across the organisation, the City of Darwin should approach the asset management process holistically and from an organisational level. This approach should be reflected in the way workflow depictions, operational procedures and associated training are designed. For example, instead of having two sets of operational procedures for the process, one for the Financial Services Branch and one for the Technical Services Branch, an overall workflow should be depicted. This will promote cooperation and communication between the two branches and highlight the importance of both the financial and physical aspects of asset management. The overall workflow depiction could, for example, be prepared in the form of a flowchart with hyperlinks to the relevant operational procedures and forms. This should also be covered in the associated training sessions. The depiction

should cover all aspects of the process, from acquisition to disposal. The role each employee plays in this process should also be depicted so that each staff member is encouraged to take ownership by making them aware of their responsibilities in the whole process and how their lack of action influences others in the process.

In relation to the new asset management system being explored, once it is rolled out, the workflow, procedures and training should also take into account any new system-related changes to the process, as needed.

4.1.5 Asset Management Steering Group oversight

As recommended in Section 4.1.1 above, the Asset Management should have oversight over the whole process to ensure that an appropriate governance structure is in place, that decision-making is streamlined and that assets are managed with direct strategic input from executive management.

4.1.6 Cooperation and communication between the Financial Services Branch and the Technical Services Branch

As suggested in Section 4.1.3 above, to ensure adequate asset management practices are applied across the organisation, the City of Darwin should approach the asset management process holistically and from an organisational level. Cooperation and communication between the two relevant branches is crucial in this regard throughout the process.

Appendix A: Minor Matters

The table below outlines identified minor matters that do not present a significant level of risk exposure but could assist in further improving asset management processes.

No.	Minor Matter	Recommendation	Management Comment
A1	The 'Development checklist' does not contain a section to be signed by the applicant and does not have a section to indicate that the document has been reviewed.	The City of Darwin should consider whether it would be appropriate to include a section to be signed by the applicant and a section to indicate that the document has been reviewed, to provide for an adequate audit trail.	Agreed. To be implemented. (by Manager Technical Services).
A2	The 'Guide to complete asset registration sheets' was issued in 2011 and may possibly be outdated.	The City of Darwin should examine the Guide and assess whether an update is required.	Agreed. Under review in conjunction with implementing AMS. (Managers Technical Services & Finance)
A3	The register for portable and attractive items is maintained through an Excel spreadsheet, as well as in Authority.	To avoid data integrity impairment issues and possible duplication of effort, the City of Darwin should query the use of the Excel spreadsheet and ensure that all portable and attractive items are recorded and managed in Authority.	Agreed. A standard Civica Authority code has been actioned for costings. Implementation of all recording in Authority is aimed for 2016. (Manager Finance)
A4	<p>We noted the following issues with two of the reports that are generated in Authority to assist with asset accounting:</p> <p>Asset Trial Balance report</p> <ul style="list-style-type: none"> • The report does not clearly distinguish between the subsections of the different types of assets. <p>Depreciation Run report</p> <ul style="list-style-type: none"> • The report does not clearly distinguish between the subsections of the different types of assets. • There is no indication of the assets' life to assure the depreciation rates are accurately applied. • Residual values are not visible on the report. 	<p>The City of Darwin should revisit the two reports and address the issues noted to improve their clarity and effectiveness.</p>	<p>Agreed.</p> <p>Ability to distinguish more efficiently between classes of assets has been addressed and is in place for 2015.</p> <p>Depreciation reports have been reviewed and improvements programmed for the end of March. (to be actioned by Manager Finance)</p>

No.	Minor Matter	Recommendation	Management Comment
<p>A5</p>	<p>The Corporate Services Operational Risk Assessment from October 2013 includes the following risk related to the Asset Accounting process (risk #104):</p> <p>‘Revaluations of assets are not specifically valued according to the Australian Infrastructure Financial Management Guidelines as contracts with external parties require them to comply with General Accounting Practices.’</p> <p>As noted in Section 2.1.2, we were advised by management that the City of Darwin is not obliged to apply depreciation rates in accordance with taxation guidelines as a governmental organisation and thus it applies rates provided by external valuers.</p>	<p>We recommend that the City of Darwin revisits this risk during the next update of the Operational Risk Assessment.</p>	<p>Following the revaluation and successful audit 2014 there are no concerns. The revaluation is considered to have met both the .Australian Infrastructure Financial Management Guidelines and Generally Accepted Accounting Practice.</p>
<p>A6</p>	<p>There appears to be a duplication of the following risk with the Corporate Services Operational Risk Assessment from October 2013 (risks #102 and #106):</p> <p>‘Council does not have appropriate policies and procedures for asset management’.</p>	<p>We recommend that the City of Darwin removes the duplication of this risk during the next update of the Operational Risk Assessment.</p>	<p>Agreed (action by Risk Officer).</p>

Appendix B: City of Darwin’s Risk Rating Criteria

Consequence Factors

CONSEQUENCE SEVERITY LEVEL	CONSEQUENCE FACTORS					
	POLITICAL	FINANCIAL	SAFETY	BUSINESS CONTINUITY	ENVIRONMENT	REPUTATION
CATASTROPHIC	Royal commission	> \$5 M	Death	Outage weeks	Damage to multiple ecosystems	Sustained media coverage
MAJOR	Formal action under LG Act	< \$5M	Multiple major injuries	Outage days	Damage impact < 20,000 m ²	Headlines and follow up reports
MODERATE	Formal council report	< \$500 K	Major injury	Outage day	Damage impact < 5000 m ²	Front page news
MINOR	Council mention	< \$50 K	Minor injuries	Outage hours	Damage limited to a small isolated area	Mentioned in the media
INSIGNIFICANT	No impact	< \$5 K	No injury	No outage	No damage	No impact

Risk Assessment Matrix

ALMOST CERTAIN	M	H	E	E	E	CATASTROPHIC
LIKELY	L	M	H	E	E	MAJOR
POSSIBLE	L	M	M	H	E	MODERATE
RARE	L	L	L	M	H	MINOR
	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC	

 LOW	 MEDIUM	 HIGH	 EXTREME
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Appendix C: Cross-Reference of Report Contents against Scope Requirements

The table below includes a cross-reference of the report contents against the scope requirements outlined in our engagement letter, in relation to Phases 1 and 2 of the engagement.

Scope requirements	Engagement procedures	Report content requirement	Report reference
Assessment of Asset Management Process			
Assess and comment on measures in place to address relevant strategic and operational risks identified in the City of Darwin strategic and operational risk assessments.	1. Undertake discussion with management to identify and obtain an understanding of the measures in place to address the strategic and operational risks as described in Section 1.1 above	Summarise discussion results Comment on issues identified	Section 2.1.1 - Section 2.1.3
	2. Examine documentation (e.g. policies and procedures) in which the formalised measures are described, if applicable	List documentation examined Comment on issues identified	
	3. Assess the design of the controls and measures in place to identify whether they mitigate the identified risks	Comment on the appropriateness of the design of internal controls in place	
	4. Discuss with management to confirm whether the asset management plans exist	Summarise discussion results Comment on issues identified	Section 2.1.4
	5. Examine asset management plan documentation, if applicable	List documentation examined Comment on issues identified	
	6. Identify the relevant controls over planning, monitoring and recording of assets through discussion with process owners	Document summarised processes and controls in place	Section 2.1.5
	7. Perform a walkthrough of the processes and controls identified	List documentation examined Comment on issues identified	
Confirm asset management plans are in place to manage critical assets			
Examine asset maintenance processes to assess whether controls are effective over planning, monitoring and recording of assets			

Scope requirements	Engagement procedures	Report content requirement	Report reference
	8. Examine relevant process documentation	Document key features and system controls	
	9. Assess the design of the controls and measures in place to identify whether they mitigate associated risks	Comment on issues identified	
Assess and comment on the quality of asset management systems ('Authority') and integration across multiple asset management platforms	10. Discuss with management and undertake a guided walkthrough of the systems to obtain an understanding of the systems and how they integrate	Document key features and system controls	Section 2.1.6
	11. Review the type of reports obtained from the system and evaluate whether they provide useful information for management purposes	Comment on issues identified	
	12. Walkthrough and review relevant reconciliations assessing their reasonableness and evidence of review	Comment on issues identified	
Assessment of Asset Management Control Effectiveness (to assess effectiveness of the control measures below for the period from 1 July 2013 to 31 March 2014)			
Asset Management Steering Group in place and meets quarterly	13. Discuss with management the existence of the Asset Management Steering Group and, if applicable, obtain the group's terms of reference and minutes from meetings held during the review period	Summarise discussion results List documentation examined	Section 2.2.1
	14. From the Group's meeting minutes: a. Review the minutes to obtain an understanding of the issues discussed and assess the relevance of the issues towards addressing the risks identified b. Inspect individual meeting attendance records of the group members and the frequency of the group's meetings	Document how frequently the meetings are held and how/whether attendance is maintained Comment on issues identified	

Scope requirements	Engagement procedures	Report content requirement	Report reference
Development of procedures undertaken for data collection and asset management	15. Discuss with management the data collection and asset management procedures developed and sight associated documentation, as available	Document summarised results Comment on issues identified	Section 2.2.2
Cyclic reviews undertaken of policies, standards and procedures	16. Inquire from management whether cyclic reviews are being undertaken and assess whether the cyclic reviews are being performed in line with policy	Document how frequent the cyclic reviews are performed and who is responsible for performing them	Section 2.2.3
	17. Examine the results of the cyclic reviews and assess whether management is implementing recommendations from the results of the reviews	Summarise findings of the cyclic reviews performed during the period under review and comment on issues identified	
	18. Identify specific individuals responsible for managing assets and sample three individuals for interviews to obtain an understanding of what they perceive their responsibilities to be through discussion	Summarised interview results Comment on issues identified	
Asset management roles and responsibilities allocated to specific individuals across the organisation	19. Review the key individuals' job descriptions to confirm that they have been officially allocated these roles	List job descriptions examined Comment on issues identified	Section 2.2.4
	20. Obtain the asset sustainability review recommendations and follow up on the implementation of the recommendations through discussions with management and performing walkthroughs and examining relevant process documentation	Document summarised recommendations and implementation status Comment on issues identified	
Implementation of asset sustainability review recommendations will ensure policies, standards and procedures are developed and monitored	21. Assess whether the surveys are being performed in line with the prescribed cyclical program for each class of asset through examination of relevant documentation	Document summarised results per class of asset Comment on issues identified	Section 2.2.5
Assets surveyed on a cyclical program, depending on class of asset	22. Assess whether the cyclical reviews are being performed in line with the corporate asset management plan	Document summarised results Comment on issues identified	Section 2.2.6
Corporate asset management plan sets out the survey classes and cycles		Document summarised results Comment on issues identified	Section 2.2.7

Scope requirements	Engagement procedures	Report content requirement	Report reference
Asset data stored on Map Info and Corporate Asset Register	23. On a sample of assets, examine whether associated data is stored on Map Info and the Corporate Asset Register	Document summarised results Comment on issues identified	Section 2.2.8
Dedicated Officers utilise the Australian Infrastructure Financial Management Guidelines as a reference to ensure asset revaluations are consistent and meet legislative requirement for local governments	24. Undertake discussion with management to obtain an understanding of the guidelines and how they interpret this guidance	Comment on issues identified	Section 2.2.9
	25. On a sample of assets, examine revaluations done during the period to assess whether they were done in line with the guidelines	Document summarised results Comment on issues identified	

ENCL: NO	RISK MANAGEMENT & AUDIT COMMITTEE/CONF	AGENDA ITEM: 9.8
OUTSTANDING AUDIT ISSUE 122 - REVIEW OF FRAUD MANAGEMENT ARRANGEMENTS		
REPORT No.:	15A0041 MC:mp	COMMON No.: 2862013
		DATE: 27/03/2015

Presenter: Manager Finance, Miles Craighead

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to update the Committee on the status of Outstanding Audit Issue (OAI) 122 – Review of Fraud Management Arrangements, item 2.2.5 (1.2.4) “Finance payroll procedures require further enhancement and updating”.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the ‘Evolving Darwin Towards 2020 Strategic Plan’:-

Goal

5 Effective and Responsible Governance

Outcome

5.5 Responsible financial and asset management

Key Strategies

5.5.1 Manage Council’s business based on a sustainable financial and asset management strategy

KEY ISSUES

- Improvements to payroll written procedures remain outstanding.
- Some progress has been made including the re-drafting of a payroll general policy.
- The improvements are not considered to be high risk however it has triggered a full review and updating of all payroll procedures which is a larger scope than previously envisaged.
- This report recommends a revised time for completion.

PAGE: 2
 REPORT NUMBER: 15A0041 MC:mp
 SUBJECT: OUTSTANDING AUDIT ISSUE 122 - REVIEW OF FRAUD MANAGEMENT ARRANGEMENTS

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0041 MC:mp entitled Outstanding Audit Issue 122 - Review of Fraud Management Arrangements, be received and noted.
- B. THAT the Outstanding Audit Issues Register be amended to have a completion date of 31 October 2015 for Outstanding Audit Issue No 122 – Review of Fraud Management Arrangements item 2.2.5 (1.2.4).

BACKGROUND

Report Number 14A0151 MC:jm entitled Outstanding Audit Issue No. 122 – Review of Fraud Management Arrangements presented to the Risk Management and Audit Committee (RMAC) meeting held 22 August 2014 was aiming for completion of OAI 122 at 31 October 2014.

DISCUSSION

The scope of this project has widened to a full review of all payroll procedures and forms rather than just moving them to the current organisational templates and checking the responsibilities, removing individual names and other relatively cosmetic issues. This requires a coordinated approach over time with weekly payroll runs taking the highest priority.

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9/3/2015 and now referred to Risk Management and Audit Committee.

In preparing this report, the following City of Darwin officers were consulted:

- Financial Accountant
- Assets Accountant
- Payroll staff

POLICY IMPLICATIONS

The update of payroll procedures does not have any known implications for Council policy at this stage.

BUDGET AND RESOURCE IMPLICATIONS

No additional budgetary impacts.

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REPORT NUMBER: 15A0041 MC:mp
SUBJECT: OUTSTANDING AUDIT ISSUE 122 - REVIEW OF FRAUD MANAGEMENT ARRANGEMENTS

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

NA

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MILES CRAIGHEAD
MANAGER FINANCE

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

For enquiries, please contact Miles Craighead on 8930 0523 or email:
m.craighead@darwin.nt.gov.au.

ENCL:	RISK MANAGEMENT & AUDIT	AGENDA ITEM:	9.9
YES	COMMITTEE/CONF		
REPORT ON RECORDS MANAGEMENT REVIEW			
REPORT No.:	15A0031 KS:mp	COMMON No.:	3027964
		DATE:	27/03/2015

Presenter: Records Manager, Karlheins Sohl

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to present to the Risk Management and Audit Committee (the Committee) the audit report on the review of the Records Management function.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

- 5.1 Quality service
- 5.2 Quality people
- 5.3 Good governance

Key Strategies

- 5.1.1 Provide quality service outcomes by ensuring that Council's processes and systems are effective and efficient
- 5.2.1 Attract, develop and retain a skilled workforce that is flexible and adaptable
- 5.3.3 Understand and manage Council's risk exposure

PAGE: 2
REPORT NUMBER: 15A0031 KS:mp
SUBJECT: REPORT ON RECORDS MANAGEMENT REVIEW

KEY ISSUES

- Audit of Electronic Documents and Records Management System (EDRMS) was undertaken by Latitude 12 during 2014 resulting in the development of a Records and Information Management Business Plan.(**Attachment A** and **Attachment B**).
- The primary recommendation of the Records and Information Management Plan was that the Records Management Team should have experience in records management and project management as well as excellent communication and consultation skills.
- An experienced Records Manager was appointed in November 2014.
- Actions arising from the audit are being addressed by the General Manager Corporate Services and Records Manager in conjunction with a comprehensive review of the performance of the Records Management Unit (RMU).
- Council's EDRMS is being upgraded with compliance and usability gaps addressed in the process along with the implementation of recommendations of the Audit.

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0031 KS:mp entitled Report On Records Management Review, be received and noted.
- B. THAT the committee note that the actions relate more specifically to operational issues and business re-engineering for the Records Management Unit (RMU) and not relate to internal control issues per se.
- C. THAT the implementation of actions be managed through Chief Officers Group, the General Manager Corporate Services and the Records Manager.
- D. THAT any risk and control issues identified during the implementation, the review of the RMU and the implementation of the new version of Council's Corporate Information System (ECM) be added to the Corporate Services operational risk assessment and be presented to the committee as part of the continuing review of risk management processes.
- E. THAT outstanding audit issue OAI 142 (Corporate Information A,B and C) be transferred to the completed audit register.

BACKGROUND

The 2013/14 Audit Plan included a review of records management practises within Council.

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 REPORT NUMBER: 15A0031 KS:mp
 SUBJECT: REPORT ON RECORDS MANAGEMENT REVIEW

DISCUSSION

Latitude 12 Audit

In 2014 an external review of Council's Records Management Function was conducted whilst an internal project manager was seconded to act as team leader. A business plan was developed. The plan identified a need for experienced records management staff with excellent communication and consultation skills.

Four objectives were established for the RMU to achieve between 2014 - 2017 to contribute to key strategic goals 5.1.1, 5.2.1 & 5.3.3 (**Attachment B**).

City of Darwin Policy No. 57 – Records and Information Management provides the framework required to authorise the RMU to achieve these objectives.

2014 Control Self-Assessment & Outstanding Audit Issue

Following on from the 2014 Control Self-Assessment (CSA) the following issues were transferred to the outstanding audit register

- a) *Records management file structure is dictated by sentencing & disposal schedule provided by NTG.*
 - *Records Management is undergoing performance audit and structural reorganisation*
 - *Target of 50% compliance to be achieved by December 2014 as part of implementation of audit recommendations*

- b) *Corporate Information use NTG EDMS rules and naming conventions. City of Darwin has dedicated thesaurus. Rules, thesaurus and naming conventions monitored by Records Branch when new files created. Disposal of files is guided by disposal schedule*
 - *Records Management is undergoing performance audit and structural reorganisation*
 - *Records Management Policy to be adopted by COG and implemented across the organisation as part of the audit recommendations*

- c) *File owner required to approve disposal of files*
 - *Records Management is undergoing performance audit and structural reorganisation*
 - *Disposal schedule has been implemented but disposals have not yet been actioned due to Records Section review process still being conducted*
 - *Records Management Policy to be adopted by COG and implemented across the organisation as part of the audit recommendations*

The implementation and management of the above corrective actions will be managed through the review of the RMU and the implementation of the new version of Council's Corporate Information System (ECM).

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 REPORT NUMBER: 15A0031 KS:mp
 SUBJECT: REPORT ON RECORDS MANAGEMENT REVIEW

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management & Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Team Coordinator Risk, Audit and Safety - Tony Simons

POLICY IMPLICATIONS

City of Darwin Policy No. 57 – Records Information Management has been revised and will be considered by Chief Officers Group in March 2015.

BUDGET AND RESOURCE IMPLICATIONS

Nil. The resources required to achieve the objects of the RMU Business Plan have already been allocated and committed.

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

KARLHEINS SOHL
RECORDS MANAGER

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

For enquiries, please contact Karlheins Sohl on 89300405 or email: k.sohl@darwin.nt.gov.au.

Attachments:

Attachment A: RMU Business Plan 2014 – 2017

City of Darwin

Records and Information Management

Business Plan 2014 - 2017

Introduction

Records Management ensures that records are systematically and efficiently: created, captured and described, secured, stored and preserved for as long as they are needed, destroyed or transferred once they no longer have any residual business value.

National Archives of Australia 2013

In response to this requirement, the Records Management section of the City of Darwin has formulated a business plan to cover the period 2014 to 2017. The purpose of this plan is to outline the short, medium and long term goals of the Council's Records Management section and has been developed within the context of the Council's Records and Information Management Policy – 057. This policy states:

“The Council will maintain an Electronic Document and Records Management System (EDRMS) for the management of its records in all media (excluding records held in core business information systems). The key processes managed by this system will include:

- The capture and storage of authentic, reliable and useable records;*
- Security and access to such records; and*
- The disposal of records in accordance with the Council's authorised retention and disposal schedule.*

The Council is also committed to the integration of records considerations into future business process changes and business systems development in order to maintain records management integrity. This will be achieved through the addressing of records considerations at every stage of the system development lifecycle.”

The plan also draws on areas for improvement identified through the Council's approved Corporate Services Department Operational Risk Assessment V3 October 2013 document.

Link to Strategic Plan

The plan is aligned to the City of Darwin Strategic Plan, “Evolving Darwin: Towards 2020”, and in particular:

Goal 5 – Effective and Responsible Governance

Outcome 5.1	Quality Service	
Key Strategy 5.1.1	Provide quality service outcomes by ensuring that Council’s systems and processes are efficient and effective	
Outcome 5.2	Quality People	
Key Strategy 5.2.1	Attract, develop and retain a skilled workforce that is flexible and adaptable	
Outcome 5.3	Good Governance	
Key Strategy 5.3.3	Understand and manage Council’s risk exposure	

Key Issues

The records management section of Council has not had a formal business plan in place for an extended period of time. Due to the importance of Records Management as a core Council function and the criticality of complying with a large amount of legislation and standards, the content of the plan is aimed at addressing the following issues:

- Provide a guide for the Records Management section of Council as to what activities are necessary to ensure strategic plan objectives are met in short, medium and long term
- Provide a tool to communicate to senior management the commitment and focus of the records management section and it’s functions and how it will support other business areas of Council in fulfilling their records management obligations
- Address ongoing operational risks as identified by the Risk Management and Audit Committee (RMAC)

Objectives

After analysis of the business environment in CoD, four objectives have been identified as being the keys to successful records management:

Records Management Business Plan Objectives	
OBJECTIVE 1	City of Darwin meets its legislated requirements for records management
OBJECTIVE 2	Records management business unit structure supports the business and Council
OBJECTIVE 3	Develop a positive and proactive records management culture and practices across all levels of council
OBJECTIVE 4	Maximise efficiency and effectiveness of records management systems

*Refer to Attachment A to further details on the objectives.

Recordkeeping System

It is important to account for all types of recordkeeping systems and practices to ensure, on an ongoing basis, that the business of Council is always linked to Records Management requirements.

In 2010, National Archives of Australia created a document for use by all Australian Government agencies named Check-up 2.0. It is a tool used for assessing agency information and records management and can be applied to CoD to our advantage:

- what are the strengths and weaknesses in CoD's information and records management
- what are the areas of high risk where information and records management needs extra attention
- what priorities should CoD place on areas that need attention
- assist with building a case for resources and initiatives
- provide a mechanism to report to senior management on how well CoD is managing it's records
- assist with planning and developing strategies, policies, procedures and training materials

In applying the Check-up 2.0 tool to CoD, an understanding and perspective of ALL record keeping systems is needed.

Primary Recordkeeping System

Technology One Enterprise Content Management system (ECM) enables the council to efficiently capture, store, use and manage information. ECM is the primary recordkeeping system of Council, however some secondary systems are also used, as the function of creating and capturing “records” often involves specialist systems.

Secondary Recordkeeping Systems (Business Systems)

1. Authority – The Authority Enterprise Software Suite for Local Government is a product of Civica and is designed specifically for the Local Government industry to manage financial and property records.
2. BIS – An auxiliary financial product that manages budget information
3. City Manager – A facilities booking system for the management of Council resources
4. Exponaire – The Corporate mapping tool storing geospatial data
5. Intranet (Barry) – Repository for internal forms, documents and other information
6. Network drives – Server storage of various documentation
7. Exchange Email – Personal and Generic mail box message storage
8. Interplan – Corporate Strategic planning information

Proposed Recordkeeping Systems (Business Systems)

The Council is also committed to the integration of records considerations into future business process changes and business systems development in order to maintain records management integrity. This will be achieved through the addressing of records considerations at every stage of the system development lifecycle.

