

CITY OF COCKBURN



AUDIT & STRATEGIC FINANCE COMMITTEE

AGENDA PAPER

FOR

THURSDAY, 21 JULY 2016

CITY OF COCKBURN

SUMMARY OF AGENDA TO BE PRESENTED TO THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING TO BE HELD ON THURSDAY, 21 JULY 2016 AT 6:00 PM

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CITY OF COCKBURN

AGENDA TO BE PRESENTED TO THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING TO BE HELD ON THURSDAY, 21 JULY 2016 AT 6:00 PM

1. **DECLARATION OF MEETING**
2. **APPOINTMENT OF PRESIDING MEMBER (If required)**
3. **ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN DECLARATION**
4. **APOLOGIES & LEAVE OF ABSENCE**
5. **PUBLIC QUESTION TIME**
6. **DEPUTATIONS & PETITIONS**
7. **CONFIRMATION OF MINUTES**
 - 7.1 **(ASFC 21/7/2016) - MINUTES OF THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING - 17 MARCH 2016**

RECOMMENDATION

That Committee confirms the Minutes of the Audit and Strategic Finance Committee Meeting held on Thursday, 17 March 2016, as a true and accurate record.

COMMITTEE RESOLUTION

8. **BUSINESS LEFT OVER FROM THE PREVIOUS MEETING (IF ADJOURNED)**

Nil

9. DECLARATION OF COUNCILLORS WHO HAVE NOT GIVEN DUE CONSIDERATION TO MATTERS IN THE BUSINESS PAPER

10. COUNCIL MATTERS

10.1 (ASFC 21/7/2016) - RISK MANAGEMENT INFORMATION REPORT (021/012) (J NGOROYEMOTO) (ATTACH)

RECOMMENDATION

That Council

- (1) receive the report on the Risk Management Program;
- (2) adopt the proposed City of Cockburn Strategic Risk Register, as shown in the attachment.

COMMITTEE RECOMMENDATION

COUNCIL DECISION

Background

At the Ordinary Council Meeting of 13 June 2013, Council endorsed the City's proposed risk management policy and associated roll-out program. Subsequently at the Ordinary Council Meeting of 11 December 2014, via the Audit and Strategic Finance Committee, Council endorsed the Risk Management Strategy. The City is progressing in implementing the Risk Program, and this report provides an update on the key milestones achieved over the past 4 months since the last report was submitted to the Audit and Strategic Finance Committee.

The City's Risk Program, through adopting the guidelines and principles of the Australian risk standard, AS/NZ ISO 31000:2009 is committed to a culture of risk management. City Policy SC51 'Enterprise Risk Management' (the policy) is a commitment by the City to ensuring that sound risk management practices and procedures are fully integrated into its strategic and operational processes and day to day business practices. The City continues to roll out the Risk Program in line with the Risk Management Strategy.

Submission

N/A

Report

Risk Management Program:

The City's Risk Monitoring and Reporting System

The City acquired Risk Management and Safety System (RMSS) as its service provider for a Risk Management Software. The City purchased the package consisting of Risk, Event and Compliance Manager Modules, integrating all key areas of risk, compliance and event management across the organisation. The risk manager module efficiently identifies, assesses, controls, monitors and reviews risks and hazards using a unique patented workflow, allowing the City to use a variety of risk assessment methodologies, terminology and workflows.

The Event module is a web-based tool used to manage events as they happen. Following a unique workflow that allows even non-system users (such as contractors) to notify of potential events, the event manager module then follows the traditional process of recording, investigation, correction and review. Built-in flexibility allows events to be managed across a full range of workplace incidents and events e.g. complaints, injuries, enquiries etc.

The compliance manager allows the City to quantify compliance and performance using a flexible, web-based, real-time audit framework. The compliance manager module is used to manage both internal and external audits using any criteria, customisable scoring options and flexible scripting text, designed to meet the requirements of even the most complicated audit process. System configuration is now complete and staff training has commenced, with expected roll out in August 2016 of the Risk and Event modules followed by the Compliance module roll out towards the end of the year.