Strengths, Weaknesses, Opportunities and Threats

To further analyse the current status of the record keeping section and its activities, a SWOT analysis was undertaken and the findings summarised in the succeeding table:

Risk Assessment

Some general risks that are anticipated in implementing this business plan include:

- Cultural issues
- Resource issues (including availability of skills)
- Management support
- Supporting IT Infrastructure Issues
- Ongoing commitment
- Deadlines and timeframes
- Quality targets

Current risk reporting is undertaken through the annual Control Self Assessment process. It is anticipated that the current risks will be mitigated by the new objectives identified in the proposed activities for 2014 – 2017 as described in the succeeding table:

Strategic Analysis of Recordkeeping (SWOT)

<p>Strengths</p> <ul style="list-style-type: none"> - ECM (current electronic recordkeeping system) - Good Guidelines - Good Training Package - Records Staff (knowledge, skill and technical expertise) - Good Records Leadership - Comprehensive Retention and Disposal Schedule - Established relationships with Governing bodies – NT Archives, NTG Records Policy Unit 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Staff Culture - Lack of centralised control - Knowledge of Records Management - Lack of Management Support - Robust Training package - Having to manage the Switch Board - No dedicated Training Officer - Organisation Chart for Records - Lack of clarity around job roles - Lack of integration - Business Systems – understanding requirements - Staff don't understand some ECM functionality - High dependence / reliance on paper
<p>Opportunities</p> <ul style="list-style-type: none"> - To position records as an essential business function - Utilise the Intranet for Communication - Improve the interface and integration of the ECM - Clean up email accounts - Customise ECM ie Common Number - Use of Existing functionalities - Review and expand records framework - Broaden Training topics, methods and audiences - Create a Digital Transition Policy 	<p>Threats</p> <ul style="list-style-type: none"> - Staff Turnover of key staff members - Lack of Business Continuity Plans - Lack of compliance to legislation - Risk of litigation - Privacy implications - Records cannot be found - Personal emails are maintained for corporate email records - Digital records disposal requirements

Risk Assessment Table (City of Darwin – Corporate Services Department – Operational Risk Assessment - Records Management)		
Ref:	Risk and Consequence	Internal Control
49	Failure to develop and embed a strong records management culture across the organisation	Objective 3
50	Records management system does not adequately address the requirements of business departments and or legislation	Objective 1 Objective 4
51	Inappropriate security level applied to records	Objective 3.4
52	Failure to follow file structure rules, thesaurus and naming conventions	Objective 3
53	Failure to ensure staff are trained in EDRMS	Objective 3
54	Inadvertent disposal of file presents Certificate of Destruction from providing evidence to justify actions, prove compliance with legislative requirements, satisfy audit requirements	Objective 3
55	Disposal schedules are not updated to reflect legislative or other change which may impact on disposal date	Objective 3.5
56	Appraisal process is inadequate resulting in records being destroyed in contravention of authorised retention and disposal schedules.	Objective 3.5 Objective 1.3
57	Failure to ensure Mail and Courier services are delivered in accordance to current SLA	Objective 2.4
60	Switchboard equipment/systems failure	Objective 3.6 Objective 2.6
61	Reliance on limited numbers of staff with key competencies as regards provision of switchboard services during business hours	Objective 2.6
62	Failure to ensure all relevant staff are provided training in the processing of applications for information (FOI)	Objective 1.4 Objective 3.7

Human Resources

To put the proposed implementation plan into effect it is recommended that existing staff members of the Records Management Team project manage and implement this plan. Positions should have experience in records management and project management as well as have excellent communication and consultation skills.

Positions	Project Positions	Staff Member
General Manager Corporate Services	Executive Sponsor	Diana Leeder
Acting Records Coordinator	Project Manager	Tracey Hehir
Records Administrator	Project Officer	Bernadett Howison

Reporting Requirements

On the first day of each month the project manager will report to the executive sponsor on progress and deliverables.

Consultation Process

In preparing this business plan, the following City of Darwin officers were consulted

Position	Staff Name
General Manager Corporate Services	Diana Leeder
Business Manager	Liam Carroll
Acting Records Coordinator	Tracey Hehir
Risk and OHS Advisor	Tony Simons
External Consultant from Latitude 12	Angie Mayo

Glossary of Terms

Term	Meaning
CoD	City of Darwin
COG	Chief Officers Group
CSA	Control Self-Assessment
ECM	Enterprise Content Management
FOI	Freedom of Information

Chief Executive Officer Approval

Records Management is mandated clearly in the following legislation:

The Northern Territory Information Act – Part 9 – Records and archives management:

131 Duties of chief executive officers

(1) *The chief executive officer of a public sector organisation has a duty to ensure that the organisation complies with this Part.*

131A Records functions

The records functions are:

- (a) *to prepare, promote and monitor compliance with records standards; and*
- (b) *to facilitate and promote policy and systems to enable cost effective compliance with records standards; and*
- (c) *to provide advice (including training) to enable compliance with records standards; and*
- (d) *to facilitate the preparation of records retention and disposal schedules.*

The Northern Territory Local Government (Administration) Regulations - Part 5 - Records

11 Council to keep registers

- (1) *A council must keep a register containing copies of all documents executed under the council's common seal.*
- (2) *A council must keep a register of correspondence containing copies of all correspondence addressed to, or sent by, the council or its principal member.*
- (3) *A council must keep a register of the results of all elections and polls.*
- (4) *A register must be kept under this regulation by computer.*

Supported / Not Supported

Approved / Not Approved

 Manager, Business Systems

 Chief Executive Officer

Date: / /2014

Date: / /2014

Appendices:

Attachment A Records Management Plan – Objectives

<p>OBJECTIVE ONE : ENSURE THAT THE CITY OF DARWIN MEETS ITS LEGISLATED REQUIREMENTS FOR RECORDS MANAGEMENT</p> <ul style="list-style-type: none"> All members of staff must understand that Council's has a legislated requirement to capture and manage records under the Local Government Act and Regulations, Council By-laws; and other relevant Acts. To ensure legislated requirements are met, the nature of all records must be clearly defined, along with a determination of what legally constitutes a "record". Communication of obligations under the relevant Acts needs to be accurate, timely and tailored for various groups of staff 						
#	Strategy	Deliverables	Responsible Officer	Time frame	Priority	Comments
1.1	<p>Ensure the Records Management Policy outlines responsibilities and obligations for all staff managing records of the Council</p> <ul style="list-style-type: none"> the Information Act, Local Government Act, Local Government (Administration) Regulations the Records Management Standards for Public Sector Organisations in the Northern Territory. Other applicable legislation 	<ul style="list-style-type: none"> Review the "Records and Information Management Policy" (document no.2120044) Ensure policy guidelines are still accurate Ensure processes are in place for the delivery of policy statements Integration of records considerations into Business systems development life cycle ie. compliance with ISO:16175 Sign off by Chief Officers Group (COG) 	TH	S	S1	
1.2	<p>Create a records management framework, strategy and architecture document that address longer term visions and strategies</p>	<ul style="list-style-type: none"> Governance Framework that guides records management functions into the future Regular reporting and presentations to Chief Officers Group (COG) 	TH	S	S1	
1.3	<p>Identify and document all relevant legislation, regulations, standards and formal directives and their associated recordkeeping requirements</p>	<ul style="list-style-type: none"> Business practices comply with legislation and ISO and AS/NZS records management standards Revised and improved risk analysis for Records Management Improved control framework through Control Self-Assessment (CSA) 	TH BH	S	S2	
1.4	<p>Ensure compliance with Privacy and Freedom of Information (FOI) requirements for records across all information platforms</p>	<ul style="list-style-type: none"> Updated procedure for FOI and privacy requests 	TH BH	S	S3	

OBJECTIVE 2 THE RECORDS MANAGEMENT BUSINESS UNIT STRUCTURE SUPPORTS THE BUSINESS AND COUNCIL

- If Council is to be successful in meeting it legislated requirements then the management of records should be undertaken by a dedicated business unit.
- Re-branding will help to position Records Services as the subject experts.
- A workable organisation structure must be implemented and resource numbers and remuneration must be adequate to ensure the right people are in place, job satisfaction is achieved, and the opportunities for staff satisfaction and retention are maximised.
- Staff retention and turnover has historically been an issue for the business unit in its current form. Succession planning is required.
- Provision of switchboard services is an important role which needs to be recognised as its own core function, and not be confused with records management processes.

#	Strategy	Deliverables	Responsible Officer	Time frame	Priority	Comments
2.1	Update records management practices, procedures and business rules to ensure the capture of all forms of records received, sent and managed by CoD, including email, texts and social media	<ul style="list-style-type: none"> • Updated Procedures • Updated Business Rules • Procedures and Business rules reflect best recordkeeping practices • Sign off by Chief Officers Group (COG) 	BH	S	S2	
2.2	Investigate better management of de-centralised Records Management and re-branding of the business unit	<ul style="list-style-type: none"> • Business case to support improved records management practises • Consistency of records practices across the organisation • All records being captured and managed appropriately 	TH BH	M	M3	
2.3	Review current organisation structure	<ul style="list-style-type: none"> • Revised, workable organisation Chart • Revised Job Descriptions • Structure better supports delivery of business 	TH	S	S1	
2.4	Develop a records management service charter	<ul style="list-style-type: none"> • Service charter • Service levels • KPIs • Clearer understanding across the organisation as to the services provided by Records Management • Sign off by Chief Officers Group (COG) 	TH	S	S2	

OBJECTIVE 2 THE RECORDS MANAGEMENT BUSINESS UNIT STRUCTURE SUPPORTS THE BUSINESS AND COUNCIL If Council is to be successful in meeting it legislated requirements then the management of records should be undertaken by a dedicated business unit. Re-branding will help to position Records Services as the subject experts. A workable organisation structure must be implemented and resource numbers and remuneration must be adequate to ensure the right people are in place, job satisfaction is achieved, and the opportunities for staff satisfaction and retention are maximised. Staff retention and turnover has historically been an issue for the business unit in its current form. Succession planning is required. Provision of switchboard services is an important role which needs to be recognised as its own core function, and not be confused with records management processes.						
#	Strategy	Deliverables	Responsible Officer	Time frame	Priority	Comments
2.5	Ensure the skill levels of employees are sufficient to support the business unit and the organisation through succession planning and recognising staff as subject matter experts.	<ul style="list-style-type: none"> Staff learning and development plans Updated procedures and work instructions Improved skill levels of staff Review internal processes within Records Services for induction and training 	BH	M	M4	
2.6	Create dedicated position description for switchboard officer	<ul style="list-style-type: none"> Improve delivery of switchboard services provided at the civic centre Consideration of other business unit switchboard needs Recommend changes to current telephone system that will support requirements of public and staff into the future 	TH	S	S1	

<p>OBJECTIVE 3 DEVELOP A POSITIVE & PROACTIVE RECORDS MANAGEMENT CULTURE & PRACTICES ACROSS ALL LEVELS IN COUNCIL</p> <ul style="list-style-type: none"> • End users of the system must understand the legislated and organisational requirements for records management and their roles and responsibilities to ensure compliance • End users will receive mandated training and ongoing support • Policy and procedures should be used to support existing knowledge base, and training and development programs, and should be targeted at the business unit and also system users across the organisation. 						
#	Strategy	Deliverables	Responsible Officer	Time frame	Priority	Comments
3.1	Ensure organisational wide communication is undertaken for records management	<ul style="list-style-type: none"> • Records Management Communication and Change Management Plan 	TH BH	M	M1	
3.2	Gain an understanding of the level of acceptance/current barriers for acceptance of records management practices across the council.	<ul style="list-style-type: none"> • Create a survey and conduct it across Council business units 	BH	S	S2	
3.3	Implement quality control of staff record keeping practices	<ul style="list-style-type: none"> • Quality Assurance Plan • Improved quality of records entered by users • Updated risk analysis and improved testing through CSA 	BH	M	M3	
3.4	Review Security and Access Controls to achieve improved access to records	<ul style="list-style-type: none"> • Documented ECM Security Matrix • Create a Security and Access Policy 	BH	S	S1	
3.5	Develop a project plan to review disposal of records to ensure better management of records	<ul style="list-style-type: none"> • Project Plan for Disposal of Hardcopy and Electronic records 	BH/TH	L	L1	
3.6	Develop and implement business continuity and disaster recovery plans to ensure the Council can capture records post disaster	<ul style="list-style-type: none"> • Business Continuity plans implemented and reviewed annually 	TS TH	L	L1	
3.7	Review current training programs and ongoing support models across Council ensuring continuous improvement for records management	<ul style="list-style-type: none"> • Propose a dedicated officer to deliver relevant training to different stakeholders • Develop a Records Management training Program including ongoing support model • Survey ECM registration levels to demonstrate a greater understanding by users 	BH	M	M5	

OBJECTIVE 4 MAXIMISE EFFICIENCY AND EFFECTIVENESS OF RECORDS MANAGEMENT SYSTEMS

- Maximise the efficiencies and benefits of systems that interface, to reduce double handling, potential for duplication and reduction of transposition errors when entering data manually from one system to another
- Implement a robust procedure that ensures that changes to current business practices maintains compliance of records produced from that process ie. Legislation, Standards and procedures are applied to new and changed systems and processes

#	Strategy	Deliverables	Responsible Officer	Time frame	Priority	Comments
4.1	Review current ECM functionality to ensure full utilisation of capability is achieved	<ul style="list-style-type: none"> • Discussion paper on available functionalities and how the Council could benefit 	BH	L	L5	
4.2	Review the Integration with ECM and Authority to improve on efficiencies in capturing and retrieval of records	<ul style="list-style-type: none"> • Business Case on opportunities for further integration 	BH	L	L6	
4.3	Ensure existing and new business systems have a compliant records management component.	<ul style="list-style-type: none"> • Compliance Checklist to be completed for each new Business System / Process • Endorsed Memorandum of Understanding between Records Management and the IT Strategic Leadership Group 	BH/TH	L	L1	
4.4	Reduce dependence on network folders and free up server space	<ul style="list-style-type: none"> • Review the use of network folders for storage of records and information • Business rules for document storage 	BH	L	L3	
4.5	Review records management implications relating to the use of Social Media	<ul style="list-style-type: none"> • Position Statement on Social Media as Corporate Records 	TH	L	L7	
4.6	Review use of Intranet for storage of information and records and free up server space	<ul style="list-style-type: none"> • Business rules for document storage 	TH/BH	L	L4	
4.7	Review current use of generic email accounts to look for opportunities for consolidation and reduced risk of unregistered emails	<ul style="list-style-type: none"> • Discussion paper regards making greater use of generic team email addresses for work purposes 	TH/BH	S	S3	
4.8	Review status of personal email accounts to mitigate risks of unregistered emails	<ul style="list-style-type: none"> • Communicate to managers the current status of staff emails • Create an action plan to reduce and minimise amount of emails not registered • Make recommendations to business units on how to improve usage or change processes 	TH/BH	S	S3	

OBJECTIVE 4 MAXIMISE EFFICIENCY AND EFFECTIVENESS OF RECORDS MANAGEMENT SYSTEMS

- Maximise the efficiencies and benefits of systems that interface, to reduce double handling, potential for duplication and reduction of transposition errors when entering data manually from one system to another
- Implement a robust procedure that ensures that changes to current business practices maintains compliance of records produced from that process ie. Legislation, Standards and procedures are applied to new and changed systems and processes

#	Strategy	Deliverables	Responsible Officer	Time frame	Priority	Comments
4.9	Review status of task lists and workflows and implement changes in consultation	<ul style="list-style-type: none"> • Communicate to managers the current status of staff task lists • Create an action plan to reduce and minimise amount of tasks not actioned • Create a register of workflows and responsible officers • Make recommendations to business units on how to improve usage or change processes • Implement new initiative for workflows 	BH/TH	M	M1	
4.10	Reduce dependence on paper	<ul style="list-style-type: none"> • Create Digital Transition and Continuity Plans 	TH	L	L8	
4.11	Implement changes to CAR process	<ul style="list-style-type: none"> • Improved interaction/notification to public via reference number advice • Integrate "Darwin Click Fix" process • Implement new initiative for webforms 	BH/TH	M	M1	

ENCL: RISK MANAGEMENT & AUDIT	AGENDA ITEM: 9.10
YES COMMITTEE/CONF	
OUTSTANDING AUDIT ISSUE NO. 143 - ENVIRONMENTAL MANAGEMENT SYSTEM ASSESSMENT	
REPORT No.: 14TS0257SG:nj	COMMON No.: 1713107
	DATE: 27/03/2015

Presenter: Manager Climate Change & Environment, Shenagh Gamble

Approved: Executive Manager, Mark Blackburn

PURPOSE

The purpose of this report is to update the Committee on progress toward recommendations of the Environmental Management System Assessment undertaken in March 2014 by Deloitte.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.3 Understand and manage Council's risk exposure

KEY ISSUES

- Most recommendations have been implemented within the required time frame
- Some recommendations, such as incorporating environmental conditions into leases and contracts, are scheduled for completion later in the year.

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 SUBJECT: OUTSTANDING AUDIT ISSUE NO. 143 - ENVIRONMENTAL
 MANAGEMENT SYSTEM ASSESSMENT

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 14TS0257 SG:nj entitled Outstanding Audit Issue No. 143 - Environmental Management System Assessment, be received and noted.
- B. THAT Outstanding Audit Issue No. 143, Sections 3.1, 3.2, 3.9 and 3.10 be moved to the Completed Audit Issues Register.
- C. THAT the Outstanding Audit Issue Register be amended to have a completion date of July 2015 for Outstanding Audit Issue No. 143, Section 3.3 and 3.4.

BACKGROUND

In March 2014 an assessment of Environmental Management Systems was undertaken for the City of Darwin by Deloitte.

At the Risk Management and Audit Committee meeting of Friday 22 August, 2014 the committee resolved the following under delegated authority:

DECISION NO. 21\2529

Environmental Management System Assessment

Report No. 14TS0206 SG:nj (22/08/14) Common No. 2110829

- A. *THAT Report Number 14TS0123 SG:nj entitled Environmental Management System Assessment, be received and noted.*
- B. *THAT Management Responses to audit recommendations in Attachment A to Report Number 14TS0123 SG:nj entitled Environmental Management System Assessment be placed on the Outstanding Audit Issues Register.*

DISCUSSION

This report provides an update on progress against Outstanding Audit Issue No. 143. Actions on recommendations to date have been completed in a timely fashion and progress towards outstanding recommendations remains on schedule.

3.1 Environmental advocacy groups and other stakeholders should be engaged further in the annual forum

- a) Develop database of key stakeholders including:
 - Electricity and water suppliers
 - Natural resource management groups
 - Environmental advocacy groups
 - Research bodies

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 MANAGEMENT SYSTEM ASSESSMENT

- Other similar sized organisations
- b) This database to be regularly updated for currency (biannually)
- c) This database to be used as invite list for Climate Change & Environment Forum and other information sharing opportunities

Due date: December 2014

Responsibility: Manager Climate Change & Environment

Status: Complete

Comments: Climate Change & Environment maintain a contact list spreadsheet with worksheets for specific interest group areas. A specific worksheet has been created for Environment Contacts, with contacts listed from a range of organisations (provided in **Attachment A** – Contact listing for Environment Forum). All contacts are updated twice a year via a direct email to confirm contact details are correct.

3.2 Reporting processes against environmental KPIs should be further clarified.

- a) Update Standard Operating Procedure 008 Greenhouse Gas Emissions Reporting to include:
 1. Listing of assets included in the calculations
 2. Council-approved target of 15% of 2008/09 emissions by 2016
- b) Update Standard Operating Procedure 010 Tree Planting Reporting to include:
 1. Frequency of reports against KPIs

Due date: December 2014

Responsibility: Manager Climate Change & Environment and Manager Infrastructure Services

Status: Complete

Comments: Standard Operating Procedures (SOPs) have been updated as per the recommendations.

Standard Operating Procedure 008 Greenhouse Gas Emissions Reporting has been updated as follows:

1. *Assets included in calculations for Council's greenhouse gas emission target include:*
 - *All metered electricity sites*
 - *Fuel from fleet*

Note – greenhouse gas emissions generated from streetlights and from waste disposed of at the Shoal Bay Waste Facility are not included in Council's greenhouse gas emissions reduction target.

Standard Operating Procedure 010 Tree Planting Reporting has been updated as follows:

The Coordinator of Parks & Reserves provides an update on KPIs for urban and revegetation trees to the Manager Strategy and Outcomes on a six monthly basis.

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 MANAGEMENT SYSTEM ASSESSMENT

Progress reports on the two indicators are provided by the Manager Strategy and Outcomes to Council on a six-monthly basis. Council reports on Key Performance Indicator progress in its Annual Report.

NB – this SOP has also been updated to reflect change in title “Manager Strategies” to “Manager Strategies and Outcomes”

3.3 A formal central register for compliance with environmental legislation should be implemented and maintained.

- a) Develop a database of relevant federal and Northern Territory legislation.
- b) Database to be reviewed annually and as required when changes to legislation occur

Due date: December 2014

Responsibility: Manager Climate Change & Environment

Status: In progress

Comments: A community environmental law organisation was engaged to compile relevant legislation. A first draft has been completed. A number of middle managers and team leaders were consulted. This database has not been endorsed by the Chief Officers’ Group (COG). Endorsement will be sought on completion of 3.4 (below)

3.4 Inspections and monitoring regimes should contain explicit reference to environmental issues

- a) Develop Standard Operating Procedure for site inspections and monitoring
- b) Develop checklist for inspections

Due date: March 2015

Responsibility: Manager Climate Change & Environment

Status: *In progress*

Comments: As for 3.3 (above), a community environmental law organisation has been engaged to develop these tools. These tools will be presented to COG for endorsement along with the legislative database.

3.5 Contractors’ reports should contain explicit reference environmental issues or conditions.

Due date: July 2015

Responsibility: Manager Climate Change & Environment

Status: Ongoing

Comments: none

3.6 Contractors should submit environmental management plans.

Due date: July 2015

Responsibility: Manager Climate Change & Environment and Manager Contracts

Status: Ongoing

Comments: none

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3.7 A standard set of environmental conditions based on legislative requirements should be written into contracts or leases.

Due date: July 2015

Responsibility: Manager Climate Change & Environment and Manager Contracts

Status: Ongoing

Comments: none

3.8 Leases and contracts should be regularly reviewed to account for changes in environmental legislation or conditions.

Due date: July 2015

Responsibility: Manager Climate Change & Environment and Manager Contracts

Status: ongoing

Comments: none

3.9 A data management program for the collection of the GHG emissions data should be established.

a) GHG Inventory data to be maintained in ECM for version control

b) Investigate protection options available in Excel

Due date: December 2014

Responsibility: Manager Climate Change & Environment

Status: Complete

Comments: Greenhouse gas emissions data is stored in Council's Electronic Data Control Management System (currently ECM, common number 3039485). Microsoft Excel is still used as the database for these calculations however modifications to the file are now password protected to mitigate accidental interference with the data.

3.10 The Operational Risk Assessment of the Office of the Chief Executive should be further updated (minor matter).

c) Update Operational Risk Assessment to include:

1. Standard operating procedure in place for emissions reporting

d) Update Operational Risk Assessment to remove "lack of"

Due date: September 2014

Responsibility: Manager Climate Change & Environment

Status: Complete

Comments:

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 MANAGEMENT SYSTEM ASSESSMENT

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management and Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Manager, Design, Planning & Projects
- Team Leader Capital Works
- Manager Business Services
- Strategic Town Planner
- Team Coordinator Risk, Audit & Safety

In preparing this report, the following External Parties were consulted:

- Environmental Defenders Office

POLICY IMPLICATIONS

Standard Operating Procedure 008 Greenhouse Gas Emissions Reporting and Standard Operating Procedure 010 Tree Planting Reporting have been updated as per the recommendations above.