Strategic Risks

LGIS Risk Management facilitated the development of a City of Cockburn Strategic Risk Register. This process saw four workshops being conducted with the Executive during the month of February, feedback sought from the strategic business managers and an Elected Members briefing session. The workshops were focused on identifying high level key strategic risks associated with City of Cockburn's external environment, stakeholders, strategic direction and systemic organisational issues. A strategic risk is a risk that is likely to have a significant impact on the City's ability, as an organisation, to achieve its mission and objectives. A strategic risk may prevent the City from capitalising on its opportunities and strengths, expose its weaknesses, and/or represent a failure to address threats to the City. The

methodology followed during the process consisted of introduction and defining of strategic risks, establishing the strategic risk assessment context, identification of City of Cockburn strategic risks, analysis of strategic risks, and documentation of risk treatment options. This resulted in the development of the City of Cockburn strategic risk register which is being presented now for adoption. The information on the register will be monitored and reviewed in RMSS, and the scoping exercise will be completed every four years in conjunction with the review of the Strategic Community Plan.

Operational Risks

265 operational risks currently sit on the City's risk registers. All risks were reviewed at the Audit Committee meeting of November 2015, and were rated using the City's risk matrix and were recorded on excel spreadsheets. These risks are currently in the process of being reviewed and transferred into RMSS, and will start to be monitored and reviewed in RMSS in August 2016.

Future direction

As the City continues to implement and embed risk management through its Risk Program, the next four months will continue to focus on the following key areas and current initiatives:

- Training and Rollout of the Risk Management and Safety Systems Software (RMSS), Risk and Event modules.
- Chief Executive Officer's biennial review of the appropriateness and effectiveness of the City's systems and procedures in relation to risk management, internal controls and legislative compliance.

Strategic Plan/Policy Implications

Leading & Listening

- Deliver sustainable governance through transparent and robust policy and processes

Budget/Financial Implications

The City's 2016/17 Annual Budget makes provision for the continued development of and further introduction of Risk Management framework.

Legal Implications

Local Government (Audit) Regulations 2013, Regulation 17.

Community Consultation

N/A

Risk Management Implications

Good corporate governance dictates that risk management information is captured and retained throughout the risk management cycle. If council does not adopt the Strategic Risk Register there is a risk of failure to have a structured process to record strategic risks, decision processes and treatment performance results. There is also a potential risk of failure to align strategic risks to the City's strategic objectives as identified in the Strategic Community Plan.

Attachment(s)

Proposed City of Cockburn Strategic Risk Register.

Advice to Proponent(s)/Submissioners

N/A

Implications of Section 3.18(3) Local Government Act, 1995

Nil.

10.2 (ASFC 21/7/2016) - INTERNAL AUDIT PLAN REVIEW (067/004) (J NGOROYEMOTO) (ATTACH)

RECOMMENDATION

That Council adopt the Strategic Internal Audit Plan as shown in the attachment to the Agenda.

COMMITTEE RECOMMENDATION

COUNCIL DECISION

Background

Minutes of the November 2015 Audit and Strategic Finance meeting were adopted by Council at its December 2015 meeting which contained extension of the contract with Deloitte for the provision of internal auditing services for a further two year period ending 30 June 2017. The report advised that future internal audit plans will be

facilitated through the City's Risk Review Group (comprising cross functional managers), with input from the internal auditor. Audit planning will be informed by the City's operational and strategic risk registers, where assessed risk levels will influence audit priorities.

Subsequently a three year Internal Audit Plan has been developed by the Risk Review Group which seeks to evaluate the adequacy of internal controls in a number of higher risk areas. In line with the oversight responsibilities mentioned above, the Strategic Internal Audit Plan for 2016 to 2019 is presented (refer to attachment) to the Audit and Strategic Finance Committee for its review and approval.

Submission

N/A

Report

The City has expanded the Terms of Reference for its Audit and Strategic Finance Committee to include oversight in the areas of risk management, internal control and legislative compliance. This expansion of Terms of Reference has been in response to the Local Government (Audit) Amendment Regulations 2013 published in the Government Gazette on 8 February 2013 requiring Audit Committees of a local government to have oversight of its systems and procedures in relation to the above mentioned areas.