A new Standard Operating Procedure will be developed for Site Inspections and Monitoring

BUDGET AND RESOURCE IMPLICATIONS

None

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

Increasing awareness of obligations under environmental legislation provides avenues to reduce the risk of Council operations contravening environmental legislation. Recommendations discussed above help Council to improve compliance with environmental legislation.

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

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MANAGEMENT SYSTEM ASSESSMENT

ENVIRONMENTAL IMPLICATIONS

Improved compliance with environmental legislation inherently reduces the risk of environmental harm.

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

SHENAGH GAMBLE
MANAGER CLIMATE CHANGE &
ENVIRONMENT

MARK BLACKBURN
EXECUTIVE MANAGER

For enquiries, please contact Shenagh Gamble on 8930 0530 or email:
s.gamble@darwin.nt.gov.au.

Attachments:

Attachment A: Contact listing for Environment Forum

ATTACHMENT A

[Type text]

Environmental Contacts						
Organisation	First Name	Surname	Email	Role	Phone	Mobile
Environment Centre NT	Anna	Bousted	policy@ecnt.org	Policy Officer		
CoolMob	Jessica	Steinborner	jessica.steinborner@ecnt.org	Program Manager	89812532	
Greening Australia NT	Brooke	Rankmore	BRankmore@greeningaustralia.org.au			
Keep Australia Beautiful NT	Heimo	Schober	ceo@kabcnt.org.au	CEO	8981 5535	0407 186 461
Frogwatch	Graeme	Sawyer	gsawyer@pobox.com	Director	889456005	
OceanWatch Australia Ltd	Lynn	Lambeth	lyn.lambeth@nt.gov.au			
NT Government	Tony	Griffiths	tony.griffiths@nt.gov.au	Director, Marine Conservation		
Toll Energy	Helen	Ford	helen.ford@tollgroup.com	National Senior HR Advisor	9346 0450	0481 005 051
NT Government	Maria	Viegas	maria.viegas@nt.gov.au	Research Officer		
Power Water Corporation	Matthew	Sloane	matthew.sloane@powerwater.com.au			
Coffey	Paul	O'Callaghan	Paul_OCallaghan@coffey.com	Project Director	08 9269 6200	0411 633 114
Power Water Corporation	Nadine	Riethmuller	Nadine.riethmuller@powerwater.com.au			
NT Government	Clare	Pries	clare.pries@nt.gov.au			
Sitzler	Kim	Story	kim.storey@sitzler.com.au			
Buildistrie.com	Peta	Lee	buildistrie@live.com.au	Safety, Env & Quality Manager	8922 4020	0407 606 641
Friends of Mitchel Creek	Sue	McKinnon	sue.mckinnon@palmerston.nt.gov.au	Management		0412 614 641
SKM			CLGray@skm.com.au			
Dept of the Chief Minister	Caroline	Morrissey	caroline.morrissey@nt.gov.au	Senior Policy Officer	8999 6021	0449 590 817
Dept LPE	Yasmin	Barnes	yasmin.barnes@nt.gov.au	Senior Project Officer	8924 7205	
Power Water Corporation	Chantal	Bramley	chantal.bramley@powerwater.com.au	Water Efficiency Coordinator	8924 5271	4011 14888
Territory NRM	Anthony	Kerr	anthony.kerr@territorynrm.org.au	Regional Coordinator Top End	8942 8317	0448 899 700
Territory NRM	Alisa	Westland	alisa.westland@territorynrm.org.au	Executive Support Officer	8942 8310	
CDU	Amanda	Lilleyman	amanda.lilleyman@cdu.edu.au	PhD Candidate	8946 6470	0458 226 908
NT EPA	Bethune	Carmichael	bethune.carmichael@nt.gov.au	Senior Officer		
CDU	Bill	McGuinness	bill.mcguinness@cdu.edu.au	Director - Facilities Management	8946 7240	
Power Water Corporation	Shane	Burgess	shane.burgess@powerwater.com.au	Water Efficiency Project Officer	8924 5671	
Landcare NT	Camilla	Osborn	camilla.osborn@clma.com.au	NT Coordinator of Landcare	89534230	
NTG - Building Services	Cedric	Wijeyeratne	Cedric.Wijeyeratne@nt.gov.au	Senior Project Manager		
EDO NT	David	Morris	david.morris@edont.org.au	Principal Lawyer	8981 5883	
Darwin Community Arts	Oli	Dubsky	oldrich.dubsky@darwincommunityarts.org.au	Admin and Marketing Officer	8945 7347	
Territory NRM	Diane	Pearson	diane.pearsont@territorynrm.org.au	Program Manager	8942 8314	

**ENCL: RISK MANAGEMENT & AUDIT
YES COMMITTEE/CONF**

AGENDA ITEM: 9.11

PROGRESS REPORT ON THE INTERNAL AUDIT PLAN

REPORT No.: 15A0019 TS:mp

COMMON No.: 1536877

DATE: 27/03/2015

Presenter: Team Coordinator Risk Audit & Safety, Tony Simons

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to inform the Risk Management & Audit Committee (RMAC) as to the progress of the 2014 - 2015 Internal Audit Plan.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 - 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.3 Understand and manage Council's risk exposure

KEY ISSUES

- The City of Darwin manages an Internal Audit Plan that is derived from the results of strategic and operational risk assessments, and the strengths or weaknesses of internal controls identified in those assessments
- Plans are prepared for two out years and approved by the Committee
- The audit plan for 2014/15 was approved by the Committee in March 2014
- Due to operational and legal issues, amendments to the 2014/15 audit plan are proposed and presented in this report

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REPORT NUMBER: 15A0019 TS:mp
SUBJECT: PROGRESS REPORT ON THE INTERNAL AUDIT PLAN

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0019 TS:mp entitled Progress Report on the Internal Audit Plan, be received and noted.
- B. THAT **Attachment B** to Report Number 15A0019 TS:mp, the amended audit plan for 2014/15, be approved.

BACKGROUND

In order to assist with tracking of audit assignments, the Team Coordinator Risk Audit & Safety has prepared a comprehensive Internal Audit Plan that incorporates past, current and future audit assignments. Information on this plan dates back to 2009. This will enable the RMAC to better track and manage the coverage of audit programs in the out years. The tracking sheet is **Attachment A**.

The RMAC requires a comprehensive document to be maintained for the audit plan (**Attachment B**), which sets out key objectives for all internal audits and also identifies strategic and operational risks and controls as they apply to audits. This document is presented to the RMAC annually and is used to develop the engagement letters and terms of reference for audit assignments.

At its May 2014 meeting, the RMAC considered and endorsed a forward audit plan for the 2014/15 and 2015/16 audit years.

Audits scheduled for the 2014/15 year included:-

- Implementation of Council Decisions
- Payment of Elected Members' Allowances and Payments
- Control Self-Assessment
- Waste Management

At its October 2014 meeting the Committee acceded to a request from the Manager Finance to include an audit of Council's investment management policy and procedures and defer the Control Self-Assessment audit.

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 REPORT NUMBER: 15A0019 TS:mp
 SUBJECT: PROGRESS REPORT ON THE INTERNAL AUDIT PLAN

DISCUSSION

Reports on the audits of Records Management and Asset Management scheduled for the 2013/14 Audit Year are yet to be presented to RMAC.

The Asset Management audit has been completed and a draft report prepared by the Auditor. This has been issued to the Managers of Technical Services and Finance for consideration of recommendations and preparation of a management response.

The audit of Records Management has been completed. Process improvements identified in the audit have been prioritised and a GANNT chart and critical path methodology timeline have been prepared to facilitate implementation.

A new Records Manager was appointed in November 2014. Implementation of process improvements will be managed in conjunction with the scheduled upgrade to the records management software and a report under separate cover will be provided by the Records Manager outlining the audit recommendations and how they and the system software upgrade are to be managed.

Forward Audit Plan

The Manager Finance has highlighted concerns with Council's fuel usage processes and access to fuel rebates and has requested that his also be included in the current audit year.

An audit of credit cards usage was scheduled for 2015/16, however this will be brought forward to the current year as there is sufficient scope within the audit budget to accommodate such an audit.

The audit of control self-assessment will be deferred to 2015/16 due to implementation of a new software system, which (in conjunction with the upgrades to the risk assessments) will require significant development and training in the coming months.

The audit of waste management will also be deferred pending resolution of legal and other operational issues at the waste management facility.

It is recommended to the Committee that the following audit plan be endorsed for the 2014/15 year :-

- Implementation of Council Decisions
- Payment of Elected Members' Allowances and Payments
- Investment Management
- Credit Card Management
- Fuel Rebate assessment

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Current Audit Plan Status

Audits of Council Decisions and Payment of Allowances have been completed and reports are presented to the Committee under separate cover.

Terms of reference for the remaining three audits are being developed currently to ensure audit field work can be undertaken prior to the end of financial year processes commencing, as all audits require the involvement of key staff from Finance.

CONSULTATION PROCESS

Information for this report is drawn from the internal audit program management documentation.

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management & Audit Committee for consideration.

POLICY IMPLICATIONS

Nil

BUDGET AND RESOURCE IMPLICATIONS

Nil – internal audit forward budget has been prepared on the basis of average cost of \$40,000 per audit.

Audit savings of approximately \$20,000 have been achieved year to date and will be used to fund the additional audit for this year.

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

Risk implications relate to Council achieving its goal of implementing and maintaining strategic and operational risk assessments, risk based audit plans, and risk based control self-assessment plans, and demonstrating an adequate internal audit capacity.

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil.

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REPORT NUMBER: 15A0019 TS:mp
SUBJECT: PROGRESS REPORT ON THE INTERNAL AUDIT PLAN

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

TONY SIMONS
TEAM COORDINATOR RISK AUDIT &
SAFETY

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

For enquiries, please contact Tony Simons on 8930 0689 or email:
t.simons@darwin.nt.gov.au.

Attachments:

Attachment A: Internal Audit Plan Tracking Sheet
Attachment B: Internal Audit Management Plan

	H	M	H	M
<p>STRATEGIC PERFORMANCE</p> <ul style="list-style-type: none"> - Examination of the processes adopted by Council to monitor and report against strategic objectives and performance measurement metrics, including alignment of metrics with the corporate plan, accuracy and integrity of data capture and accuracy of metrics being reported to key stakeholders 	<p>- Review and comment on</p> <ul style="list-style-type: none"> - Measures that Council has set in place to address risks and control identified in Operational Risk Assessments - monitoring and reporting practises for strategic objectives - adequacy and applicability of KPIs - alignment between corporate and operational business plans and monitoring and reporting metrics - accuracy and integrity of data capture <p>- Test for effectiveness and compliance with specific internal controls</p> <ul style="list-style-type: none"> - Development of the strategic plan is a collegiate process involving the Chief Officers Group and managerial staff. - Council has committed to providing Council half yearly progress reports against Strategic Plan . - Strategic planning processes include widespread community & stakeholder consultation - Coordination of reporting and recording performance is by a dedicated resource with OCE - Interplan updated every month to record progress against actions and KPIs - Reminder notices sent to responsible officers to record progress - Council has committed to providing Council half yearly progress reports against Strategic Plan - Development of the customer survey is undertaken in conjunction with the General Managers and Executive Manager - External researchers are engaged and use demographic sampling aligned to the community profile - Hard copy of the survey is made available to the public - Survey is made available to ratepayers on-line - Comprehensive report is prepared showing survey results and highlighting areas for improvement. - Comprehensive report is discussed in detail by the Chief Officers Group. - Action plans to address required improvements are prepared by General Managers - Control self assessment processes are in place <p>- provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable</p>	<ul style="list-style-type: none"> - DCC does not implement and manage effective corporate governance and risk management frameworks - Council does not develop effective communications strategies to inform the community and other stakeholders regarding council's decision making processes 	<ul style="list-style-type: none"> - Failure to engage staff and managers in the development of strategic goals and strategies - Failure to report and manage performance against strategies and KPI's - Failure to ensure that the community satisfaction survey is provided in a sufficiently broad spectrum of media - Failure to ensure satisfaction criteria and performance benchmarks are relevant to services provided - Failure to put in place action plans to address issues raised in survey responses 	

H	M	E	E
<p>OHS MANAGEMENT SYSTEM</p> <ul style="list-style-type: none"> - Examination of Council's workplace health and safety management systems in line with the principles set out in Australian Standards AS 4801 & 4804 and compliance with NT WHS Legislation 	<p>Q2 2012/13</p>	<ul style="list-style-type: none"> - Review and comment on <ul style="list-style-type: none"> - Measures that Council has set in place to address OHS risks identified in Operational Risk Assessment - the structure and quality of Council's OHS MS systems and documentation to ensure the principles set out in Australian Standards AS 4801 and 4804 are being addressed, and that NT Legislative requirements are being met - the structure and performance of the OHS Committee and its degree of compliance with legislative requirements - the quality of OHS policies and procedures and the extent to which they address Council operations - the structure and quality of OHS audit and reporting processes - the structure and quality of OHS training and communication regimes - test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - OHS Management system developed including policies, standards & operating procedures - OHS specific website established on the intranet with all OHSMS documentation, reports and WHS committee information - OHS training is part of employee induction and managed by OHS Committee and Employee Relations - Refresher training undertaken regularly - Role specific training provided at the worksite - Certificates are required to perform designated works - Licenses required to operate designated plant and equipment - OHS audit and inspection program in place - OHS incident data base developed and used for tracking problem areas - OHS outcomes reported in the Annual Report - OHS bulletins published regularly - External parties provided with OHS induction - Major third party operators have discrete OHS policies and systems - DCC and major operators exchange OHS Policies - incident tracking data base is in place and reported to the OHS Committee and COG - provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable 	<ul style="list-style-type: none"> - Failure to embed an OHS awareness culture across the organisation - Legislative requirements not met - Deficiencies in OHS Management System procedures - Failure to ensure that contractors and third parties operating within Council environs are aware of and manage their OHS responsibilities - Failure to record and report OHS incidents and non-conformances
<p>STRATEGIC & OPERATIONAL RISK ASSESSMENTS</p> <ul style="list-style-type: none"> - Review of the processes undertaken to develop the strategic and operational risk assessments and opinion on any gaps in risks & controls identified 	<p>Q3 2012/13</p>	<ul style="list-style-type: none"> - Review processes used in development of SRA and ORAs are undertaken in accordance with the principles outlined in the risk management standard ISO/AS 31000 - Review and comment on <ul style="list-style-type: none"> - the alignment of SRA and ORAs with strategic planning and business outputs - consistency of approach to development of ORAs across City of Darwin's four departments - the processes undertaken to develop both SRA and ORAs, in particular the extent to which development processes were inclusive of staff and the extent to which risk management knowledge has been instilled across the organisation - any potential omissions from "causal risk" and "internal control" measures identified on ORAs and SRA - Measures that Council has set in place to address risks identified in City of Darwin Operational Risk Assessment - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - City of Darwin employs Risk and OHS Advisor to promote risk management awareness - City of Darwin has developed RM Policy and Standards based on ISO31000 - Dedicated web-site developed as a central point of information for risk management - City of Darwin undertakes regular assessment of strategic and operational risks - Reporting on strategic and operational risk is monitored by COG and Risk Management & Audit Committee - Programs in place to undertake risk assessments for all project based activity - Business continuity plans developed - Policies and standards are promoted by COG and business managers - Operational risk assessment is linked to directly annual business planning - provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable 	<ul style="list-style-type: none"> - City of Darwin does not implement and manage effective corporate governance and risk management framework - City of Darwin does not implement processes to identify and implement contemporary best practise business systems - Failure to embed a risk management culture within the organisation - Failure to develop, implement and manage policies and standards relating to risk management activity - Failure to review operational risk assessments regularly

H	M	M	L
<p>- Review and comment on quality of processes undertaken to manage its purchasing and procurement activities</p> <ul style="list-style-type: none"> - Existence of, and quality of policy and procedures governing purchasing and procurement - Existence of, and quality of policy and procedures for tendering - Effectiveness of existing system controls within accounting systems covering purchasing and procurement processes - Effectiveness of the financial delegation structures - Benefits/gaps in existing procurement practises - Potential benefits of establishing a centralised procurement unit - test for effectiveness and compliance with specific internal controls - Requirement for purchasing and procurement policy and procedures is determined initially by legislation and accounting standards - Internal processes include separation of duties and cross checking - Procurement policy and guidelines have been developed - Fraud management policy and procedure in place - Financial and procurement delegations in place and reviewed annually - Financial Services regularly review levels of delegation to ensure appropriateness - All staff are required to undergo purchasing training and once trained, flat delegation of \$3k applies - CEO has responsibility for assigning delegations – based on Manager recommendation and GM approval - Structured tender assessment processes in place including requirement for review and approval - Purchases over \$10,000 but not more than \$100,000 require 3 written quotations that are recorded in AUTHORITY against the purchase order - If 3 quotations cannot be obtained the reason why must be recorded in AUTHORITY against the purchase order - Purchases over \$100,000 are required to go to public tender - A purchase order is required to be raised in advance of each purchase and approved by two officers - The requisitioning officer signs the order to acknowledge the goods or services have been received - The authorising officer signs the order to approve payment - the requisitioning officer and authorising officer should not be the same person - The authorising officer must have the appropriate delegated authority to approve payment; different levels apply to contract and non-contract purchases - Financial Services review payments to ensure approval by officer with appropriate delegation - System access control in place within Authority to ensure separation of functions specific to each user ID - A purchase order is required to be raised in advance of each purchase and approved by two officers - Requisitioning officer signs the order to acknowledge the goods or services have been received - Authorising officer signs the order to approve payment and the requisitioning officer and authorising officer should not be the same person - Authorising officer must have the appropriate delegated authority to approve payment; different levels apply to contract and non-contract purchases - AP match the approved purchase order to the invoice prior to payment - Where multiple invoices are received for the same creditor, it is sufficient that the payment reconciliation is signed by the requisitioning officer and authorising officer - Changes to the creditors master file are made either from a new creditor form or directly from creditor documentation - Documentation pertaining to creditor master file changes are filed in the creditor payment history file <p>- provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable</p>	<p>- failure to understand and comply with the requirements of the Local Government Act</p> <p>- failure to comply with the Code of Conduct</p> <p>- City of Darwin does not implement processes to identify and implement contemporary best practise business systems</p> <p>- City of Darwin does not implement and manage effective corporate governance and risk management frameworks</p>	<ul style="list-style-type: none"> - Failure to identify the need for, and develop, Financial Services specific policies and standards - Failure to put in place processes to detect non-compliance with policies and standards - Failure to provide correct level of financial delegation to ensure officers are able to effectively carry out their duties - Failure develop and adhere to approved procurement policy and processes - Failure to ensure separation of duties for accounts payable processes - Failure to undertake reconciliation of creditors - Failure to manage access to creditors master file - Failure to manage and control EFT payments and reconcile to accounting systems - Deficiencies in systems to manage credit card purchases 	
<p>PROCUREMENT & PURCHASING</p> <ul style="list-style-type: none"> - Review the processes undertaken in procurement and purchasing, including policies, procedures, raising purchase orders, quotations and payment for services <p>Q4 2012/13</p>			

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<p>TAXATION COMPLIANCE</p> <ul style="list-style-type: none"> - Ensure compliance with taxation requirements as per Commonwealth and NT legislation 	<p>Q1 2013/14</p>	<ul style="list-style-type: none"> - Review and comment on quality of processes undertaken to manage taxation regime requirements <ul style="list-style-type: none"> - Measures that Council has set in place to address risks identified in City of Darwin Operational Risk Assessment - The extent to which taxation reporting processes meet the requirements of the Local Government Act - Accuracy and timeliness of Fringe Benefits Tax Return preparation and lodgement - Processes in place to monitor, record and report Vehicle use - Processes in place to monitor, record and report Entertainment expenses - Business Activity Statement preparation (GST) - Payroll tax return preparation - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - Staff processing transactions are given appropriate GST training - Staff preparing FBT returns are sent to annual FBT training - Forms relating to entertainment and motor vehicles are completed to ensure that only legitimate benefits are reported and subsequently used as a basis on which to calculate FBT - Source documents are agreed to FBT calculations - Financial Accountant reviews the FBT calculations as documented in the spreadsheet reconciliations and agrees these calculations to the 'FBT return' contained in the spreadsheet - Financial Accountant completes, authorises and submits the FBT return to the ATO - Source documents are agreed to GST calculations for GST claimed i.e. payments made by DCC to suppliers - Tax invoice should at least include: the words 'tax invoice', name of supplier, ABN of supplier, show the amount of GST to be paid or contain a statement 'total includes GST' or similar - Source documents are agreed to GST calculations for GST paid i.e. payments received from customers - Source documents are agreed to payments made to suppliers where no GST has been calculated i.e. 'GST free purchases'. - If a supplier issues a tax invoice without GST the supply must be GST free. - If the supplier does not issue a tax invoice and they have an ABN the supply does not attract GST - If the supplier does not have an ABN they must complete a 'Statement by a Supplier' declaration before they can be paid; these can be kept on file for up to five years. Refer to GST legislation for further guidance - BAS is prepared from a dedicated spreadsheet - An exception report for different GST codes is run and reviewed in the spreadsheet. - Anomalies are checked when GST on purchases does not equal 10% - A reconciliation is performed between the BAS figures submitted via the ATO'S ECI program and the spreadsheet - reconciliation is recorded on the Goods and Services Calculation Sheet - After the BAS has been lodged a check is performed to ensure payment has been received. A copy of the bank statement showing the deposit received is filed with the BAS - An officer with the appropriate delegations approves the BAS - Control Self-Assessment in place <p>provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable</p>	<ul style="list-style-type: none"> - City of Darwin does not implement and manage effective corporate governance and risk management frameworks - City of Darwin does not implement processes to identify and implement contemporary best practise business systems - failure to understand and comply with the requirements of the Local Government Act
<ul style="list-style-type: none"> - Incorrect treatment of transactions with FBT and GST implications - Failure to meet lodgement and reporting deadlines - Vehicle log books not maintained for home garaging 			

H	E	L	H
<p>ASSET MANAGEMENT</p> <ul style="list-style-type: none"> - Examine Council's approach to total asset management, including alignment between management systems controlled by both Infrastructure and Finance 	<p>FINANCE</p> <ul style="list-style-type: none"> - Council does not have an approved policy to manage asset acquisitions and disposals - Council does not develop and maintain a register of portable & attractive items - failure to ensure correct rates of depreciation are applied to correct asset classes as per taxation guidelines - failure to ensure asset management systems used in Finance and Asset management Branches are aligned and integrated <p>ASSET MANAGEMENT</p> <ul style="list-style-type: none"> - Failure to develop and promote asset management policies, standards and procedures - Failure to develop and implement a robust infrastructure asset condition inspection program - Failure to develop and implement corporate and individual infrastructure asset management plans - Failure to ensure all assets are subject to three yearly revaluation - Failure to develop, implement and maintain a corporate asset register - City of Darwin is reliant on limited number of qualified staff to maintain asset management systems - Asset register software failure 	<ul style="list-style-type: none"> - City of Darwin does not implement and manage effective corporate governance and risk management frameworks - City of Darwin does not implement processes to identify and implement contemporary best practise business systems 	<ul style="list-style-type: none"> - Review and comment on measures in place to address strategic and operational risks identified in City of Darwin SRA - Confirm asset management plans are in place to manage critical assets - Examine asset maintenance processes to ensure controls are effective over planning, monitoring and recording of assets - Review and comment on the quality of asset management systems (Authority) and integration across multiple asset management platforms - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - Asset Management Steering Group in place and meets quarterly - Development of procedures undertaken for data collection and asset management - Cyclic reviews undertaken of policies, standards and procedures - Asset management roles and responsibilities allocated to specific individuals across the organisation - Implementation of asset sustainability review recommendations will ensure policies, standards and procedures are developed and monitored - Assets surveyed on a cyclical program, depending on class of asset - Corporate asset management plan sets out the survey classes and cycles - Asset data stored on Map Info and Corporate Asset Register - Dedicated Officers utilise the Australian Infrastructure Financial Management Guidelines as a reference to ensure asset revaluations are consistent and meet legislative requirement for local governments - provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable
<p>RECORDS MANAGEMENT</p> <ul style="list-style-type: none"> - Confirm compliance with records management legal requirements and accepted records management standards 	<p>FINANCE</p> <ul style="list-style-type: none"> - Failure to develop and embed a strong records management culture across the organisation - Records management system does not adequately address the requirements of business departments and or legislation - Inappropriate security level applied - Failure to follow file structure rules, thesaurus and naming conventions - Failure to ensure staff are trained in EDMS - Inadvertent disposal of file prevents COD from providing evidence to justify actions, prove compliance with legislative requirements, satisfy audit requirements - Disposal schedules are not updated to reflect legislative or other change which may impact on disposal date - Appraisal process is inadequate resulting in records being destroyed in contravention of authorised retention and disposal schedule 	<ul style="list-style-type: none"> - Council's organisational structure, culture and values do not support the achievement of strategic objectives - City of Darwin does not implement processes to identify and implement contemporary best practise business systems - City of Darwin does not implement and manage an effective corporate governance framework - failure to meet the obligations of the communications act 	<p>RECORDS MANAGEMENT</p> <ul style="list-style-type: none"> - Records management policies and procedures exist and system is managed in accordance with approved records management standards in respect of the following: <ul style="list-style-type: none"> - records are being captured, registered, archived and disposed of in an authorised manner - records are able to be retrieved efficiently - sensitive information is protected by applying security profiles that match business requirements - ECM faults and errors are resolved - Manage ECM files including linking to appropriate indexes - Ensure that all staff are provided with training in the use of the electronic document management system: - Records are retained according to an authorised retention and disposal schedule

H	H	L	H	M
<p>ENVIRONMENTAL MANAGEMENT SYSTEMS and CLIMATE CHANGE MANAGEMENT</p> <p>- Follow up audit on outcomes from the 2011 audit</p>	<p>Q4 2013/14</p>	<ul style="list-style-type: none"> - Review and comment on actions taken or proposed in relation to recommendations arising from the Deloitte audit report 2012 - Review processes used to ensure that Council proactively manages its environmental and climate change responsibilities : <ul style="list-style-type: none"> - Compliance with environmental legislation - Implement and maintain a climate change policy - Communicate Council's climate change plans and actions to the public - Manage Council's energy consumption levels and carbon emissions - Maintain existing and create new relationships with relevant Government and Non-Government Environmental Organisations - Ensure compliance with Federal and Territory climate change legislation - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - Reporting requirements for environmental impact are included in all reports to Council and sub-committees - Regular bulletins and information sessions conducted by Climate Change and Environment Section - New staff induction program includes a presentation of the CC & E section and expectation of new staff - Meeting legislative requirements are included in contract and lease conditions - Regular reviews of lease and contract conditions are undertaken - Inspection and monitoring regimes in place - Contractors report on environmental issues 1/4erly and annually - Environmental audits undertaken by external parties - Climate Change Policy adopted 2010 - Climate Change Action Plan adopted 2011 - Council reports against Climate Change Action Plan activities through business management systems and the Annual Report - Action Plan reviewed every three years - Regular information bulletins and education sessions are conducted by CC & E Section through the "Green Office" program - Energy audits undertaken bi-annually - Greenhouse gas emission inventory undertaken annually - Internal tracking of electricity consumption data is undertaken - provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable 	<ul style="list-style-type: none"> - City of Darwin does not effectively manage climate change initiatives - water conservation initiatives not embedded as a key component of environmental management plans - failure to develop and implement future stormwater management plans - City of Darwin does not effectively engage with key harbour management stakeholders (DHMAC, DPC, NRETAS, EPA) in the development of its environmental management plans - City of Darwin does not develop, implement and manage a comprehensive environmental management system that embraces contemporary best practise 	<ul style="list-style-type: none"> - Failure to embed an environmental awareness culture across the organisation - Failure to implement effective environmental management programs - Failure to ensure that third parties operating within Council properties are aware of and manage their environmental responsibilities - Failure to meet legislative obligations

<p>IMPLEMENTATION OF COUNCIL DECISIONS</p> <ul style="list-style-type: none"> - Examination of processes undertaken to ensure Council decisions are recorded, assigned to a responsible officer, actioned and monitored 	<p>Q1 2014/15</p>	<ul style="list-style-type: none"> - Review and comment on measures in place to address strategic and operational risks identified in City of Darwin SRA and ORA - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - All Council meetings are minuted - New version of ECM implemented April 2012 which means that workflows within ECM capture decisions, assign to responsible officer and manage and report on progress - Council minutes note actions required and assign to specific officers - Minutes are sent to all staff for noting of action items - Action items tasked in ECM to responsible Officers - Outcomes for action items is reported at subsequent Council meetings - All outstanding decisions are reported to COG and reviewed on a quarterly basis and reports published on the Elected Members Intranet - Control self-assessment in place 	<p>H</p> <ul style="list-style-type: none"> - City of Darwin does not implement and manage an effective corporate governance framework - Failure to understand and comply with the requirements of the Local Government Act - Lack of, or perception of lack of integrity of staff and elected members <p>M</p>	<p>E</p> <ul style="list-style-type: none"> - Failure to provide adequate resources to support Council meetings, governance committees and sub-committees - Failure to ensure that decisions of Council are documented, communicated to the relevant Department and implemented in accordance with Council directions - Failure to establish and approve formal reporting requirements for individual governance groups <p>L</p>
<p>INVESTMENT MANAGEMENT</p> <ul style="list-style-type: none"> - Examine council's investment policy and operational investment management procedures to ensure compliance with legislated responsibilities and that accepted industry practise is adhered to 	<p>Q3 2014/15</p>	<ul style="list-style-type: none"> - Review and comment on measures in place to address strategic and operational risks identified in City of Darwin SRA and ORA - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - Council has an endorsed Investment Policy which sets out investment limits and thresholds - Monthly investment report is provided to COG and Council to ensure that investment limits and thresholds are not exceeded - Three interest rate quotes are obtained for the required term - The Management Accountant or Financial Accountant signs the Statement of Investment of Surplus Funds to authorise acceptance of the quoted interest rate and term - Ability to place or roll over an investment is restricted to authorised officers, placement of the investment is approved by the Finance Manager, the Management Accountant, or Financial Accountant Manager - Redemption of investments must be approved by the Management Accountant, Financial Accountant or Finance Manager. - After being redeemed the investment register is marked 'redeemed' and placed in a separate file. - A check is performed that the investment is debited in the bank account - The investment spreadsheet is reconciled to the General Ledger on a monthly basis. - Both the investment principle and investment interest are reconciled and the reconciliations are approved by the Management Accountant - Control self-assessment in place 	<p>E</p> <ul style="list-style-type: none"> - City of Darwin does not implement and manage an effective corporate governance framework - lack of ineffective governance policies, standards and procedures - inadequate long and short term financial planning and budgetary processes to support the achievement of objectives - financial loss and asset degradation - potential for intervention by NTG – appointment of administrator - failure to understand and comply with the requirements of the Local Government Act - media and reputation risk <p>M</p>	<p>H</p> <ul style="list-style-type: none"> - Failure to develop and implement policy and procedures to manage investments prudently and secure maximised returns - Lack of separation of duties - Investment in unsuitable investment classes - Potential for large financial losses - Media risk
<p>FUEL USAGE & FUEL REBATES</p> <ul style="list-style-type: none"> - track and monitor fuel usage and fleet mileage - ensure appropriate rebates rates are being applied and received 	<p>Q4 2014/15</p>	<ul style="list-style-type: none"> - risk is not currently identified in the Corporate Services ORA - will be added following outcomes of audit and recommendations 	<p>H</p> <ul style="list-style-type: none"> - City of Darwin does not implement processes to identify and implement contemporary best practise business systems - Failure to understand and comply with the requirements of the Local Government Act - Lack of, or perception of lack of integrity of staff and elected members - Media publicity and reputation risk <p>M</p>	

<p>CREDIT CARD USAGE</p> <ul style="list-style-type: none"> - Examine Councils procedures for the issuing, use and management of corporate credit cards 	<p>Q4 2014/15</p>	<ul style="list-style-type: none"> - Review and comment on measures in place to address strategic and operational risks identified in City of Darwin SRA and ORA - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - Credit card policy and procedures developed and approved by COG - Credit card register implemented and managed by Financial Services - card limits are recommended by Managers/Team Leaders and approved by GMs - Credit cards set with limits on transaction amounts and total monthly expenditure - Expenditure against card limits monitored regularly by Financial Services - If a tax invoice or receipt has not been obtained, a statutory declaration must be completed in lieu - The cardholder is required to match the invoices or receipts with the credit card statement on a monthly basis - The CEO's credit card statement is signed by a General Manager - Monthly card statements are signed by the employee and their supervisor before being submitted to Finance for processing - Control Self-assessment in place 	<p>H</p> <ul style="list-style-type: none"> - City of Darwin does not implement processes to identify and implement contemporary best practise business systems - Failure to understand and comply with the requirements of the Local Government Act - Lack of, or perception of lack of integrity of staff and elected members - Media publicity and reputation risk <p>L</p>	<p>M</p> <ul style="list-style-type: none"> - Failure to maintain credit card register - Credit card limits and transaction limits not aligned to operational needs - Invoices not reconciled to statements - Understatement of expenses - Non-compliance with Credit Card policy 	<p>L</p>
<p>ELECTED MEMBER'S ALLOWANCES</p> <ul style="list-style-type: none"> - Ensure allowances and professional development payments to Elected Members, and Members' comply with Council policies and ministerial guidelines 	<p>Q2 2014/15</p>	<ul style="list-style-type: none"> - Review and comment on quality of processes undertaken to manage access to, approval of and payment of allowances and professional development payments is managed in accordance with approved policies, procedures and legislation - Existence of, and quality of policy and procedures governing payment of allowances and professional development entitlements - Effectiveness of the financial delegation structures - Benefits/gaps in existing policies and procedures - test for effectiveness and compliance with specific internal controls - Provide comments on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable <p>OFFICE OF CEO CONTROLS</p> <ul style="list-style-type: none"> - requirements under the Local Government Act Sections 73, 74, 75, 76 - Code of Conduct developed for Elected Members LG Act Sections 75, 76, 77, 78 - LG Act compliance checklist in place and monitored by OCE - Elected members may be subject to action under the provisions of the LG Act - Elected members are provided with an IT package, including internet/intranet facility - Professional development allowance is available to all Elected Members - Additional development opportunities are made available to elected members <p>CORPORATE SERVICES CONTROLS</p> <ul style="list-style-type: none"> - Privacy and Confidentiality Policy and Procedures in place - System access control in place within Authority to ensure separation of functions specific to each user ID - A purchase order is required to be raised in advance of each purchase and approved by two officers - Requisitioning officer signs the order to acknowledge the goods or services have been received - Authorising officer signs the order to approve payment and the requisitioning officer and authorising officer should not be the same person - Authorising officer must have the appropriate delegated authority to approve payment; different levels apply to contract and non-contract purchases - AP match the approved purchase order to the invoice prior to payment - Where a purchase order has not been raised the requisitioning and authorising officer must both sign the invoice or Payment Authorisation - Where multiple invoices are received for the same creditor, it is sufficient that the payment reconciliation is signed by the requisitioning officer and authorising officer - All purchases within Australia are required to be supported by a tax invoice 	<p>H</p> <ul style="list-style-type: none"> - Failure to comply with the requirements of the local government act - Failure to comply with the code of conduct - Lack of, or perception of lack of integrity of elected members - Failure to ensure skills of elected members are maintained <ul style="list-style-type: none"> - Failure to provide effective leadership - Ineffective decision making processes - "Single issue" focus rather than holistic management - Reputation management implications - Failure to provide elected members with appropriate tools and resources to effectively undertake their duties <ul style="list-style-type: none"> - Access to ICT systems 	<p>E</p> <ul style="list-style-type: none"> - Privacy & Confidentiality Policy not adhered to - Failure to ensure separation of duties for accounts payable processes <ul style="list-style-type: none"> - Failure to verify invoices prior to payment - Unauthorised purchase/fraudulent purchase - Duplicated payments - Expenditure outside of delegations - Expenditure assigned to incorrect cost codes 	<p>M</p>

<p>WASTE MANAGEMENT</p> <ul style="list-style-type: none"> - Examine Council's waste management practises and in particular its management of both internal processes and contracted services delivered through Shoal Bay Waste Management Facility 	<p>Q1 2015/16</p>	<ul style="list-style-type: none"> - Review and comment on measures in place to address strategic and operational risks identified in DCC's SRA and ORA - Review actions undertaken or proposed as a result of recommendations arising from Wastech Report commissioned in 2010 - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - NTG is currently investigating the feasibility of a regional waste processing centre, which will reduce demand for services at Shoal Bay - City of Darwin is actively lobbying NTG in regards to waste management - Council is currently investigating the feasibility of increasing the height of land fill at Shoal Bay; if approved the lifespan of the facility will be extended by up to 15 years - Alternative processing procedures are being investigated to reduce the volume of waste that is currently stored as land fill - SBWMF site master plan has been prepared (in draft form) - SBWMF Procedures developed for weighbridge staff (updated May 2012) - Waste & recycling education programs undertaken in schools and with the public by City of Darwin and the waste contractor - Information signage regarding acceptable and non-acceptable material in place at the entry gate - Contract operator (McMahons) have a site management plan, chemical compatibility reference chart and a locked fire rated chemical cabinet - Contract operator has a spill management plan in place - provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable 	<p>H</p> <ul style="list-style-type: none"> - inability to effectively manage the impact that continued growth of Darwin population will have on waste management facilities - failure to identify, develop and manage best practise waste management and recycling systems - ratepayers and the community do not fully embrace council's waste management and recycling initiatives - City of Darwin does not implement processes to identify and implement contemporary best practise business systems - City of Darwin does not ensure ratepayers and other stakeholders are consulted and engaged in the development of service delivery standards 	<p>M</p>	<p>E</p> <ul style="list-style-type: none"> - Increasing population of Darwin City - Shoal Bay facility is on land leased from Defence, license to operate is granted by NTG and site operations are management by contractor on behalf of City of Darwin - Lack of control at point of entry to Shoal Bay - Inadequate traffic management measures - Storage of waste not suitable for landfill (chemicals, oils, gas bottles, batteries) - Failure of licensed contractor to meet contractual obligations - Public liability and OHS issues arising from operations of the site 	<p>H</p>
<p>BUDGET DEVELOPMENT & LONG TERM FINANCIAL PLANNING</p> <ul style="list-style-type: none"> - Examine the processes used by Council to develop its annual operational budget, including allocation of dedicated budget lines and justification of budget bids 	<p>Q2 2015/6</p>	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -
<p>FINANCIAL SUSTAINABILITY</p> <ul style="list-style-type: none"> - Infrastructure capital and financial capital is able to be maintained over the long-term 	<p>Q3 2015/6</p>	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -
<p>CONTROL SELF ASSESSMENT PROGRAM</p> <ul style="list-style-type: none"> - Examination of processes undertaken in establishing control effectiveness assessments as part of Council's on-line control self-assessment program 	<p>Q4 2015/16</p>	<ul style="list-style-type: none"> - Review and comment on measures in place to address strategic and operational risks identified in City of Darwin SRA and ORA - Ensure adequacy of linkages between operational risk assessments and CSA system <ul style="list-style-type: none"> - CSA policy and standards - CSA reporting processes - Standards for working papers - Review adequacy of testing requirements - Review and comment on adequacy of testing methodologies undertaken by assessors and reviewers - Comment on quality and coverage of reporting to the RMAC - Test for effectiveness and compliance with specific internal controls <ul style="list-style-type: none"> - use of CSA is mandated by COG - Risk & OHS Advisor conducts detailed CSA training program - COG and Audit Committee review outcomes from CSA - Internal audit reviews quality of CSA program and outcomes and feedback used for continuous improvement - CSA program is directly linked to ORAs and updated annually in conjunction with the review of ORAs - provide comment on the impact of audit recommendations on the residual risk rating identified in the SRA and ORAs as applicable 	<ul style="list-style-type: none"> - City of Darwin does not implement and manage effective corporate governance and risk management frameworks - City of Darwin does not implement processes to identify and implement contemporary best practise business systems 	<ul style="list-style-type: none"> - Managers fail to embrace CSA as a legitimate risk management tool - Business unit managers fail to adhere to CSA policy and procedures - Failure to ensure CSA program captures risks identified in ORAs 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -

AUDIT YEAR 2009/10

CAR PARKING MANAGEMENT REVIEW	Q1	DELOITTE \$15,000	- Audit undertaken March 2009 - Report to RMAC June 2009
PROJECT MANAGEMENT & GOVERNANCE	Q1	COLLINS ANDERSON \$25,000	- Audit undertaken March 2009 - Report to RMAC June 2009
CREDIT CARD PAYMENTS AND ON-LINE RECEIPTING Examination of IT security control surrounding the on-line credit card payment and receipting process, including user access, confidentiality of customer information and system updates	Q1	CQR CONSULTING \$12,800	- Report to RMAC August 2010
ASSET MANAGEMENT & FINANCIAL SUSTAINABILITY Infrastructure capital and financial capital is able to be maintained over the long-term	Q3	ACCESS ECONOMICS JEFF RORDA ASSOC \$40,000	- Report to RMAC October 2009
'AUTHORITY' UPGRADE PRE AND POST IMPLEMENTATION	Q4	\$24,000	- Commenced August 2009 - Report to RMAC October 2009

AUDIT YEAR 2010/11

FRAUD POLICY & RISK ASSESSMENT Fraud risk management system, policies, procedures, whistle blowers and fraud risk training	Q2	DELOITTE \$13,000	- ToR and engagement letter signed May 2011 - Report to RMAC August 2011
PERIOD END PROCESSES Examine Council's period end financial close process to consider the process effectiveness and efficiency and the associated internal controls and consider whether the process risks are being mitigated.	Q3	DELOITTE \$12,000	- Report to RMAC March 2011
BUSINESS CONTINUITY PLANNING Examine Council's business continuity plans and implement BC on-line systems to develop departmental and team based continuity plans	Q4	BCM SOLUTIONS \$50,000	- Report to RMAC March 2012

AUDIT YEAR 2011/12
ENVIRONMENTAL MANAGEMENT PLAN

Examination of monitoring the compliance with Council's Environmental Management Plan.

Assess the quality of EMPs against the framework of ISO 14001

Q3

DELOITTE
\$40,000

- Report to RMAC February 2012

Assess the performance of systems that Council has in place to monitor and report its performance against its environmental outcomes and key strategies set out in the Strategic Plan

FLEET MANAGEMENT

Examination of the controls around managing the Council's fleet including acquisition, disposal and maintenance. Confirm asset management plans are in place to assist in managing individual assets and understand how these plans are managed with Council systems

Q3

DELOITTE
\$24,000

- ToR and engagement letter signed November 2011
- Report to RMAC February 2012

OHS MANAGEMENT SYSTEM

Examination of Council's workplace health and safety management systems in line with the principles set out in Australian Standards AS 4801 & 4804 and compliance with NT WHS Legislation

Q2

MARSH
\$37,000

- Terms of reference drafted and issued to audit firm September 2012.
- Audit undertaken Dec 2012
- Draft report due Jan 2013
- Report tabled RMAC August 13

AUDIT YEAR 2012/13
STRATEGIC PERFORMANCE

Examination of the processes adopted by Council to monitor and report against strategic objectives and performance measurement metrics, including alignment of metrics with the corporate plan, accuracy and integrity of data capture and accuracy of metrics being reported

Q1

BDO
\$27,000

- Terms of reference drafted Sept 2012 and potential pool of auditors identified
- ToR to EM OCE for approval Sept 2012
- Approved by EM OCE Jan 2013
- ToR Issued to service providers Jan 2013
- Report tabled RMAC Nov 13

STRATEGIC & OPERATIONAL RISK ASSESSMENTS

Review of the processes undertaken to develop the strategic and operational risk assessments and opinion on any gaps in risks & controls identified

Q2

DELOITTE
\$24,000

- Terms of reference drafted and issued to audit firm December 2012
- Audit undertaken Dec 2012
- Draft report due Jan 2013
- Report tabled RMAC Aug 13

AUDIT YEAR 2013/14
PURCHASING & PROCUREMENT

Review the processes undertaken in procurement and purchasing, including policies, procedures, raising purchase orders, quotations and payment for services

Q2

DELOITTE
\$46,000

- Terms of reference drafted and issued to audit firm May 2013
- Audit undertaken May/June 2013
- **Report tabled RMAC August 13**

TAXATION COMPLIANCE

Ensure compliance with taxation requirements as per Commonwealth and NT legislation

Q3

DELOITTE
\$23,000

- Terms of reference sent to internal auditors October 2013
- Audit commenced Feb 2014
- Audit completed March 2014
- **Report tabled RMAC May 2014**

ENVIRONMENTAL MANAGEMENT SYSTEMS

Follow up audit on outcomes from the 2011 audit

Q3

DELOITTE
\$21,000

- Terms of reference sent to stakeholders Feb 2014
- Terms of Reference sent to internal auditors February 2014
- Audit commenced March 2014
- **Report tabled RMAC August 2014**

ASSET MANAGEMENT

Examine Council's approach to total asset management, including alignment between management systems controlled by both Infrastructure and Finance

Q4

DELOITTE
\$26,000

- Terms of Reference sent to stakeholders February 2014
- Terms of reference sent to internal auditors March 2014
- Audit commenced April 2014
- **Draft report with Managers Finance and Technical Services September 2014**

RECORDS MANAGEMENT

Confirm compliance with records management legal requirements and accepted records management standards, and assess user culture issues

Q4

LATITUDE12
\$12,500

- Auditor appointed
- Entry interview and audit planning workshop conducted April 2014
- **Draft report with Records Acting Manager July 2014**
- Awaiting appointment of new Records Manager before implementation

AUDIT YEAR 2014/15
IMPLEMENTATION OF COUNCIL DECISIONS

Examine process used to document and implement decisions of Council and to track and report implementation progress

Q1

KPMG
\$7,250

- Terms of reference prepared and with EMO CE for approval October 2014
- Audit commenced by KPMG Jan 2015
- Audit completed Feb 2015
- **Report tabled RMAC March 2015**

ELECTED MEMBERS' ALLOWANCES AND PAYMENTS

Ensure allowances and professional development payments to Elected Members, and Members' comply with Council policies and ministerial guidelines

Q2

KPMG
\$12,750

- Terms of reference prepared and with EMO CE for approval October 2014
- Audit commenced by KPMG Jan 2015
- Audit completed Feb 2015
- **Report tabled RMAC March 2015**

INVESTMENT MANAGEMENT	Examine council's investment policy and operational investment management procedures to ensure compliance with legislated responsibilities and that accepted industry practise is adhered to	Q3	DELOITTE	- Terms of reference being developed with Manager Finance following concerns raised over potential deficiencies in existing investment management policy and guidelines
FLEET & FUEL REBATE	Examine the use of fuel cards and fuel usage in conjunction with fleet usage levels	Q4		- Terms of reference being developed with Manager Finance following concerns raised over potential misalignment between fuel usage and associated fleet usage/mileage recordings and rebates applied
CREDIT CARD MANAGEMENT	Examine the processes used to approve, and issue credit cards, application of transaction limits and settlement of monthly accounts	Q4		-
AUDIT YEAR 2015/16				
ELECTRONIC TENDERING PROCESSES	Review the performance of the electronic tendering processes, and test the strength of controlling policies, procedures and controls	Q1		
ANNUAL BUDGET DEVELOPMENT and LONG TERM FINANCIAL PLANNING	Examine the processes used by Council to develop its annual operational budget, including allocation of dedicated budget lines and justification of budget bids	Q2		
WASTE MANAGEMENT	Examine Council's waste management practises and in particular its management of both internal processes and contracted services delivered through Shoal Bay Waste Management Facility	Q4		- <i>Audit deferred from 2014/15 pending implementation resolution of identified issues at SBWMF</i>
CONTROL SELF ASSESSMENT PROGRAM	Examination of processes undertaken in establishing control effectiveness assessments as part of Council's on-line control self-assessment program	Q3	INTERNAL \$0	- <i>Audit deferred from 2014/15 pending implementation of upgraded CSA system which includes aligned and linked risk management component</i>

AUDIT YEAR 2016/17

Q1

Q2

Q3

ENCL:	RISK MANAGEMENT & AUDIT	AGENDA ITEM:	9.12
YES	COMMITTEE/CONF		
INTERNAL AUDIT - COUNCIL DECISIONS			
REPORT No.:	15TC0020 MB:as	COMMON No.:	3035180
		DATE:	27/03/15

Presenter: Executive Manager, Mark Blackburn

Approved: Chief Executive Officer, Brendan Dowd

PURPOSE

The purpose of this report is to present the audit report and management response to the KPMG review of Council decisions (**Attachment A**).