The Institute of Internal Auditor's states that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes

The Risk Review Group spearheaded the review of the Internal Audit Plan, with the assistance of The City's internal auditor. Latest risk management documentation was referred to during the development of this Internal Audit Plan as well as discussions undertaken with senior management to identify and determine potential high risk areas for inclusion in the audit plan. The Risk Review Group conducted an Internal Audit plan scoping exercise whereby the following were considered:

Extreme' or 'High' risks identified in the operational risk register

- Closure of SMRC (not included in the plan as mitigation treatment options are addressed in the risk register)
- Failure to undertake Bushfire Act enforcement or mitigation works on Crown land (not included in the plan as not suitable for internal audit)

Extreme' or 'High' risks identified in the Strategic risk register

- Bush Fires (not suitable for internal audit)
- Record Management (included in the plan)
- Project Management (included in the plan)
- Waste Management (mitigation treatment options are addressed in the risk register)
- Community Led Local Government Reform (as not suitable for internal audit)

Operational Risks with a high Likelihood rating

- FCS18 - Failure to provide a secure, highly available, resilient and well performing Electronic Document and Records Management System (included in the plan)
- PD3- failure to conduct an accurate analysis on the feasibility of land development and projects funded through developer Contributions (included in the plan)

Previously identified areas for Audit - Rates Model (included in the plan)

An explanation for the selection of audit areas in the Internal Audit Plan for 2016 to 2019 is provided below.

Project Management

High risk as identified in the risk registers - Project management across the organisation is inconsistent and inefficient and has been highlighted in the Organisational review and employee surveys. The likelihood of the risk eventuating to the level of critical consequences is frequent.

Land Development and Developer Contributions

Substantial risk as identified in the risk registers - Accurate analysis is critical for the feasibility of Land Development and Projects funded through Developer Contributions

Fleet Management

Moderate risk as identified in the risk registers - The City has a considerable investment in its fleet assets and considerable resources are consumed in operating and maintaining the fleet to ensure it services the City's business requirements. Independent review will assist determine the effectiveness of the fleet management model.

Records Management

Substantial risk as identified in the risk registers - The effectiveness of the City's ECM system remains a recurring question and thus a high priority and will immediately follow the formation of the Knowledge Management Plan document which will act as a guide to which actions to be taken to achieve the goal of best practices. There is lack of an

audit trail for documents/external; sent emails are not saved in ECM, non-compliance with processes and requirements, lack of awareness and training, and no perceived consequences and increased officer workloads.

Rates Model

Moderate risk as identified in the risk registers - The City's Budget Management Policy requires that internal audit review the annual rate setting process and the outcomes, paying particular attention to the parameters used for applying the rates concession scheme to residential improved properties.

Allocation of Resources (Long Term Financial Planning)

Moderate risk as identified in the risk registers - The Long Term Financial Plan is a critical planning document for ensuring the future financial sustainability of the City in terms of resources allocation. An independent review of the methodology and the basis of underlying assumptions used will support the governance over this exercise.

Internal Communications

Moderate risk as identified in the risk registers - Internal Communications across the organisation was also highlighted in the Organisational review and employee surveys. The likelihood of the risk eventuating to the level of critical consequences has been occurring routinely. There is currently no internal communication plan or policy.

Strategic Plan/Policy Implications

Leading & Listening

- Deliver sustainable governance through transparent and robust policy and processes

Budget/Financial Implications

The cost for internal audit assignments is determined at the time of agreeing the terms of reference. Hourly fees are set in accordance with the WALGA supply panel contract for Audit Services, which are subject to annual CPI increases.

The City's budget for 2016/17 includes an allocation for compliance/internal audit costs of \$32,000.

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

If Council defers or does not adopt the Strategic Internal Audit Plan, the internal auditors will not have a set scope of requirements to evaluate effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with laws and regulations and safeguarding of Assets. This will also ultimately affect the prioritisation of audit projects to be undertaken this year.

Attachment(s)

Proposed City of Cockburn Strategic Internal Audit Plan.

Advice to Proponent(s)/Submissioners

N/A

Implications of Section 3.18(3) Local Government Act, 1995

Nil.

11. PLANNING & DEVELOPMENT DIVISION ISSUES

Nil

12. FINANCE & CORPORATE SERVICES DIVISION ISSUES

12.1 (ASFC 21/7/2016) - INTERIM EXTERNAL AUDIT (067/001) (N MAURICIO) (ATTACH)

RECOMMENDATION

That Council receive the Interim Audit Management letter for the year ended 30 June 2016, as shown in the attachment to the Agenda.

COMMITTEE RECOMMENDATION

COUNCIL DECISION

Background

Council is required to examine the report prepared by the External Auditor and is to determine if any matter raised in the report requires action to be taken.