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.1 Demonstrate good corporate practice and ethical behaviour

KEY ISSUES

- The review found that the Policy Framework relevant to Council meetings is clear in order to facilitate appropriate understanding by those responsible for applying and following the policy. This was validated by two elected members
 - Minutes were taken in a timely manner for all Council meetings tested
 - All open Council meeting minutes were available on the Council website
 - There are experienced and knowledgeable staff working in this area
 - There is appropriate review and oversight of the draft minutes before they are released to the public on the Council website.
- Management responses to the summary of opportunities to improve control design and framework, compliance matters are listed in **Attachment B**.

PAGE: 2
REPORT NUMBER: 15TC0020 MB:as
SUBJECT: INTERNAL AUDIT - COUNCIL DECISIONS

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15TC0020 MB:as entitled, Internal Audit - Council Decisions be received and noted.
- B. THAT the Risk Management and Audit Committee note the management response to the summary of opportunities to improve control design and framework, and compliance matters as listed in **Attachment B** to Report Number 15TC0020 MB:as entitled, Internal Audit - Council Decisions.
- C. THAT items 1 – 3 inclusive be managed through the upgrade of ECM.
- D. THAT items 4, 6 and 7 not be transferred to the Outstanding Audit Issues Register as they either of a minor nature or have been implemented.
- E. THAT item 5 be transferred to the Outstanding Audit Issues Register.

BACKGROUND

KPMG were engaged to undertake an internal audit to ensure that decisions made at council meetings are recorded appropriately, assigned to a responsible officer and actioned within designated timeframes.

DISCUSSION

The design of the project included both the:

- Health of the actual design of process and internal controls; and
- Whether the controls were actually complied with between the period, 1 July 2014 until the date of testing.

A copy of the KPMG Internal audit report is **Attachment A** to this report.

A copy of the Management Response to the issues raised in the KPMG Internal Audit Report is **Attachment B** to this report.

The KPMG Internal Audit report also noted instances of open confirmed minutes not being noted on the Council website. The Council website has been updated accordingly.

PAGE: 3
REPORT NUMBER: 15TC0020 MB:as
SUBJECT: INTERNAL AUDIT - COUNCIL DECISIONS

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to the Risk Management and Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Committee Administrator
- Records Manager

In preparing this report, the following External Parties were consulted:

- Rachael Wilson, KPMG
- David Howie, KPMG

POLICY IMPLICATIONS

City of Darwin Policy No. 043 - Meeting Procedures and Committees General

BUDGET AND RESOURCE IMPLICATIONS

Provision has been made from within Records & Information Management Program to upgrade the ECM system within new Capital Expenditure during the 2015/15 financial year.

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

PAGE: 4
REPORT NUMBER: 15TC0020 MB:as
SUBJECT: INTERNAL AUDIT - COUNCIL DECISIONS

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MARK BLACKBURN
EXECUTIVE MANAGER

BRENDAN DOWD
CHIEF EXECUTIVE OFFICER

For enquiries, please contact Mark Blackburn on 8930 0516 or email:
m.blackburn@darwin.nt.gov.au.

Attachments:

Attachment A: KPMG Internal Audit Report – Council Decisions

Attachment B: Management Response KPMG Internal Audit Report – Council Decisions



Internal audit report

Council Decisions

City of Darwin

February 2015

Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to the procedures we performed operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. The procedures performed were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed on the control procedures are on sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, City of Darwin (the Council) management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in the Scope Section and for the Council's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of the Council in accordance with the terms of KPMG's engagement letter/contract dated 18 December 2014. Other than our responsibility to the Council, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

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1.0 Executive summary

1.1 Introduction

KPMG have been requested to perform Internal Audit services for the Council. This report relates to the Council's processes around Council decisions and was conducted in February 2015.

1.2 Objectives, scope and approach

The overall objective of this internal audit project was to, in relation to council decisions, assess the design of existing controls and identify any opportunities to improve the process and to test whether the controls are actually operating effectively.

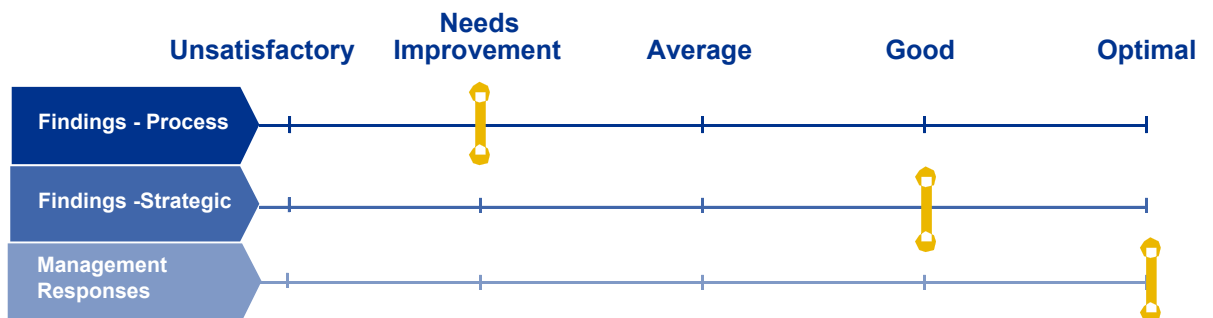
Further details of the objective and scope of the internal audit are outlined in **Appendix 1** to this report and were endorsed by the Audit & Risk Management Committee (Audit Committee) in the annual Internal Audit Plan.

The approach included consultation with key staff to obtain an understanding of the processes and key controls, followed by a workshop which gathered all the relevant staff who are involved in the process under consideration to discuss our ideas for improving the current process. Further details of the approach are outlined in **Section 3** to this report.

1.3 Assessment of performance

1.3.1 Overall internal audit rating

Our overall rating for this internal audit is detailed below:



We make the following comments in respect to the ratings:

- Significance of findings for process has been assessed as needs improvement. Three control design findings have been noted, one rated as high, one as medium and one as low at the process level. Five control effectiveness findings have been noted, three rated as high and two rated as low at the process level.
- Significance of findings for strategic risks has been assessed as good. Three control design findings have been noted, one rated as minor and two as insignificant at the strategic risk level. Five control effectiveness findings have been noted, two rated as moderate, two as minor and two as insignificant at the strategic risk level.
- Management responses have been assessed as optimal. They indicate acceptance to undertake appropriate action in line with KPMG's recommendations.

The ratings have had regard to:

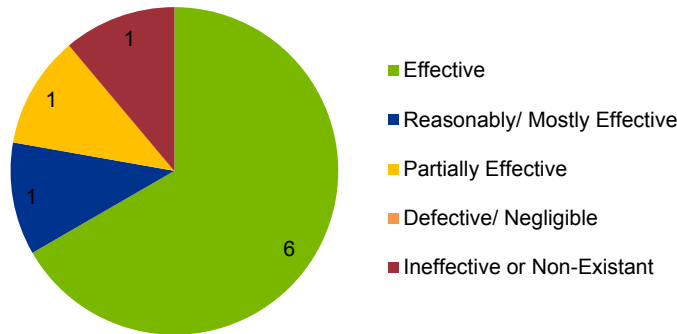
- The specific objectives and scope of the internal audit as agreed with Management and detailed in **Appendix 1** to this report;
- The criteria used for the classification of the overall internal audit rating as agreed with the Audit Committee and Management and set out in **Appendix 2** of this report;
- The individual findings identified from the internal audit as agreed and rated with Management and set out in this report; and
- The results based on statements and representations made by, and information and documentation provided by, client personnel, and some limited testing at a point in time.

The overall rating does not represent a conclusion on the adequacy and effectiveness of the design or operation of the overall internal controls at the Council.

1.4 Key findings

1.4.1 Control design

Each control identified was rated from a 'design' perspective using a five tier assessment framework with the following outcomes:



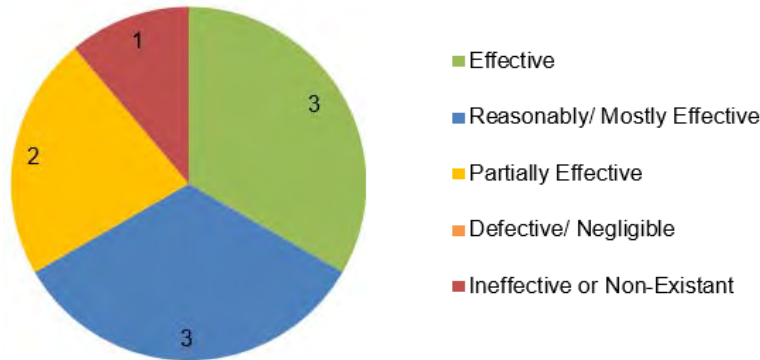
6 out of the 9 documented controls are effective in design. Actions to enhance the controls rated as less than effective are noted below.

1.4.2 Summary of opportunities to improve control design and framework

Matter	Impact on Process Objective	Impact on Strategic Risks	Management Comments
1. Upgrade the ECM system as soon as practical to enhance the reporting and monitoring functionality.	High	Minor	✓
2. Provide more detailed procedures on the current process map around the input of data and the use of ECM for recording Council decisions. Providing training to relevant staff members on ECM and its optimal use.	Medium	Insignificant	✓
3. Task decision actions to the responsible officers directly in line with the culture program and include detail of the responsible officers in the meeting minutes.	Low	Insignificant	✓

1.4.3 Control compliance

Each control identified was also rated from a 'compliance' (ie is the control operating as designed) perspective using a five tier assessment framework with the following outcomes:



1.4.4 Summary of compliance matters

Matter	Impact on process objective	Impact on Strategic Risks	Management Comments
4. Recording of decisions into ECM: - Three instances of 'received and noted' decisions being allocated as action decisions and tasked to officers. - Eight decisions not being entered into ECM. - One set of meeting minutes recorded into ECM with an incorrect meeting date.	High	Moderate	✓
5. Decision status in ECM: - Nine actions were noted as being outstanding. - One instance was identified of a task list remaining outstanding for an ex-employee. - Ensure task lists are reallocate upon employees leaving.	High	Minor	✓
6. Quarterly reporting to COG has not been conducted between November 2013 and January 2015.	High	Moderate	✓
7. Accuracy of the meeting minutes: - Six instances where an action officer was allocated when there was no action required. - Four instances where an action officer was not allocated in the minutes for an action decision.	Low	Insignificant	✓
8. Control self-assessment findings covering the same period were inconsistent with our findings.	Low	Insignificant	✓

✓ = Management agree with findings and propose to implement immediate corrective action.
 ⚠ = Management agree but propose to implement immediate corrective action which partially addresses the finding
 Ω = Management agree with findings, propose no interim solution but the finding will be factored into the specifications and design of the new single system and processes.

☐ = Management agree with findings and have resolved to accept the identified risk exposure – no action proposed
 ✖ = Management do not agree with findings and do not propose to implement any action

1.4.5 Other matters

The key matters arising from this project have been noted above. However, during the visit, we also noted the following very minor matters that require management's attention:

1. Ensure the Meetings, Meeting Procedures and Committees - General Policy is reviewed and updated at the February 2015 Council meeting, given they have exceeded the next review date.
2. Ten instances of open confirmed minutes not being noted as confirmed on the Council website.

These have been discussed with Mark Blackburn who agreed to completing these two actions by the end of February 2015.

1.4.6 Management actions

These findings and recommendations were discussed with the Council Management responsible for the area audited. Management has accepted the findings and have agreed action plans to address the recommendations.

The management action plans will be included in the tracking of internal audit recommendations maintained by the in-house Internal Audit team.

1.5 Impact on the Councils Net Risk Rating

The Council have allocated a net risk rating to both their strategic and operational risks based on the health of the controls in place to manage the specific risk.

These risks, their current ratings are noted below, together with an assessment from KPMG as to whether the net risk assessment should be changed based on the findings from this report.

Risk	Gross Risk Rating		Residual Risk Rating		Change
	Likelihood	Consequence	Likelihood	Consequence	
Strategic Risk					
<ul style="list-style-type: none"> City of Darwin does not implement and manage an effective corporate governance framework Failure to understand and comply with the requirements of the Local Government Act Lack of, or perception of lack of integrity of staff and elected members lack of effective and independent committee structures and systems to manage Council's business activity 	2	4	1	4	No change Recommended
Operational Risk					
<ul style="list-style-type: none"> Privacy & failure to provide adequate resources to support Council meetings, governance committees and sub-committees Failure to ensure that decisions of Council are documented, communicated to the relevant Department and implemented in accordance with Council directions Failure to establish and approve formal reporting requirements for individual governance groups 	2	4	1	3	Recommend increase Residual Likelihood Rating from 1 to 2, increasing risk from Low to Moderate

2.0 Background

2.1 Overview of the current arrangements

The Council meetings are where all of the Council decisions are made. There exists a number of Committees to more effectively manage the affairs of the City of Darwin. Effective meetings are therefore fundamental for good corporate governance.

The Meetings, Meeting Procedures and Committees – General Policy exists to provide clear transparent guidelines for the effective conduct of Council meetings in accordance with the Local Government Act (the Act).

Given the status of the Local Government as being publicly funded by the ratepayers, there is an enhanced expectation of exceptional governance and compliance from the key stakeholders (rate payers). In respect to council decisions, it is critically important that full compliance is achieved to avoid reputational damage to the Council. Pleasingly, the risks associated with council decisions is linked to several strategic and operational risks as outlined below:



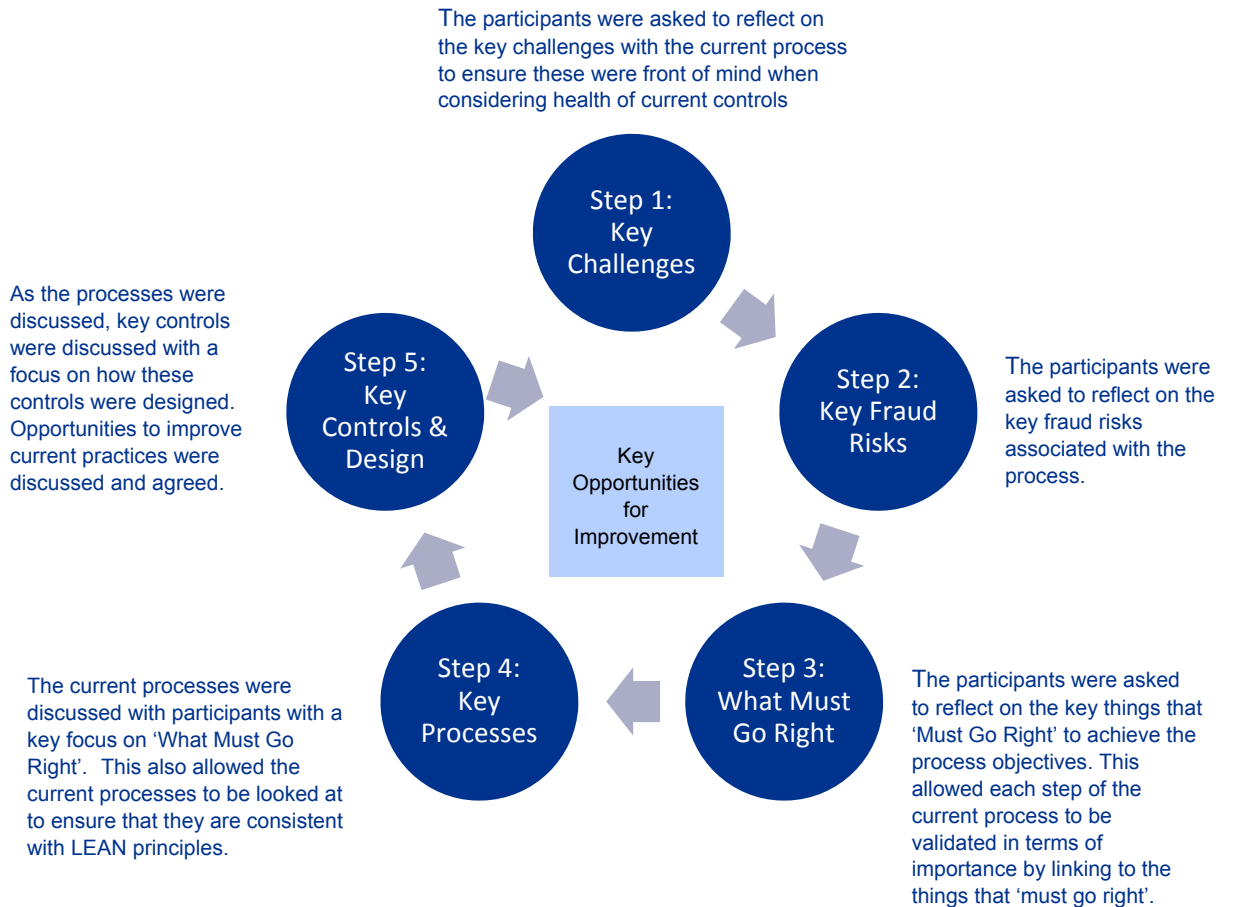
On consideration of the processes for Council decisions there were a number of key strengths noted as follows:

- The Policy Framework relevant to Council meetings is clear in order to facilitate appropriate understanding by those responsible for applying and following the policy. This was validated by consulting with two Elected Members.
- Minutes were taken in a timely manner for all Council meetings tested
- All open Council meeting minutes tested were available on the Council website
- There are experienced and knowledgeable staff working in this area
- There is appropriate review and oversight of the draft minutes before they are released to the public on the Council website

3.0 The Audit Approach

Our approach involved consultations with key stakeholders to the process to understand how things are processed. A workshop was then undertaken which gathers all the relevant staff who are involved in the process under consideration to talk about our findings and ideas to refine the current processes. This workshop approach is designed to assist in cross-skilling staff in terms of learning the roles of others within the Council and gaining a clear understanding of where their role ‘fits-in’ the bigger picture and why & what they do, is important.

The workshop is facilitated by KPMG and promotes discussion around the current process. To ensure the workshop delivers focussed outcomes, KPMG followed the following steps:



4.0 Findings – Council Decisions

4.1 Workshop Outputs

Key Challenges

The workshop identified the following challenges with the current arrangements:

- In the absence of IT software, current processes are labour intensive driven by manual recording and processing of minutes.
- The current ECM system lacks features such as: allocating timeframes to decisions, advanced reporting functions, link to email and user restrictions to make certain changes.
- There has been a vacant role for the past 13 months which has resulted in outstanding decisions not being reported to the Chief Officers' Group (COG) on a quarterly basis.
- Attracting the right skill set of staff members for particular roles.

What Must Go Right?

1 Decisions of Council accurately captured and recorded with sufficient detail.

2 Council Decisions allocated to appropriate personnel to action with timeframe guidance

3 Decisions are completed appropriately and on a timely basis
4 Outstanding actions monitored appropriately

Key Fraud Risks

1 Changes to Council Decisions are not bona fide, approved, appropriately communicated or timely

Controls (Key)

1 Policy Framework
1.1 Meetings, Meeting Procedures and Committees - General Policy

2 Capturing Action
2.1 Access to ECM Controlled
2.2 Meeting minutes and actions recorded
2.3 Draft minutes emailed to relevant staff
2.4 Actions recorded in ECM

3 Completing Action
3.1 Action response recorded
3.2 Action status reported

4 Monitoring Action
4.1 Outstanding actions reported to Chief Officers' Group (COG)
4.2 Control self-assessment

4.2 Linking controls to those things that 'Must Go Right'

The following table shows which controls help to manage the areas of the process that 'must go right'

Risk & Control Matrix									
Council Decisions									
	1.1	2.1	2.2	2.3	2.4	3.1	3.2	4.1	4.2
Process 'What Must Go Right'	Meetings, Meeting Procedures and Committees - General Policy	Access to ECM controlled	Meeting minutes and actions accurately recorded	Draft minutes emailed to relevant staff and made public on website	Actions recorded in ECM	Action response recorded	Action status reported	Outstanding actions reported to COG	Control Self-Assessment
Decisions of Council accurately captured and recorded with sufficient detail	✓		✓		✓				✓
Council Decisions allocated to appropriate personnel to action with timeframe guidance		✓	✓	✓	✓				✓
Decisions are completed appropriately and on a timely basis						✓	✓	✓	✓
Outstanding actions monitored appropriately								✓	✓

Observations

- Each process 'what must go right' has at least one control in place that in part helps to mitigate the risk

4.2 Linking controls to identified fraud risks

The following table shows which controls help to manage the areas of the process that present a fraud risk

Risk & Control Matrix									
Council Decisions									
	1.1	2.1	2.2	2.3	2.4	3.1	3.2	4.1	4.2
Fraud Risks	Meetings, Meeting Procedures and Committees - General Policy	Access to ECM controlled	Meeting minutes and actions accurately recorded	Draft minutes emailed to relevant staff and made public on website	Actions recorded in ECM	Action response recorded	Action status reported	Outstanding actions reported to COG	Control Self-Assessment
Changes to Council Decisions (in or outside ECM) are bona fide, approved, appropriately communicated to the right people and timely		✓							

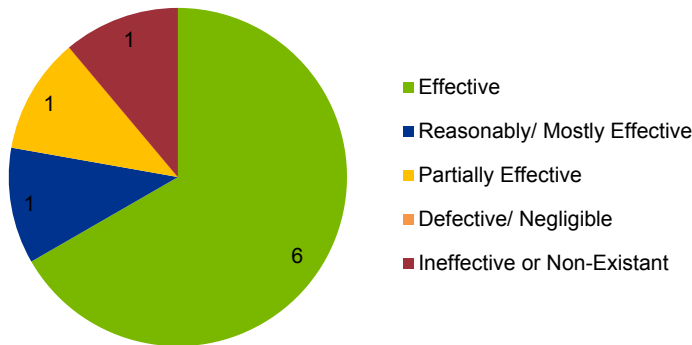
Observations

- The fraud risk has a control in place (both preventative and detective) to mitigate the risk.

4.3 Control Design Findings

The consultations with relevant staff and subsequent workshop noted the following:

- Each control identified was rated from a 'design' perspective using a five tier assessment framework with the following outcomes:



Opportunities for improvement

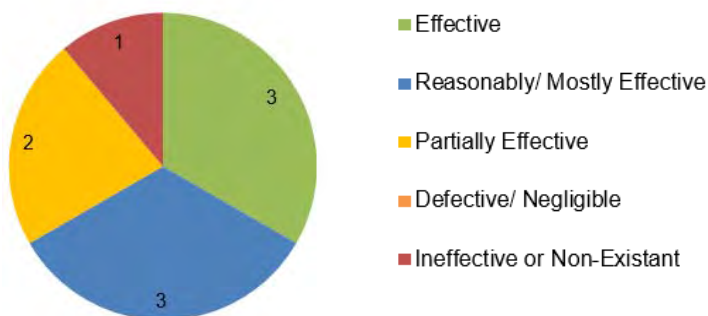
Matter	Impact on process objective	Impact on Strategic Risks
<p>1. The capabilities of the current Electronic Document Management (ECM) System appear to be restrictive in areas, thereby limiting the timely actioning and reporting of Council decisions. Instances noted include: lack of capability to allocate timeframes to actions; lack of ability to link the tasking to emails and reporting restrictions. In raising this matter, it is acknowledged that there is a focus within the Records Management Team to upgrade the ECM System when practical with hope of the upgrade containing some of these more enhanced features.</p> <p>We endorse Council's aim to upgrade the ECM system and recommend that this happen as soon as possible taking into account the above limitations of the system.</p>	High	Minor
<p>Agreed Management Action: Management agrees with findings and propose to implement the following corrective action: Management is currently in the process of seeking an upgrade for ECM.</p> <p>Responsible Officer: Mark Blackburn – Executive Manager</p> <p>Target Implementation Date: June 2016</p>		
<p>2. Design and application improvements also exist with the current ECM system. It was noted that whilst decisions may be allocated to the responsible officers with the correct note title, responsible officers can then create their own note title. This thereby limits both the accuracy and completeness of the reporting and reviewing functions.</p> <p>We recommend Management expand the current process map and include detailed procedures around the input of data and the use of ECM for recording Council decisions. We also recommend providing some training to staff around the correct use of ECM. This should be targeted at responsible officers, middle managers, Executive Assistants (EA's) and General Manager's (GM's) to ensure that there is appropriate skill level during staff absences.</p>	Moderate	Insignificant
<p>Agreed Management Action: Management agrees with findings and propose to implement the following corrective action. The Committee Administrator in collaboration with the Manager of Records will develop a process map for input of data on ECM and a training program for the Executive Assistants and all responsible officers of reports with periodic training.</p> <p>Responsible Officer: Mark Blackburn – Executive Manager</p> <p>Target Completion Date: August 2015</p>		

Matter	Impact on process objective	Impact on Strategic Risks
3. Currently action decisions are tasked to the GM's (EA's) who then task to the responsible officer, thereby creating two layers in the process. In line with the current culture program we recommend Management task decision actions to the responsible officers directly and allocate to the GM's for information only. This will empower responsible officers and streamline the current process. Following from this we recommend Management include the responsible officers in the meeting minutes to ensure accuracy when being recorded in ECM.	Low	Insignificant
Agreed Management Action: Management agrees with the findings and the Committee Administrator will implement this recommended action. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: August 2015		

4.4 Control Compliance Findings

Compliance testing undertaken noted the following:

- Each control tested was rated from a 'compliance' (operating effectiveness) perspective using a five tier assessment framework with the following outcomes:



Compliance matters noted

Matter	Impact on process objective	Impact on Strategic Risks
4. On testing the recording of decisions into ECM: <ul style="list-style-type: none"> Three instances were noted of 'received and noted' decisions being allocated as action decisions and tasked to officers. Eight decisions were noted to have not being entered into ECM. One set of meeting minutes was noted to have been recorded into ECM with an incorrect date from that of the meeting date. 	High	Moderate
Agreed Management Action: Management agrees with findings and notes the issues are administrative error however, the Committee Administrator will commence reviewing batched decisions from each meeting effective March 2015. Responsible Officer: Mark Blackburn – Executive Manager Target Implementation Date: March 2015		
5. On testing the decision status in ECM:	High	Minor

Matter	Impact on process objective	Impact on Strategic Risks
<ul style="list-style-type: none"> - Nine actions were noted as being outstanding with five appearing as reasonable - One instance was identified of a task list remaining outstanding for an ex-employee. - Ensure tasks are re-allocated upon employee leaving. 		
<p>Agreed Management Action: Management agrees with findings and propose to implement the following corrective action. The transfer of outstanding decisions will be added to the exit procedure form. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: August 2015</p>		
<p>6. On testing the reporting to COG:</p> <ul style="list-style-type: none"> - It was noted that this control has not taken place since November 2013 due to a vacant position in the organisation. This control has been re-instated from January 2015 and the next report is going to the COG on 16 February 2015. 	High	Moderate
<p>Agreed Management Action: Management agrees with findings, however notes that the lack of reporting was due to resourcing implications with previous systems. As considered low risk, the action was put on hold until corrective actions could be put in place. The Committee Administrator will continue to work with the Records Department to utilise ECM to present a quarterly report to COG. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: February 2015</p>		
<p>7. On testing the accuracy of the meeting minutes:</p> <ul style="list-style-type: none"> - Six instances where noted whereby an action officer was allocated in the minutes when there was no action from the decision. - Four instances where noted whereby an action officer was not allocated in the minutes for an action decision. 	Low	Insignificant
<p>Agreed Management Action: Management agrees with the findings and propose to implement the following corrective action. A review of Committee Minutes will be checked by the General Managers. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: March 2015</p>		
<p>8. In review of the control self-assessment:</p> <ul style="list-style-type: none"> - It was noted that the rating is inconsistent with our findings noted above. It is acknowledged that the periods covered in the control self-assessment and this internal audit differ, however despite this there remains evidence of inconsistencies. 	Low	Insignificant
<p>Agreed Management Action: This will be addressed by the Executive Manager OCE and the Team Coordination Risk Audit and Safety as part of the overall review of the risk assessments in 2015 and implementation of the revised CSA system. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: August 2015</p>		

Appendix 1 – Objective and scope

A summary of the objective and scope is outlined below:

Objective

The objective of the project was to ensure that decisions made at council meetings are recorded appropriately, assigned to a responsible officer and actioned within designated timeframes.

Scope

This internal audit was limited to considering the following processes:

- Council Decisions

The projects include considering both the:

- Health of the actual design of processes and internal controls; and
- Whether the controls were actually complied with between the period 1 July 2014 until the date of testing.

Appendix 2 – Assessment frameworks

Throughout this report, there are a number of ratings applied as follows:

Overall report rating:

This assessment is designed to provide some overall feedback in relation to the internal audit visit, those issues raised in this report and the general conduct of the engagement. The ratings provided in this report do not or are not intended to represent a conclusion on the adequacy and effectiveness of the overall internal controls at the Council.

The assessment is performed on various aspects including the:

- 1 significance of findings as it relates to the process objectives;
- 2 significance of findings as it relates to the enterprise strategic risks; and
- 3 quality of management comments.

Individual report point rating:

This assessment is designed to assist in prioritising the individual internal audit findings according to their relative significance. These assessments are performed at two levels being the impact on:

- 1 the objectives of the process being considered; and
- 2 the broader organisation using the strategic risk assessment framework as the reference.

Further details regarding these rating frameworks are outlined below:

Overall report rating

The table below provides some guidance as to the overall report ratings. This guidance is applied using professional judgement to reflect the fact that each report and the individual findings therein are unique.

Rating	Based on the individual findings identified from the internal audit as agreed and rated with Management and set out in this report, and based on the agreed scope and approach of the internal audit as set out in Appendix 1 to this report...
Satisfactory	
Optimal	<p>... at a process level assessment, there were no audit findings.</p> <p>... at a strategic risk level assessment, there were no audit findings.</p> <p>... management comments: indicated acceptance to undertake appropriate action, either in line with KPMG's recommendations, or a suitable alternative that <i>fully addresses</i> the issues raised within a reasonable timeframe; were sufficiently detailed to outline the actions to be undertaken; and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee.</p>
Good	<p>... at a process level assessment, there were no individual reported points rated as 'high' and there were fewer than 5 'medium' rated matters noted.</p> <p>... at a strategic risk level assessment, there were no individual reported points rated as 'catastrophic' or 'major' and/or there were fewer than 5 'moderate' rated matters noted.</p> <p>... management comments: indicated acceptance to undertake appropriate action, either in line with KPMG's recommendations, or a suitable alternative that <i>fully addresses</i> the issues raised within a reasonable timeframe, and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee. However, some comments for the higher rated risks lacked sufficient detail to outline the actions to be undertaken.</p>

Average	<p>... at a process level assessment, there were between 1-3 'high' rated individual reported points and/or between 5-10 'medium' rated matters.</p> <p>... at a strategic risk level assessment, there were no individual reported points rated as 'catastrophic' and there were between 1-2 'major' rated matters and between 5-10 'moderate' rated matters.</p> <p>... management comments: indicated acceptance to undertake action, either <i>partially</i> in line with KPMG's recommendations, or a suitable alternative that <i>only partially addresses</i> between 1-5 of the issues raised, and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee. However, some comments for the higher rated risks: lacked sufficient detail to outline the actions to be undertaken; and the timeframes to undertake some agreed actions were between 3-6 months.</p>
Unsatisfactory	
Needs Improvement	<p>... at a process level assessment, there were between 3-5 'high' rated individual reported points; and/or between 10-15 'medium' rated matters and/or less than 10 'low' rated matters.</p> <p>... at a strategic risk level assessment, there was 1 individual reported points rated as 'catastrophic', greater than 5 'major' rated matters and greater than 10 'moderate' rated matters.</p> <p>... management comments: indicated acceptance to undertake action, either <i>partially</i> in line with KPMG's recommendations, or a suitable alternative that <i>only partially addresses</i> greater than 5 of the issues raised and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee. However, some comments for the higher rated risks: lacked sufficient detail to outline the actions to be undertaken; and the timeframes to undertake some agreed actions were between greater than 6 months.</p>
Unsatisfactory	<p>... at a process level assessment, there were greater than 5 'high' rated individual reported points.</p> <p>... at a strategic risk level assessment, there was more than 1 individual reported points rated as 'catastrophic'.</p> <p>... management comments: indicated acceptance to undertake action, either <i>partially</i> in line with KPMG's recommendations, or a suitable alternative that <i>only partially addresses</i> greater than 5 of the issues raised. However, some comments for the higher rated risks: lacked sufficient detail to outline the actions to be undertaken; the timeframes to undertake some agreed actions were between greater than 6 months; and were drafted with an overall tone that is <i>not appropriate</i> and suitable for presentation to the Audit Committee</p>

Individual report point rating:

Impact on process objectives

The following is used to rate the impact of the identified issue on the achievement of the objectives of the process being considered as part of the internal audit project.

Rating	Definition
High	<p>Issue represents a control weakness, which could or is causing severe disruption to the process or severe adverse effect on the ability to achieve process objectives.</p> <p>Issue is generally considered systemic and/or a critical deficiency in the control environment/policy framework for a key system/area.</p>
Medium	<p>Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.</p> <p>Issue is generally <u>not</u> considered systemic and/or is a less critical deficiency in the control environment/policy framework for a key system/area.</p>
Low	<p>Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.</p> <p>Issue is generally <u>not</u> considered systemic and/or a critical deficiency in the control environment/policy framework for a key system/area.</p>

Impact on Strategic Risks on the Council

The Council's Strategic Risk Consequence Matrix below is used to rate the impact of the identified issue at the enterprise level.

Rating	Definition
Catastrophic Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve the Council's strategic objectives.	<ul style="list-style-type: none"> • Royal commission • > \$5 M • Death of staff/contractor • Outage weeks • Damage to multiple ecosystems • Sustained media coverage
Major Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve the Council's strategic objectives.	<ul style="list-style-type: none"> • Local Govt Ministerial inquiry • \$500K to \$5M • Multiple major injuries • Outage days • Damage impact < 20,000 m2 • Headlines and follow up reports

Rating	Definition
<p>Moderate</p> <p>Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve the Council's strategic objectives.</p>	<ul style="list-style-type: none"> • Formal Council inquiry and report • \$50K to \$500K • Major injury • Outage day • Damage impact < 5000 m2 • Front page news
<p>Minor</p> <p>Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve the Council's strategic objectives.</p>	<ul style="list-style-type: none"> • Council mention • \$5K to \$50K • Minor injuries • Outage hours • Damage limited to a small isolated area • Mentioned in the media
<p>Insignificant</p> <p>Issue represents an insignificant control weakness, with little or no impact on the ability to achieve the Council's strategic objectives.</p>	<ul style="list-style-type: none"> • No impact • < \$5 K • No injury • No outage • No damage • No impact

Appendix 3 – Council Personnel Interviewed

The following Council personnel were interviewed in the course of this project:

Council Decisions

- Mark Blackburn – Executive Manager
- Penny Hart – Committee Administrator
- Sally Vasey – Executive Assistant to the Lord Mayor

Matter	Impact	Impact on Strategic Risks	Management Response
<p>1. Upgrade the ECM system as soon as practical to enhance the reporting and monitoring functionality.</p>	<p>High</p>	<p>Minor</p>	<p>Management agrees with findings and propose to implement the following corrective action:</p> <p>Management is currently in the process of seeking an upgrade for ECM.</p> <p>Target ECM Implementation: June 2016</p>
<p>2. Provide more detailed procedures on the current process map around the input of data and the use of ECM for recording Council decisions.</p> <p>Providing training to relevant staff members on ECM and its optimal use.</p>	<p>Medium</p>	<p>Insignificant</p>	<p>Management agrees with findings and propose to implement the following corrective action:</p> <p>The Committee Administrator in collaboration with the Manager of Records will develop a process map for input of data on ECM.</p> <p>A training program for the Executive Assistants and all responsible officers of reports with periodic training.</p> <p>Target Implementation: August 2015</p>

<i>Summary of compliance matters</i>			
	High	Moderate	
3.	Task decision actions to the responsible officers directly in line with the culture program and include detail of the responsible officers in the meeting minutes		Management agrees with findings and propose to implement the following corrective action. The Committee Administrator will implement this action. Target Implementation: August 2015
4.	Recording of decisions into ECM: <ul style="list-style-type: none"> - Three instances of 'received and noted' decisions being allocated as action decisions and tasked to officers. - Eight decisions not being entered into ECM. - One set of meeting minutes recorded into ECM with an incorrect meeting date. 	Moderate	Management agrees with findings and notes the issue is administrative error however the Committee Administrator will commence reviewing batched decisions from each meeting effective March 2015. Target Implementation: February 2015
5.	Decision status in ECM: <ul style="list-style-type: none"> - Nine actions were noted as being outstanding. - One instance was identified of a task list remaining outstanding for an ex-employee. - Ensure task lists are reallocated upon employees leaving. 	Minor	Management agrees with findings and propose to implement the following corrective action: The transfer of outstanding decisions will be added to the exit procedure form. Target Implementation: August 2015

<p>6. Quarterly reporting to COG has not been conducted between November 2013 and January 2015</p>	<p>High</p>	<p>Moderate</p>	<p>Management agrees with findings however notes that the lack of reporting was due to resourcing implications with previous systems. As considered low risk the action was put on hold until corrective actions could be put in place.</p> <p>The Committee Administrator will continue to work with the Records Department to utilise ECM to present a quarterly report to COG.</p> <p>Target Implementation: Complete February 2015</p>
<p>7. Accuracy of the meeting minutes: - Six instances where an action officer was allocated when there was not action required. - Four instances where an action officer was not allocated the minutes for an action decision.</p>	<p>Low</p>	<p>Insignificant</p>	<p>Management agrees with the findings and propose to implement the following corrective action: A review of Committee Minutes will be checked by the General Managers.</p> <p>Target Implementation: March 2015</p>

ENCL: RISK MANAGEMENT & AUDIT
YES COMMITTEE/CONF

AGENDA ITEM: 9.13

INTERNAL AUDIT - ELECTED MEMBERS ALLOWANCES

REPORT No.: 15TC0021 MB:as COMMON No.: 1555141

DATE: 27/03/15

Presenter: Executive Manager, Mark Blackburn

Approved: Chief Executive Officer, Brendan Dowd

PURPOSE

The purpose of this report is to present the management response to the KPMG Internal Audit review of Elected Members Allowances.

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.3 Good governance

Key Strategies

5.3.1 Demonstrate good corporate practice and ethical behaviour

KEY ISSUES

- The review found that the Policy Framework relevant to allowances is clear in order to facilitate appropriate understanding by those responsible for applying and following the policy. This was validated by two Elected Members
- The Elected Members receive a robust induction that includes coverage over policies related to allowances, enhancing a compliance awareness culture. Consultation with two Elected Members confirmed the value of the process.
- There is a strong transparency on the level of allowances paid with summaries provided to Council meetings and full disclosure in the Annual Report.
- There are robust checking mechanisms internally to ensure the allowances are paid correctly.

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REPORT NUMBER: 15TC0021 MB:as
SUBJECT: INTERNAL AUDIT - ELECTED MEMBERS ALLOWANCES

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15TC0021 MB:as entitled, Internal Audit - Elected Members Allowances, be received and noted.
- B. THAT the Risk Management and Audit Committee note the management response to the summary of opportunities to improve control design and framework, and compliance matters as listed in **Attachment B** to Report Number 15TC0021 MB:as entitled, Internal Audit – Elected Members Allowances.
- C. THAT items 1, 3 & 4 not be transferred to the Outstanding Audit Issues Register as they are of minor nature.

BACKGROUND

KPMG were engaged to undertake an internal Audit in relation to elected members allowance to assess the design of existing controls and identify any opportunities to improve the process and to test whether the controls were actually complied with between the period 1 July 2014 and until the date of testing.

DISCUSSION

The design of the project included not the:

- Health of the actual design of process and internal controls; and
- Whether the controls were actually complied with between the period 1 July 2014 until the date of testing.

A copy of the KPMG Internal audit report is **Attachment A** to this report.

A copy of the Management Response to the issues raised in the KPMG Internal Audit Report is **Attachment B** to this report.

The KPMG Internal Audit report also noted several minor matters that have received management attention:

- The Code of Conduct and Deputy Lord Mayor Policy are listed for Council review in March 2015; and
- The Extra Meeting Allowance Form to include as declaration that the Member must attend at least 75% of the meeting.

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REPORT NUMBER: 15TC0021 MB:as
SUBJECT: INTERNAL AUDIT - ELECTED MEMBERS ALLOWANCES

CONSULTATION PROCESS

The report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management and Audit Committee for consideration.

In preparing this report, the following City of Darwin officers were consulted:

- Committee Administrator
- Management Accountant

In preparing this report, the following External Parties were consulted:

- Rachael Wilson, KPMG
- David Howie, KPMG

POLICY IMPLICATIONS

City of Darwin Policy No. 017 Elected Member Allowance

BUDGET AND RESOURCE IMPLICATIONS

Nil

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

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COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MARK BLACKBURN
EXECUTIVE MANAGER

BRENDAN DOWD
CHIEF EXECUTIVE OFFICER

For enquiries, please contact Mark Blackburn on 8930 0516 or email:
m.blackburn@darwin.nt.gov.au.

Attachments:

Attachment A: KPMG Internal Audit Report – Elected Members Allowances

Attachment B: Management Response KPMG Internal Audit Report – Elected Members Allowances.



Internal audit report: Elected Member Allowances

City of Darwin

February 2015

Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to the procedures we performed operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. The procedures performed were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed on the control procedures are on sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, City of Darwin (the Council) management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in the Scope Section and for the Council's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of the Council in accordance with the terms of KPMG's engagement letter/contract dated 18 December 2014. Other than our responsibility to the Council, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

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1.0 Executive summary

1.1 Introduction

KPMG have been requested to perform Internal Audit services for the Council. This report relates to the Council's processes to manage allowances paid to elected members and was conducted in February 2015.

1.2 Objectives, scope and approach

The overall objective of this internal audit project was, in relation to elected member allowances, assess the design of existing controls and identify any opportunities to improve the process and to test whether the controls are actually operating.

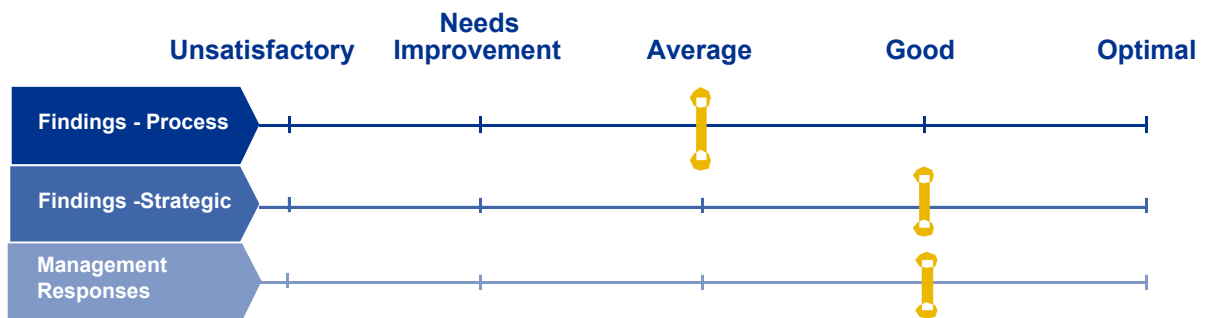
Further details of the objective and scope of the internal audit are outlined in **Appendix 1** to this report and were endorsed by the Audit & Risk Management Committee (Audit Committee) in the annual Internal Audit Plan.

The approach included consultation with key staff to obtain an understanding of the processes and key controls, followed by a workshop which gathered all the relevant staff who are involved in the process under consideration to discuss our ideas for improving the current process. Further details of the approach are outlined in **Section 3** to this report.

1.3 Assessment of performance

1.3.1 Overall internal audit rating

Our overall rating for this internal audit is detailed below:



We make the following comments in respect to the ratings:

- Significance of findings for process has been assessed as average. Three control design findings have been noted, one rated as high, two as medium. One control effectiveness finding has been noted and was rated as low at the process level.
- Significance of findings for strategic risks has been assessed as good. Three control design findings have been noted, two rated as minor and one as insignificant at the strategic risk level. One control effectiveness finding have been noted and both were rated as insignificant at the strategic risk level.
- Management responses have been rated as good.

The ratings have had regard to:

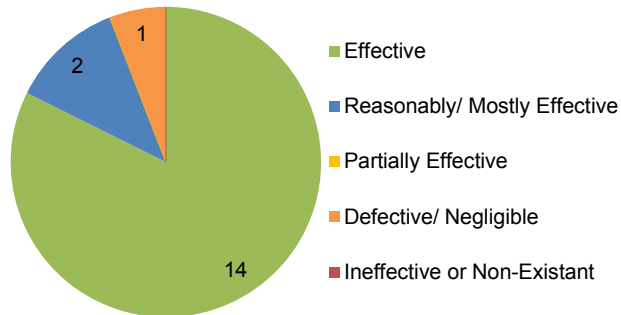
- The specific objectives and scope of the internal audit as agreed with Management and detailed in **Appendix 1** to this report;
- The criteria used for the classification of the overall internal audit rating as agreed with the Audit Committee and Management and set out in **Appendix 2** of this report;
- The individual findings identified from the internal audit as agreed and rated with Management and set out in this report; and
- The results based on statements and representations made by, and information and documentation provided by, client personnel, and some limited testing at a point in time.

The overall rating does not represent a conclusion on the adequacy and effectiveness of the design or operation of the overall internal control at the Council.

1.4 Key findings

1.4.1 Control design

Each control identified was rated from a 'design' perspective using a five tier assessment framework with the following outcomes:



14 out of the 17 documented controls are effective in design. Actions to enhance the controls rated as less than effective are noted below.