Council is also required to meet with the Auditor of the Local Government at least once in each year. This will be for the receipt of the final audit report as occurs each financial year.

The Terms of Reference of the Audit Committee were adopted by Council on 8 November 2007.

Submission

N/A

Report

The Interim External Audit Report for the period ending 30 June 2016 was received from Council's Auditors, Macri Partners in July 2016. The Interim Report covered a review of the accounting and internal control procedures in operation, as well as testing of transactions in the following areas:

- Bank Reconciliations (no issues identified)
- Investment of Surplus Funds (no issues identified)
- Purchases (no issues identified)
- Payments and Creditors (no issues identified)
- Rate Receipts and Rate Debtors (no issues identified)
- Receipts and Sundry Debtors (1 issue identified)
- Payroll (2 issues identified)
- General Accounting – Journals, etc. (no issues identified)
- IT Controls (no issues identified)
- Registers - Tenders Register, etc. (no issues identified)
- Fixed Assets - Property, Plant & Equipment and Infrastructure (1 issue identified)
- Review of Council Minutes (1 issue identified)

The review also included an examination of certain compliance matters required under the Local Government Act and Financial Management Regulations. Internal controls were examined primarily for the purpose of expressing an opinion on the financial statements of the City of Cockburn.

It is worth noting that the number of issues identified and reported on this year by audit is down on those in previous years. This indicates the City's current financial controls and processes are operating effectively.

Below is a summary of the issues raised by Audit and the associated management responses:

Audit Finding	Management Response
Sundry Debtors	
<p>Issue The audit review of the procedures relating to raising of credit notes indicated that the credit notes issued were based on the associated debtor invoice number and not sequentially numbered.</p> <p>In the absence of numerical sequence over credit notes, audit believes there is a risk that credit notes raised may not be accounted for within the system and may result in loss of revenue.</p> <p>Recommendation That credit note numbers be automatically generated in a sequential order from the financial system to provide control and assurance that all credit notes have been properly accounted and entered in the system.</p>	<p>We have a system review of sundry debtors processing planned for August 2016 in consultation with a Tech One consultant. This will include reviewing credit note numbering requirements.</p> <p>The City raises very few credit notes (around 6 per year) and only when they are approved by an authorised officer. Sequential numbering of credit notes is seen as less of a control than an independent periodic review by management of all credits notes raised on the system. This will be made a priority in the review.</p>
Payroll	
<p>Issue Audit noted that amendments to the payroll master file are not reviewed by an independent senior officer. Lack of such control may provide opportunities for inappropriate amendments to remain undetected.</p> <p>Recommendation A report containing amendments to the payroll master file be produced and reviewed by an independent senior officer.</p>	<p>HR Officers load new employees onto the Payroll Master File however are unable to make any amendments. All amendments are undertaken by members of the payroll team. Business Systems are able to produce a report which details which member of the team made each amendment to enable auditing.</p> <p>The Manager, Human Resources does not believe the creation of a report of all amendments to be checked on a regular basis (ie. Pre-every payroll run) would be effective or efficient.</p>
<p>Issue Audit noted that 31 employees had accrued annual leave in excess of 8 weeks to a maximum of 13.7 weeks.</p> <p>Recommendation Audit would like to receive feedback on the status of the balances.</p>	<p>The management of leave liability has significantly improved over the past 12 months, as evidenced by the drop in both the number of employees and the excess weeks. This has been achieved through initiatives such as the new HR Monthly Report to all Directors and SBMG members that regularly highlights leave liability and number of employees, by Division, with excess leave balances.</p> <p>Further, as part of the Absenteeism Management training introduced this year, Supervisors are being trained on the requirements to manage leave balances</p>