1.4.2 Summary of opportunities to improve control design and framework

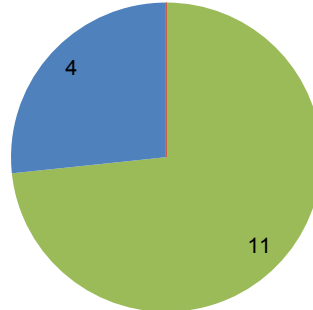
Matter	Impact on process objective	Impact on Strategic Risks	Management Comments
1. Re-introduce an independent review of changes to creditor masterfile to an officer that does not have access to process the changes in the system.	High	Minor	✓
2. Enhance integrity and protection of Elected Members Allowance Worksheet's from non-authorized or unintended change.	Medium	Insignificant	⚠
3. Print audit report from CommBiz and have it reviewed by an officer without System Administrators access.	Medium	Minor	✓

1.4.3 Control compliance

Each control identified was also rated from a 'compliance' (ie is the control operating as designed) perspective using a five tier assessment framework with the following outcomes:

1.4.4 Summary of compliance matters

- Effective
- Reasonably/ Mostly Effective
- Partially Effective
- Defective/ Negligible
- Ineffective or Non-Existant



Matter	Impact on process objective	Impact on Strategic Risks	Management Comments
4. On testing: <ul style="list-style-type: none"> - Two instances noted the member not signing the Extra Meeting Allowance Form. - One instance where the payment requisition sheet not having a posted stamp and date on it. 	Low	Insignificant	✓

- ✓ = Management agree with findings and propose to implement immediate corrective action.
- ⚠ = Management agree but propose to implement immediate corrective action which partially addresses the finding
- Ω = Management agree with findings, propose no interim solution but the finding will be factored into the specifications and design of the new single system and processes.
- 🛑 = Management agree with findings and have resolved to accept the identified risk exposure – no action proposed
- ✗ = Management do not agree with findings and do not propose to implement any action

1.4.5 Other matters

The key matters arising from this project have been noted above. However, during the visit, we also noted the following very minor matters that require management’s attention:

1. Ensure the Code of Conduct and Deputy Lord Mayor Policy documents are reviewed at the February 2015 Council meeting, given they have exceeded the next review date.
2. Update Extra Meeting Allowance Form to include a declaration that the Member has attended at least 75% of the meeting.

These have been discussed with Mark Blackburn who agreed to completing these two actions by the end of February 2015.

1.4.6 Management actions

These findings and recommendations were discussed with the Council Management responsible for the area audited. Management has accepted the findings and have agreed action plans to address the recommendations.

The management action plans will be included in the tracking of internal audit recommendations maintained by the in-house Internal Audit team.

1.5 Impact on the Councils Net Risk Rating

The Council have allocated a net risk rating to both their strategic and operational risks based on the health of the controls in place to manage the specific risk.

These risks, their current ratings are noted below, together with an assessment from KPMG as to whether the net risk assessment should be changed based on the findings from this report.

Risk	Gross Risk Rating		Net Risk Rating		Change
	Likelihood	Consequence	Likelihood	Consequence	
Strategic Risk					
<ul style="list-style-type: none"> • Failure to comply with the requirements of the Local Government Act • Failure to comply with the code of conduct • Lack of, or perception of lack of integrity of elected members • Failure to ensure skills of elected members are maintained • Failure to provide elected members with appropriate tools and resources to effectively undertake their duties • Access to ICT systems 	2	4	2	2	No change Recommended
Operational Risk					
<ul style="list-style-type: none"> • Privacy & Confidentiality Policy not adhered to • Failure to ensure separation of duties for accounts payable processes • Failure to verify invoices prior to payment • Unauthorised purchase/fraudulent purchase • Duplicated payments • Expenditure outside of delegations • Expenditure assigned to incorrect cost codes 	3	4	2	2	No change Recommended

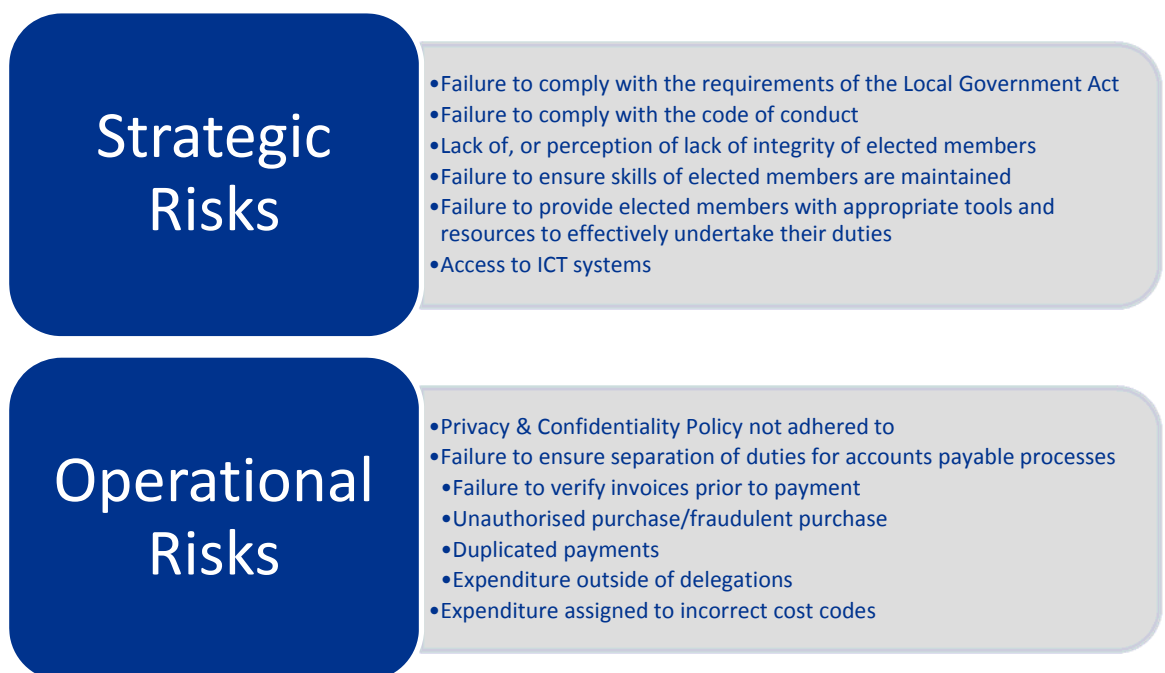
2.0 Background

2.1 Overview of the current arrangements

In order to support quality candidates as elected members to council, it is appreciated that a level of compensation needs be paid for the members time invested and expenses incurred that are directly relevant to a Council Member's role.

Allowances are paid by the Council in accordance with the Local Government Act (the Act), however there is discretion afforded to the Council to approve annual allowances up to the maximum outlined in the Ministerial Guidelines approved and issued each year. The amount of allowances determined by the Council is approved each year as part of the annual budget process.

Given the status of the Local Government as being publicly funded by the ratepayers, there is an enhanced expectation of exceptional governance and compliance from the key stakeholders (rate payers). In respect to allowances, it is critically important that full compliance is achieved to avoid reputational damage to the Council. Pleasingly, the risks associated with member allowances is linked to several strategic and operational risks as outlined below:



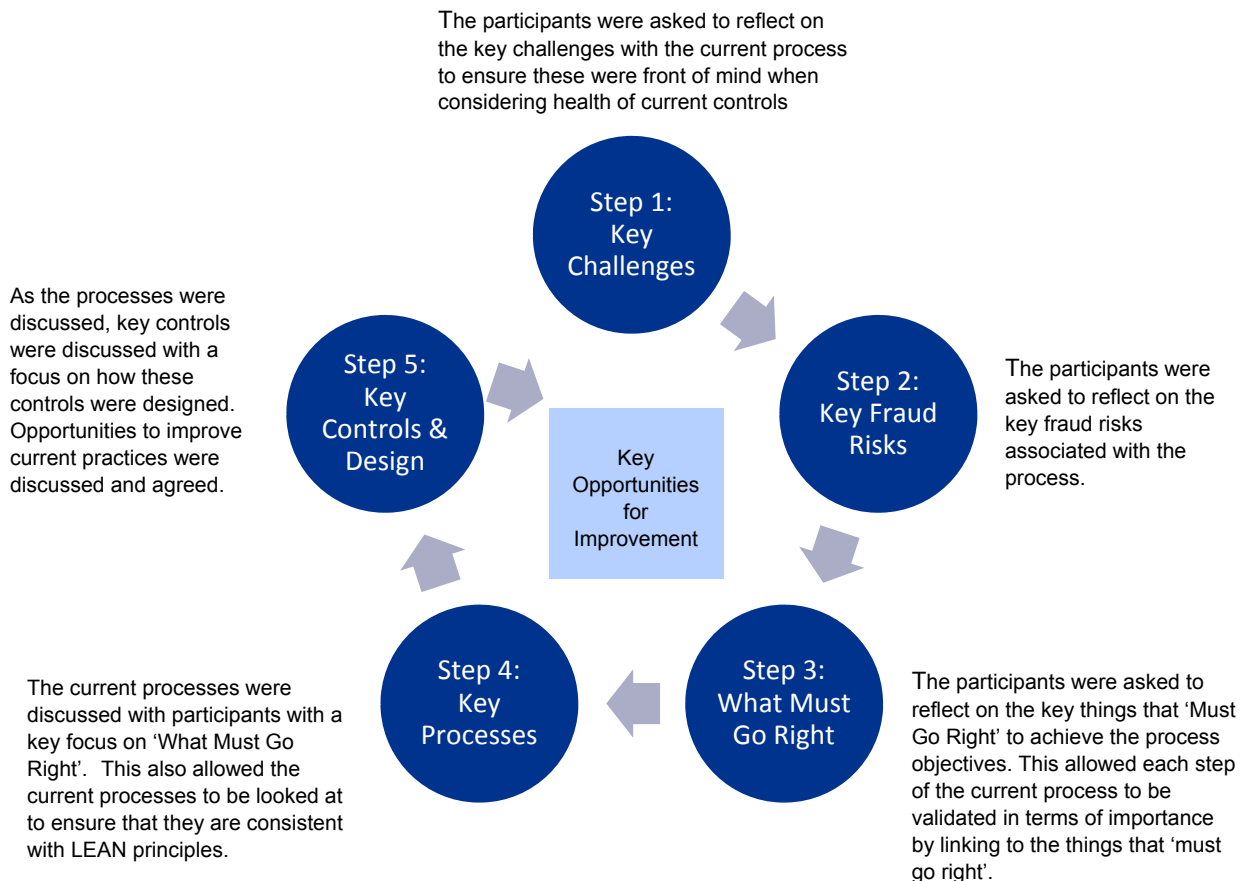
On consideration of the processes for elected member allowances there were a number of key strengths noted as follows:

- The Policy Framework relevant to allowances was clear in order to facilitate appropriate understanding by those responsible for applying and following the policy. This was validated by consulting with two Elected Members.
- The Elected Members receive a robust induction that includes coverage over policies related to allowances, enhancing a compliance awareness culture. Consultation with two Elected Members confirmed the value of this process.
- There is strong transparency on the level of allowances paid with summaries provided to Council meetings and full disclosure in the Annual Report.
- There are robust checking mechanisms internally to ensure the allowances paid are correct.
- The Council take the quantum of allowances seriously ensuring a robust business case is prepared and considered before approving the next years level of allowances, rather than just accepting the Ministerial Guidelines.

3.0 The Audit Approach

Our approach involved consultations with key stakeholders to the process to understand how things are processed. A workshop was then undertaken which gathers all the relevant staff who are involved in the process under consideration to talk about our findings and ideas to refine the current processes. This workshop approach is designed to assist in cross-skilling staff in terms of learning the roles of others within the Council and gaining a clear understanding of where their role ‘fits-in’ the bigger picture and why & what they do, is important.

The workshop is facilitated by KPMG and promotes discussion around the current process. To ensure the workshop delivers focussed outcomes, KPMG followed the following steps:



4.0 Findings – Elected Member Payments

4.1 Workshop Outputs

Key Challenges

The workshop identified the following challenges with the current arrangements:

- In the absence of IT software, current processes are labour intensive driven by manual forms and processing.
- The receipt of required information from within the Council and from Elected Members is often close to the accounting close off timeframes, placing pressure on the Finance Teams to process in time
- Timeliness of approval of PD forms by CEO.

What Must Go Right?

- 1 Allowance amounts and eligibility criteria set and clearly understood
- 2 Allowances are appropriately captured, calculated and bona fide

- 3 Allowances paid is correct amount (not double or over/under paid) and paid on a timely basis
- 4 Allowances correctly coded and recorded in the general

- 5 Elected Members allowance payments are appropriately approved
- 6 Data on allowances is reported correctly

Key Fraud Risks

- 1 Members claiming non-bona fide allowances

- 2 Council Members claiming allowances are not bona fide

Controls (Key)

1 Setting Allowances

- 1.1 Ministerial Guidelines
- 2.2 Council Approval of Annual Allowances

3 Monitoring

- 3.1 Reporting/monitoring on allowances (Quarterly PD Allowances, Monthly on all allowances & Annual Report)

2 Policy Framework

- 2.1 Code of Conduct Policy
- 2.2 Elected Members Allowances and Expenses Policy
- 2.3 Lord Mayor and Deputy Lord Mayor Policy
- 2.4 Council Approval for certain Lord Mayor Roles and activities
- 2.5 Elected Member Awareness of Policy Framework (including Deputy Lord Mayor rotation training)
- 2.6 Elected Members IT Support Policy

4 Claiming & Payment of Allowances

- 4.1 Committee Booklet
- 4.2 Extra Meeting Allowance Forms & Attendance Registers
- 4.3 Elected Members Payment Worksheet
- 4.4 Payment Check
- 4.5 Payment Approval
- 4.6 Work Order Check
- 4.7 Segregation of duties
- 4.8 IT Access Segregation
- 4.9 Professional Development Claim Check & Approval
- 4.10 Remittance Advice sent to Elected Members

4.2 Linking controls to those things that 'Must Go Right'

The following table shows which controls help to manage the areas of the process that 'must go right'

Risk & Control Matrix																		
Member Allowances																		
	1.1	1.2	2.1	2.2	2.3	2.4	2.5	2.6	3.1	4.1	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9
Process 'What Must Go Right'	Ministerial Guidelines	Council Approval of Annual Allowances	Code of Conduct Policy	Elected Members Allowance and Expenses Policy	Lord Mayor and Deputy Lord Mayor Policy	Council Approval for certain Lord Mayor Roles and activities	Elected Member Awareness of Policy Framework	Elected Members IT Support Policy	Reporting on Allowances	Committee Booklet	Extra Meeting Allowance Forms & Attendance Register	Elected Members Payment Worksheet	Payment Check	Payment Approval	Work Order Check	Segregation of duties	IT Access Segregation	Professional Development Claim Check & Approval
Allowance amounts and eligibility criteria set and clearly understood	✓	✓		✓	✓		✓	✓			✓							
Allowances are appropriately captured, calculated and bona fide											✓	✓	✓	✓	✓			✓
Allowances paid is correct amount (not double or over/under paid) and paid on a timely basis												✓	✓	✓	✓			✓
Allowances correctly coded and recorded in the general ledger	✓												✓			✓	✓	
Elected Members allowance payments are appropriately approved														✓		✓		✓
Data on allowances is reported correctly									✓		✓	✓						

Observations

- Each process 'what must go right' has at least one control in place that in part helps to mitigate the risk

4.2 Linking controls to identified fraud risks

The following table shows which controls help to manage the areas of the process that present a fraud risk

Risk & Control Matrix																		
Member Allowances																		
	1.1	1.2	2.1	2.2	2.3	2.4	2.5	2.6	3.1	4.1	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9
Fraud Risks	Ministerial Guidelines	Council Approval of Annual Allowances	Code of Conduct Policy	Elected Members Allowance and Expenses Policy	Lord Mayor and Deputy Lord Mayor Policy	Council Approval for certain Lord Mayor Roles and activities	Elected Member Awareness of Policy Framework	Elected Members IT Support Policy	Reporting on Allowances	Committee Booklet	Extra Meeting Allowance Forms & Attendance Register	Elected Members Payment Worksheet	Payment Check	Payment Approval	Work Order Check	Segregation of duties	IT Access Segregation	Professional Development Claim Check & Approval
Members claiming non-bona fide allowances			✓	✓	✓	✓	✓								✓	✓		
Council Members claiming allowances are not bona fide													✓	✓			✓	

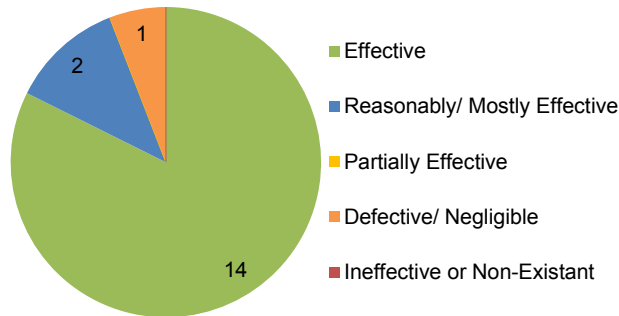
Observations

- The fraud risks have controls in place (both preventative and detective) to mitigate the risk.

4.3 Control Design Findings

The consultations with relevant staff and subsequent workshop noted the following:

- Each control identified was rated from a 'design' perspective using a five tier assessment framework with the following outcomes:



Opportunities for improvement

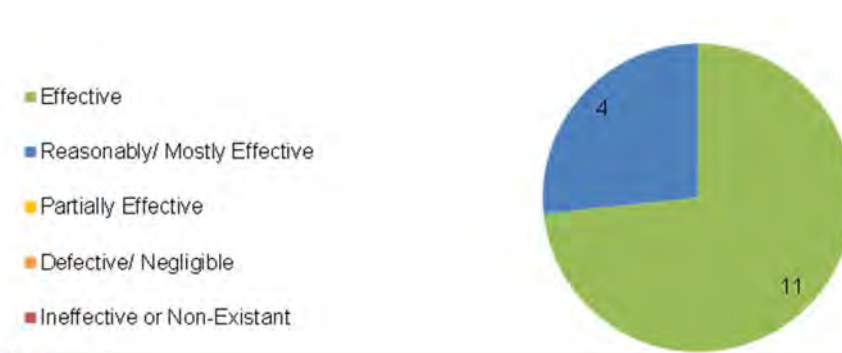
Matter	Impact on process objective	Impact on Strategic Risks
<p>1. The segregation of duties for creating & changing new creditors can be improved by re-introducing an independent review of these changes to an officer that does not have access to process the changes in the system. In raising this matter, it is acknowledged that this used to be in place, however due to a staff member leaving some six months ago, the segregation of duties risk has arisen. Council Management had intended to revert back to the original process once the role is filled. It is recommended that the Council again revert immediately (even before the vacant role is filled) to an officer reviewing the edit report for changes to the creditor masterfile, that does not have access to actually change or alter the creditor masterfile.</p>	High	Minor
<p>Agreed Management Action: Management agrees with findings and propose to implement the following corrective action. An independent review was completed in (February 2015). It is planned for the Financial Accountant to review the creditor's master file in the future. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: Completed – February 2015</p>		
<p>2. The Elected Members Allowance Worksheet's integrity and protection from non-authorized or unintended change, can be improved through adding password protection and cell protection. Further, additional 'smarts' and integrity checks can be added to assist in avoiding keying errors such as checks on allowance amounts (further condition formulas).</p>	Moderate	Insignificant
<p>Management Comment: Management does not agree with the proposed action. A restricted number of Finance Officers manage a number of confidential spreadsheets. It is inherent in the profession to manage these in a professional manner without password protection.</p>		
<p>3. Strengthen the controls over electronic payments by printing the audit report from CommBiz once per quarter and have it reviewed by an officer independent of the CommBiz approval process or access, to ensure the System Administrators are only processing appropriate changes to users.</p>	Moderate	Minor
<p>Agreed Management Action: Management agrees with finding and propose to implement the following corrective action. The CommBiz report will be independently reviewed. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: February 2015</p>		

4.4 Control Compliance Findings

Compliance testing undertaken noted the following:

- Each control tested was rated from a 'compliance' (operating effectiveness) perspective using a five tier assessment framework with the following outcomes:

Compliance matters noted



Matter	Impact on process objective	Impact on Strategic Risks
4. On testing: <ul style="list-style-type: none"> - Two instances noted the member not signing the Extra Meeting Allowance Form. - One instance where the payment requisition sheet not having a posted stamp and date on it. 	Low	Insignificant
Agreed Management Action: Management agrees with findings and propose to implement the following corrective action. Elected Members will be required to sign Elected Members Allowance prior to payment. Responsible Officer: Mark Blackburn – Executive Manager Target Completion Date: February 2015		

Appendix 1 – Objective and scope

A summary of the objective and scope is outlined below:

Objective

The objective of the project was to ensure that payments made to Elected Members (allowances, reimbursements and professional development funding) comply with Council policies and ministerial guidelines.

Scope

This internal audit was limited to considering the following processes:

- Elected Member allowances:

The projects include considering both the:

- Health of the actual design of processes and internal controls; and
- Whether the controls were actually complied with between the period 1 July 2014 until the date of testing.

Appendix 2 – Assessment frameworks

Throughout this report, there are a number of ratings applied as follows:

Overall report rating:

This assessment is designed to provide some overall feedback in relation to the internal audit visit, those issues raised in this report and the general conduct of the engagement. The ratings provided in this report do not or are not intended to represent a conclusion on the adequacy and effectiveness of the overall internal controls at the Council.

The assessment is performed on various aspects including the:

- 1 significance of findings as it relates to the process objectives;
- 2 significance of findings as it relates to the enterprise strategic risks; and
- 3 quality of management comments.

Individual report point rating:

This assessment is designed to assist in prioritising the individual internal audit findings according to their relative significance. These assessments are performed at two levels being the impact on:

- 1 the objectives of the process being considered; and
- 2 the broader organisation using the strategic risk assessment framework as the reference.

Further details regarding these rating frameworks are outlined below:

Overall report rating

The table below provides some guidance as to the overall report ratings. This guidance is applied using professional judgement to reflect the fact that each report and the individual findings therein are unique.

Rating	Based on the individual findings identified from the internal audit as agreed and rated with Management and set out in this report, and based on the agreed scope and approach of the internal audit as set out in Appendix 1 to this report...
Satisfactory	
Optimal	<p>... at a process level assessment, there were no audit findings.</p> <p>... at a strategic risk level assessment, there were no audit findings.</p> <p>... management comments: indicated acceptance to undertake appropriate action, either in line with KPMG's recommendations, or a suitable alternative that <i>fully addresses</i> the issues raised within a reasonable timeframe; were sufficiently detailed to outline the actions to be undertaken; and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee.</p>
Good	<p>... at a process level assessment, there were no individual reported points rated as 'high' and there were fewer than 5 'medium' rated matters noted.</p> <p>... at a strategic risk level assessment, there were no individual reported points rated as 'catastrophic' or 'major' and/or there were fewer than 5 'moderate' rated matters noted.</p> <p>... management comments: indicated acceptance to undertake appropriate action, either in line with KPMG's recommendations, or a suitable alternative that <i>fully addresses</i> the issues raised within a reasonable timeframe, and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee. However, some comments for the higher rated risks lacked sufficient detail to outline the actions to be undertaken.</p>

<p>Average</p>	<p>... at a process level assessment, there were between 1-3 'high' rated individual reported points and/or between 5-10 'medium' rated matters.</p> <p>... at a strategic risk level assessment, there were no individual reported points rated as 'catastrophic' and there were between 1-2 'major' rated matters and between 5-10 'moderate' rated matters.</p> <p>... management comments: indicated acceptance to undertake action, either <i>partially</i> in line with KPMG's recommendations, or a suitable alternative that <i>only partially addresses</i> between 1-5 of the issues raised, and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee. However, some comments for the higher rated risks: lacked sufficient detail to outline the actions to be undertaken; and the timeframes to undertake some agreed actions were between 3-6 months.</p>
<p>Unsatisfactory</p>	
<p>Needs Improvement</p>	<p>... at a process level assessment, there were between 3-5 'high' rated individual reported points; and/or between 10-15 'medium' rated matters and/or less than 10 'low' rated matters.</p> <p>... at a strategic risk level assessment, there was 1 individual reported points rated as 'catastrophic', greater than 5 'major' rated matters and greater than 10 'moderate' rated matters.</p> <p>... management comments: indicated acceptance to undertake action, either <i>partially</i> in line with KPMG's recommendations, or a suitable alternative that <i>only partially addresses</i> greater than 5 of the issues raised and were drafted with an overall tone that is appropriate and suitable for presentation to the Audit Committee. However, some comments for the higher rated risks: lacked sufficient detail to outline the actions to be undertaken; and the timeframes to undertake some agreed actions were between greater than 6 months.</p>
<p>Unsatisfactory</p>	<p>... at a process level assessment, there were greater than 5 'high' rated individual reported points.</p> <p>... at a strategic risk level assessment, there was more than 1 individual reported points rated as 'catastrophic'.</p> <p>... management comments: indicated acceptance to undertake action, either <i>partially</i> in line with KPMG's recommendations, or a suitable alternative that <i>only partially addresses</i> greater than 5 of the issues raised. However, some comments for the higher rated risks: lacked sufficient detail to outline the actions to be undertaken; the timeframes to undertake some agreed actions were between greater than 6 months; and were drafted with an overall tone that is <i>not appropriate</i> and suitable for presentation to the Audit Committee</p>

Individual report point rating:

Impact on process objectives

The following is used to rate the impact of the identified issue on the achievement of the objectives of the process being considered as part of the internal audit project.

Rating	Definition
High	<p>Issue represents a control weakness, which could or is causing severe disruption to the process or severe adverse effect on the ability to achieve process objectives.</p> <p>Issue is generally considered systemic and/or a critical deficiency in the control environment/policy framework for a key system/area.</p>
Medium	<p>Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.</p> <p>Issue is generally <u>not</u> considered systemic and/or is a less critical deficiency in the control environment/policy framework for a key system/area.</p>
Low	<p>Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.</p> <p>Issue is generally <u>not</u> considered systemic and/or a critical deficiency in the control environment/policy framework for a key system/area.</p>

Impact on Strategic Risks on the Council

The Council's Strategic Risk Consequence Matrix below is used to rate the impact of the identified issue at the enterprise level.

Rating	Definition
Catastrophic Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve the Council's strategic objectives.	<ul style="list-style-type: none"> • Royal commission • > \$5 M • Death of staff/contractor • Outage weeks • Damage to multiple ecosystems • Sustained media coverage
Major Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve the Council's strategic objectives.	<ul style="list-style-type: none"> • Local Govt Ministerial inquiry • \$500K to \$5M • Multiple major injuries • Outage days • Damage impact < 20,000 m2 • Headlines and follow up reports

Rating	Definition
<p>Moderate</p> <p>Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve the Council's strategic objectives.</p>	<ul style="list-style-type: none"> • Formal Council inquiry and report • \$50K to \$500K • Major injury • Outage day • Damage impact < 5000 m2 • Front page news
<p>Minor</p> <p>Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve the Council's strategic objectives.</p>	<ul style="list-style-type: none"> • Council mention • \$5K to \$50K • Minor injuries • Outage hours • Damage limited to a small isolated area • Mentioned in the media
<p>Insignificant</p> <p>Issue represents an insignificant control weakness, with little or no impact on the ability to achieve the Council's strategic objectives.</p>	<ul style="list-style-type: none"> • No impact • < \$5 K • No injury • No outage • No damage • No impact

Appendix 3 – Council Personnel Interviewed

The following Council personnel were interviewed in the course of this project:

Elected Member Allowances

- Mark Blackburn – Executive Manager
- Penny Hart – Committee Administrator
- Irene Frazis – Management Accountant
- Mary-Jane Espiritu – AP Team Leader
- Sally Vasey – Executive Assistant to the Lord Mayor

Matter	Impact	Impact on Strategic Risks	Management Response
<i>Summary of Opportunities to improve control design and framework</i>			
1. Re-introduce an independent review of changes to creditors Masterfile to an officer that does not have access to process the changes in the system.	High	Minor	<p>Management agrees with findings and propose to implement the following corrective action.</p> <p>An independent review was completed in (February 2015) It is planned for the Financial Accountant to review the creditor's master file in the future.</p>
2. Enhance integrity and protection of Elected Members Allowance Worksheet's from non-authorised or unintended change.	Medium	Insignificant	<p>Management does not agree with the proposed action.</p> <p>A restricted number of Finance Officers manage a number of confidential spreadsheets. It is inherent in the profession to manage these in a professional manner without password protection.</p>
3. Print audit report from CommBiz and have it reviewed by an officer without System Administrators access.	Medium	Minor	<p>Management agrees with finding and propose to implement the following corrective action.</p> <p>The CommBiz report will be independently reviewed.</p>
<i>Summary of compliance matters</i>			
4. On testing: - Two instances noted the members not signing the Extra Meeting Allowance Form. - One instance where the payment requisition sheet did not having a posted stamp and date on it.	Low	Insignificant	<p>Management agrees with findings and propose to implement the following corrective action.</p> <p>Elected Members will be required to sign Elected Members Allowance prior to payment.</p>

ENCL:	RISK MANAGEMENT & AUDIT	AGENDA ITEM:	9.14
YES	COMMITTEE/CONF		
OUTSTANDING AUDIT ISSUE NO. 139 - ASSESSMENT OF PROCUREMENT PROCESSES			
REPORT No.:	15A0042 MC:mp	COMMON No.:	1536877
		DATE:	27/03/2015

Presenter: Manager Finance, Miles Craighead

Approved: General Manager Corporate Services, Diana Leeder

PURPOSE

The purpose of this report is to update the Committee on the following items relating to Outstanding Audit Issue (OAI) 139:

- 3.4.2 a Credit Card approval practices
- 3.3.6 a-b Guidelines for non-standard small suppliers and improved event planning

LINK TO STRATEGIC PLAN

The issues addressed in this Report are in accordance with the following Goals/Strategies of the City of Darwin 2012 – 2016 as outlined in the 'Evolving Darwin Towards 2020 Strategic Plan':-

Goal

5 Effective and Responsible Governance

Outcome

5.5 Responsible financial and asset management

Key Strategies

5.5.1 Manage Council's business based on a sustainable financial and asset management strategy

KEY ISSUES

- Deloitte OAI 139 includes developing payables and procurement procedures for non standard smaller suppliers, event planning and clarifications of credit card policy.
- Progress with non-standard and smaller suppliers and event planning has been limited, General Managers are being invited to make written submissions if they would like to have input to this process (It should be noted that this is a low risk process, The identified risk is to Council's reputation for late payment of one-off engagement of service providers for delivery of minor services).
- The credit card policy has been rescinded and replaced with an updated internal procedure on credit cards which addresses the Deloitte recommendations.

PAGE: 2
 REPORT NUMBER: 15A0042 MC:mp
 SUBJECT: OUTSTANDING AUDIT ISSUE NO. 139 - ASSESSMENT OF
 PROCUREMENT PROCESSES

RECOMMENDATIONS

THAT the Committee resolve under delegated authority:-

- A. THAT Report Number 15A0042 MC:mp entitled Outstanding Audit Issue No. 139 - Assessment Of Procurement Processes, be received and noted.
- B. THAT Outstanding Audit Issue No. 139, items 3.3.6 a-b relating to small suppliers and events planning transferred to the completed audit issues register as it is rated as a low risk matter.
- C. THAT Outstanding Audit Issue No. 139 item 3.4.2 a, credit card policy/procedure improvements be amended to completed status.

BACKGROUND

The OAI's referred to in this report stem from the Deloitte report to Council "Assessment of Procurement Processes – May 2013".

The Risk Management and Audit Committee meeting held on 22 August 2014 resolved under delegated authority as follows:

DECISION NO.21\2527 (22/08/14)

Outstanding Audit Issue No. 139 – Assessment of Procurement Processes

Report No. 14A0092 MC:ns (22/08/14) Common No. 1536877

The Committee resolve under delegated authority:

- A. *THAT Report Number 14A0092 MC:ns entitled Outstanding Audit Issue No. 139 - Assessment of Procurement Processes, be received and noted.*
- B. *THAT Outstanding Audit Issue No. 139 - Assessment of Procurement Processes items 3.3.8 a-b; (procedure to be developed for Bunnings cards) be transferred to the Completed Issues Register.*
- C. *THAT the Outstanding Audit Issues Register be amended to have a completion date of 31 October 2014 for Outstanding Audit Issue No. 139 - Assessment of Procurement Processes item 3.4.2 a (Credit Card approval practices).*
- D. *THAT the Outstanding Audit Issues Register be amended to have a completion date of 31 October 2014 for Outstanding Audit Issue No. 139 - Assessment of Procurement Processes items 3.3.6 a-b relating to guidelines for non-standard smaller suppliers and improved event planning.*

PAGE: 3
 REPORT NUMBER: 15A0042 MC:mp
 SUBJECT: OUTSTANDING AUDIT ISSUE NO. 139 - ASSESSMENT OF
 PROCUREMENT PROCESSES

DISCUSSION

Following a review the Council has since rescinded the credit card policy and instead an improved internal procedure has been adopted by Management which addresses the Deloitte recommendations and OAI 139 item 3.4.2 a.

The recommendation was mainly around procedures relating to the Mayoral credit card. There was no issue with the actual practices related to this card but rather the theoretical issues that the controls were not specified within a policy or procedure.

The Council adopted recommendations of the Corporate and Economic Development Committee set out below:

DECISION NO.21\2656 (30/09/14)

Policy No. 020 – Finance General – Review

Report No. 14A0124 MC:jm (24/09/14) Common No. 2078949

A. THAT Report Number 14A0124 MC:jm entitled Finance General - Review, be received and noted.

*B. THAT Council approve the rescission of Policy No. 020 - Finance General (**Attachment A**).*

*C. THAT Council adopt the revised policy on disbursements contained in **Attachment B** to Report Number 14A0124MC:jm.*

D. THAT Council authorise the Lord Mayor to utilise a credit card for Council business requirements within budget subject to the internal procedures and controls for credit card use including review by the Chief Executive Officer.

An improved credit card procedure addressing the Deloitte recommendations was already in place and adopted by the Chief Officers Group at its meeting held on 10 September 2014. A copy of this procedure is **Attachment A** to this report.

In relation to issue 3.3.6 a-b, this matter can be transferred to the completed audit issues register. It relates to payments made to individuals who provide one-off services for events. Risk is seen as low. Management processes can be put in place to inform the supplier at the time of engagement that payment may not be immediate as the provider does not have an ABN and is not able to be paid through EFT.

CONSULTATION PROCESS

This report was considered by the Chief Officer's Group on 9 March 2015 and now referred to Risk Management and Audit Committee for consideration.

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REPORT NUMBER: 15A0042 MC:mp
SUBJECT: OUTSTANDING AUDIT ISSUE NO. 139 - ASSESSMENT OF
PROCUREMENT PROCESSES

POLICY IMPLICATIONS

There are no changes to existing policies and procedures.

BUDGET AND RESOURCE IMPLICATIONS

Nil

RISK/LEGAL/LEGISLATIVE IMPLICATIONS

This item is considered 'Confidential' pursuant to Section 65(2) of the Local Government Act and 8(c)(iv) of the Local Government Administration Regulations, whereby the public may be excluded while business of a kind classified as information that would, if publicly disclosed, be likely to prejudice the interests of the council or some other person is discussed.

ENVIRONMENTAL IMPLICATIONS

Nil

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the Author and Approving Officers declare that we do not have a Conflict of Interest in relation to this matter.

MILES CRAIGHEAD
MANAGER FINANCE

DIANA LEEDER
GENERAL MANAGER
CORPORATE SERVICES

For enquiries, please contact Miles Craighead on 89300523 or email:
m.craighead@darwin.nt.gov.au.

Attachments:

Attachment A: Procedure: Corporate Credit Card Use

procedure

Title: Corporate Credit Card Use

Procedure No: TBA

Applicable to: Finance

Relational policy: Policy Name/Number

Approved by: GM or Middle Manager

Next Review Date: Refer 'Policy and Procedure Framework'

Responsibility: GM or Middle Manager

Document Number: TBA

Version	Adoption Date	History
1	10/09/2014 (COG)	The corporate credit card has been part policy and part procedure. This review aims to result in a one stop shop procedure and the rescission of all previous related policies and procedures.

1 Procedure Summary

This procedure details the process required in relation to the City of Darwin Corporate credit cards.

2 Roles and Responsibilities

Action	Authorised Officer
Appointment of Card Holders	CEO
Authorisation of purchases – Lord Mayor	CEO
Authorisation of purchases – Other Staff	Card Holder Relevant General Manager
Authorisation of purchases – CEO	General Manager Corporate Services (or other General Manager of not available)
Reconciliation of purchases	Card Holder
Maintenance of Card Register Hard copy of register to be	Manager Finance

procedure

<p>maintained in Credit Card Folder.</p> <p>Information to be included:</p> <ul style="list-style-type: none"> • Card Holder Name • Card Holder Position • Card Holder Officer Number • Card Number and Expiry Date • Credit Limit and any restrictions • Date of Issue/Cancellation • Signed Card Holders Declaration • Credit Card Application • Bank Terms and Conditions 	
Provision of Reports	Manager Finance

The use of corporate credit card is subject to the following internal controls:
 Policy guidelines – Corporate Credit Card Usage determines the guidelines within which credit card purchases can be made.

3 Procedure Statement

3.1 Appointment of Card Holder

Cardholders shall only be appointed by the Chief Executive Officer and the card application form shall be signed by the Chief Executive Officer and Manager Finance. Cardholders are required to be familiar with the Bank's terms and conditions for card use as well as this policy. Prior to receiving the card, the cardholder is to sign the Cardholder's Declaration (Attachment A) and forward it to the Manager Finance for retention in the Card Register.

A Card Register shall be maintained and include the following detail:

- A summary sheet showing: card holder name, position, card number, expiry date, credit limit, restrictions on use, date of issue, and date of cancellation;
- A copy of each card application and Cardholder's Declaration;
- Monthly card statements, evidence of purchases and signed authorisations; and
- Card usage reports as required.

3.2 Cancellation of Card

On cessation of employment with Council, the card holder is to return the card to the Manager Finance who will arrange for its cancellation.

Cards may also be cancelled where the need for the card no longer exists or where the Cardholder breaches the terms and conditions of use of this policy. Cardholders will be notified by the Manager Finance that the card has been cancelled and it is to be returned immediately.

Before cancelling a card the Manager of Finance will first consult with the relevant General Manager, or the General Manager of Corporate Services or the Chief Executive Officer.

3.4 Card Usage

Purchases made on the card shall only be for goods and services required for the official use of City of Darwin in conducting its business. The use of the card for personal purposes is not permitted. There may be times when hospitality related purchases include a personal component (e.g. meals whilst on official travel for an accompanying partner) and these costs will be reimbursed by the employee.

Card Holders will be required to certify that purchases are for legitimate business use. Cardholders found to be in breach of this section may be subject to disciplinary action and may have their card cancelled.

Depending on the requirements for the issue of a card, restrictions on the type of purchases allowed may be placed from time to time as directed by the Chief Executive Officer. These will be made known to the cardholder as part of the Cardholder's Declaration and kept in the Card Register.

Card usage should be monitored using the bank's card management software as far as practicable. Purchases made on the cards should be acquitted using the software and allocated to the appropriate general ledger accounts for processing. Card statements are to be counter-authorised by the appropriate General Manager and the Chief Executive Officer.

Card holders are to obtain and retain tax invoices. Recognising that where GST is not applicable tax invoices cannot be supplied but an equivalent standard of documentation is required to evidence the transaction. Where in a one off situation a tax invoice or other acceptable documentation has not been obtained, the Card Holder will be required to provide a statutory declaration detailing the nature of the expense and why an invoice was not obtained. Cardholders who repeatedly fail to retain tax invoices and other appropriate documentation for purchases, may have their cards cancelled. The purchase details are to be attached to the relevant card statement

procedure

and forwarded to Finance within 5 working days of the statement being sent out by Finance. Finance will file the information in the Card Register. Purchases which may be subject to Fringe Benefits Tax will also need to be accompanied by a completed Fringe Benefits Form.

Disputed purchases are to be followed up with the Bank as soon as they are identified. Card Holders are to notify the Manager Finance of any transactions in dispute.

3.5 Security of Cards

Cardholders are responsible for the security of their cards and details. Cards must be kept in a secure place and whilst cardholders are on leave for longer than two weeks, the card should be placed in the Finance safe with the Card Register.

Cardholders who suspect their card to be lost or stolen are to immediately notify the bank to arrange for the card to be suspended. The card holder should also notify the Manager Finance who will record the details in the Card Register.

3.6 Purchasing via other holders cards

Only use when other methods for purchase are inefficient or not available. When purchasing using a card held by someone else the following actions are to be taken.

Step	Occurrence	Responsibility of	Remarks
1	Identify need for item, obtain quotes (if necessary), determine if other payment options are available	Purchaser	<p>Items must be for business use and be budgeted for. The normal rules regarding quotations still apply.</p> <p>Purchase order options should be reviewed and consider the use of petty cash, setting up of accounts in the creditors system for EFT or cheque payments (if it is to be a regular purchase), or if the item can only be purchased over the internet. Other considerations may be the time taken to pay for and dispatch the goods or where the supplier</p>

procedure

			will not accept a Council purchase order.
2	Complete Corporate Card Usage Request Form	Purchaser	Complete Corporate Card Usage Request Form
3	Authorise use of the Credit Card	Card holder	If satisfied that the requirements for use have been satisfied, the holder of the card signs the Corporate Card Usage Request Form as authorisation for use.
4	Make purchase	Card holder	The card nor card number is not to be provided to individuals within the organisation for their general use. The card holder will enter the card details over the internet or if to be sent by fax, will sign/authorise the appropriate forms.
5	Obtain invoice and other documentation	Purchaser	The Invoice and other documentation is to be attached to the Card Usage Request Form. This should occur Immediately following the purchase.
6	Code transactions using Card Management Software or other practice as required by finance from time to time.	Card holders	The card holder will use the account codes provided on the Card Usage Form to allocate the costs as appropriate.
7	Sign Card Statement	Card holder	Card Statement to be signed within 5 working days of receipt.
8	Counter-sign Statement	The relevant GM or other officer as required above	Once all documentation received and signed by the card holder they are required to counter-sign and pass to the relevant reviewer for finalisation.
9	Process transactions in Authority	Finance Officer	Once all paperwork is complete and the

procedure

			account paid the transactions are to be entered into Authority.
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3.6 Monthly Credit Card Statement Actions (Finance Officers or other nominee)

3.6.1 Receive Credit Card Statement & Bank Statement showing amount debited to Bank Account

On receipt of the monthly Credit Card Statement from the bank.

- Photocopy all card holders statements
- Original Credit Card Statement to be sent to card holder for completion
Completed statements to be returned to the Finance Officer with all supporting documentation

3.6.2 Credit Card Spreadsheet

- Copy previous month's worksheet J:Finance/Accounting/Corporate Credit Card > Current Financial Year CBA Payment Summary Sheet
Rename to month being reconciled, clear unnecessary content, leaving GST formula in place

3.6.3 Alternatives to photo/hard copy approach

Alternatively the electronic work flow system emanating from the card supplier may be adopted subject to Manager of Finance in consultation with the General Manager of Corporate Services

3.7 Recording and Reconciling Corporate Credit Card purchases

Card holders are responsible for recording and reconciling their purchases to their statement

The Finance Officer is responsible for collating those records and entering them onto the Credit Card Payment Summary

3.7.1 Reconciling All Corporate Credit Card purchases

- Statements and all paperwork are returned compiled and reconciled to the Finance Officer
- Finance Officer to check all details are correct and ensure all paperwork has been included
- Invoices are to total each card holders Credit Card Statement
- Spreadsheet totals for each card are to balance to the Credit Card Statement
- Total of the spreadsheet to balance with total Credit Card usage for the month and to the amount automatically debited to the Bank Statement

procedure

Notes:

- Check all receipts/invoices are GST compliant
- Check GST calculations, noting some part of payment may be GST free; if so enter details on separate lines to clearly show GST and non GST component.
- No Invoice or receipt has been provided ensure a Statutory Declaration has been completed explaining the reason for the omissions.
- Stat Dec No GST can be claimed on any purchases that do not have a tax compliant Invoice/receipt, coding is 55.
- Overseas transactions No GST is claimable. Coding is 55
- Budget Number/Work Order numbers are correct
- Pant numbers are included where applicable
- FBT forms have been provided where necessary

- Recharges: If there are any recharges to be made photocopy all relevant documentation, download an 'Invoice Request' form, from the Intranet (green paper). Complete the Invoice details, obtain signatures for authorisation of the Invoice, attach supporting documentation and pass on to Revenue. Enter the recharge general ledger numbers onto the Credit Card reconciliation against the correct costing and attach a copy of the Invoice Request with the appropriate statement.

If budget numbers are incorrect or description incomplete refer back to requisitioning Officer

If documentation not complete or non compliant refer back to Requisitioning Officer.

3.7.2 FBT Forms

FBT forms are required for all food and beverage purchases made using corporate credit cards

- Copy FBT Form, associated Invoices and credit card payment slips
- Stamp copy FBT, copy Invoices and payment slips
- Original FBT with copy of Invoice and payment slip to be reconciled under FBT legislation requirements. *See FBT procedures*
- Copy of FBT, Original Invoice, original credit card slip and a further copy of the credit card slip are to be retained with the relevant credit card statement

3.7.3 Recording All Corporate Credit Card purchases

procedure

All details are entered onto the Corporate Credit Card Payment Summary spreadsheet for the appropriate month being reconciled.
 J:Finance/Accounting/Corporate Credit Card > Current Financial Year CBA Payment Summary Sheet.

- All details to be entered in provided format with correct GST codes and calculations
- Compile Reconciliation for approval by Financial Accountant and CEO
 - Payment Summary Sheet
 - CBA consolidated Sheet
 - Bank Statement showing Credit Card automatic deduction
 - Individual Card Statements as listed on summary sheet

3.8 Annual Credit Card Charges

Entered into spreadsheet when charges appear on card holder's statement.

Budget numbers for all card holders are located in the spreadsheet in the Tab named 'Annual Card Fees and Recharges'

3.9 Paperwork

On return of signed reconciliation:

- Individual card holder statements filed in Credit Card Folder under name of card holder
- Reconciliation Sheet to be filed in Credit Card Folder where indicated, along with copy of bank statement and CBA consolidated statements
- Original FBT Forms to Finance Officer responsible for reconciliation
- Complete Accounts Payable Spreadsheet and email to Accounts Payable Supervisor – (located in J:Finance/Accounting/Corporate Credit Card'AP's Monthly Rec'.

procedure

CARDHOLDER'S DECLARATION

I, _____,
(insert name)

certify that I have read, understood, and will comply with:

- the City of Darwin's Corporate Card Usage Policy
- the merchant/bank's conditions for card use

and that I understand the Corporate Credit Card issued to me must only be used for official, approved purposes and must not be used for:

- personal, non work-related purchases or gaining of personal benefits;
- hospitality or entertainment purposes without prior approval;
- cash advances;
- the splitting of purchases in order to negate credit limits or procurement requirements;

If there is an accidental transgression I will advise the relevant General Manager or Manager Finance and reimburse the funds within 14 days.

I will ensure that the procedure for the use of the corporate card contained in the City of Darwin Corporate Card Usage Policy is followed when making purchases with the card issued to me.

I acknowledge that departures from the Corporate Card Usage Policy may result in the card being cancelled and legal and/or disciplinary action being taken against me in accordance with Council's Employee Code of Conduct and Enterprise Bargaining Agreement.

Signed,

Cardholder

Date

Risk Management & Audit Committee Meeting – Friday, 27 March 2015

10. GENERAL BUSINESS

11. CLOSURE OF MEETING