<u>Audit Finding</u>	<u>Management Response</u>
	and their powers to do so.
<u>Council Minutes</u>	
<p>Issue Audit noted that the Ordinary Council Meeting minutes for June 2015, August 2015, November 2015 and Special Council Minutes for June 2015, July 2015 and December 2015 were signed and certified on a date much later than that of the meeting at which they were confirmed.</p> <p>Recommendation That the Council Minutes be signed and certified by the Presiding person as soon as is practical following the meeting at which they are tabled in accordance with the requirement of the legislation.</p>	<p>Normal practice is for the presiding person to sign and date the minutes on the day of the meeting at which the Minutes are confirmed. An internal review in May identified a number of minutes that had not yet been certified and these were duly signed. All of these had otherwise been properly confirmed at a meeting of Council.</p> <p>Procedures will be reviewed to ensure the Presiding person signs and certifies the Minutes on the appropriate day.</p>
<u>Asset Residual Values and Depreciation Expense</u>	
<p>Issue In May 2015, the Australian Accounting Standards Board (AASB) clarified its interpretation of the term "residual value" for the purposes of calculating depreciation for long-lived assets such as infrastructure assets under AASB 116.</p> <p>Recommendation Given this, Audit requests the City reviews any residual values applied to assets and appropriately reassesses asset components and their useful lives for the purposes of the calculation of depreciation expense for the 2016 financial year.</p>	<p>The City has never applied residual values to any components of its infrastructure assets as it has never had a factual basis to do so. The City's current depreciation rates are based on the best available asset data and evidence to date.</p> <p>The City's Asset Services team continue gathering further asset data and evidence through asset condition surveys. This will refine useful lives for the various asset components based on a number of asset degradation factors (i.e. road hierarchy, traffic volume, pavement depth etc.) and ultimately increase the accuracy of depreciation rates.</p>

The interim audit report attached to the agenda provides more detailed commentary on the findings of the interim audit and the management responses.

Strategic Plan/Policy Implications

Leading & Listening

- Deliver sustainable governance through transparent and robust policy and processes
- Ensure sound long term financial management and deliver value for money

Budget/Financial Implications

The cost for the interim audit is covered within the City's annual budget allocation for external audit activities.

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

The external audit function is a mandatory legislative requirement and an important component of the City's risk management framework. The external auditor identifies issues that may result in financial risks to the City and makes recommendations to reduce those risks.

Council needs to be satisfied that management responses adequately address the identified or potential risks

Attachment(s)

Interim Audit Management Letter 2016

Advice to Proponent(s)/Submissioners

N/A

Implications of Section 3.18(3) Local Government Act, 1995

Nil.

12.2 (ASFC 21/7/2016) - ANNUAL DEBTS WRITE-OFF (069/002) (N MAURICIO) (ATTACH)**RECOMMENDATION**

That Council write off the bad debts for commercial and community based debt totalling \$15,874.97 (inc. GST), as shown in the attachment to the Agenda.

TO BE CARRIED BY AN ABSOLUTE MAJORITY OF COUNCIL

COMMITTEE RECOMMENDATION

COUNCIL DECISION

Background

Section 6.12 (1)(c) of the Local Government Act allows local governments to write off any amount of money owing to it (other than rates and service charges). This action is required where debts become delinquent.

Council first adopted the Debtors Management Policy AFCS9 at its meeting in August 2012. This states that bad debt write offs should only occur where all avenues for recovery have been exhausted or it is unviable to keep pursuing the debt.

The policy provides for unrecoverable debts (other than rates and service charges) up to the individual value of \$300 to be written off under the associated Council delegation. However, those over \$300 are to be brought to Council for write off on an annual basis.

Submission

N/A

Report

Whilst the City has an excellent track record in managing and collecting its outstanding debts, there are always those that will become uncollectible for a variety of reasons.

The typical debtors mix for the City comprises commercial debtors (mainly landfill trade debtors) and community based debtors (hall and reserve hire and other community service provision). Common causes of bad debts in both these areas are failing businesses or organisations and untraceable companies and individuals. Some debts are also not worth pursuing due to it being uneconomical to apply formal debt recovery procedures.

Attached to the agenda is a detailed listing of the uncollectible debts recommended for write off by Council this year. These have been categorised by their debt type and include relevant commentary on their status and the recovery efforts made where applicable. A consolidated summary of the write offs requested is provided below:

Debt category	No. of debts	Amount to be written-off \$ (ex gst)	Amount to be written-off \$ (inc gst)
Commercial - HWRP landfill	2	1,630.79	1,793.87
Community (hall/reserve hire, services)	6	12,452.81	13,698.10
Sundry – wages overpayment	1	383.00	383.00
Total	9	14,466.60	15,874.97

It should be noted that the impact on Council's financial position will be \$14,466.60, being only the GST exclusive value of the debts to be written off.

Commercial Debtors

There are two small landfill debts totalling \$1,793.87 needing to be written off. Given the amount of turnover for the HWRP landfill operation during the year (\$7M), the recommended write off is well within normal business expectations (i.e. represents around 0.02% of the annual revenue invoiced).

Community Group Debtors

Community based debts totalling \$13,698.10 are recommended for write-off. This amount includes the following:

- \$10,594.09 – hall hire fees (4 debtors)
- \$2,659 – sportsground hire fees (1 debtor)
- \$445.01 – youth program fees (1 debtor)

A number of initiatives are currently being investigated to improve the recovery of hall hire fees. These include more substantial bonds, restriction of credit facilities and advance payment for recurrent bookings. The City raised \$328,263 in revenue from hall hire fees during 2015/16. The recommended write off represents 3% of this amount.

Debt Write-Offs under Delegation

The delegation under the City's Debt Management Policy AFCS9 allows for small debts owing to the City to be written off up to a maximum value of \$300 (other than for rates levied or prescribed service charges).

There are no infringements recommended for Council write off this financial year. However, infringements totalling \$3,936.58 were written off under delegation. This amount comprised of:

- \$169.58 - Fines Enforcement Registry recommendations (1 debt)
- \$3,300.00 - unsearchable interstate plates (38 debts)
- \$467.00 – insufficient information (5 debts)

Penalty interest totalling \$6,473.90 was also written off under delegation during the financial year, comprising 10,898 transactions of less than \$5 (average of \$0.59 each). The major reason for this unpaid interest is timing issues between processing payments and the generation of interest charges on the system.

Six minor hall hire and sundry debts totalling \$430.64 were also written off under delegation during the year.

Strategic Plan/Policy Implications

Leading & Listening

- Deliver sustainable governance through transparent and robust policy and processes
- Ensure sound long term financial management and deliver value for money

Budget/Financial Implications

A write off of bad debts totalling \$14,466.60 (ex GST) will be included in the 2015/16 Statement of Comprehensive Income and will minimally reduce any EOFY surplus position.

Legal Implications

Debts which are irrecoverable require Council authorisation in order to be written off under the provisions of the Local Government Act, Section 6.12 (1)(c).

Community Consultation

N/A

Risk Management Implications

It is considered good risk and financial management to annually assess overdue debts and determine their collectability. Those that are uncollectible should be written off to increase the accuracy of the debtors value reported in the balance sheet and is an expectation of audit. Further, this ensures debt collection efforts and resources only target collectible debts.

Attachment(s)

List of outstanding debts to be written off in 2015/16.

Advice to Proponent(s)/Submissioners

N/A

Implications of Section 3.18(3) Local Government Act, 1995

Nil.

13. ENGINEERING & WORKS DIVISION ISSUES

Nil

14. COMMUNITY SERVICES DIVISION ISSUES

Nil

15. EXECUTIVE SERVICES DIVISION ISSUES

Nil

16. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

17. NOTICES OF MOTION GIVEN AT THE MEETING FOR CONSIDERATION AT NEXT MEETING

18. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING BY COUNCILLORS OR OFFICERS

19. MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE

20. CONFIDENTIAL BUSINESS

21. CLOSURE OF MEETING

Ref No	Risk Owner	Strategic Theme	Risk (Short Title)	Risk Description	Causal Factors	Resulting In	Ability to Influence	Existing Controls	Overall Control Rating	Consequence Rating	Likelihood Rating	Level of Risk	Treatment Options
COC-STR-01	Director Corporate Finance	Leading and Listening	Strong Financial Position	Inability to sustain City's strong financial position	Changes to prioritisation and management of financial resources Changes of Government Policy (e.g., Rate Capping) Significant change to Long Term Financial Planning direction Economic Downturn LGA Boundary Change Poor financial management practice	Poor life cycle asset management Inability to deliver core services and future projects Need for larger rate increases Reputation damage	Influence	Financial management practices Advocacy practices Financial discipline Long term financial planning	Adequate	Critical	Possible	Moderate	Include contingency scenarios in long term financial planning (what if exercise) Increase advocacy and ability to influence at political level Increase community awareness
COC-STR-02	Director Corporate Finance	Leading and Listening	Funding Sources	Inability to accommodate changes in statutory fee allocations revenue funding sources (e.g. external, investment, development growth funding)	Changes to State or Federal and other social & infrastructure funding programs Private Certification for services delivered	Decrease value for money Reductions/cessation in service levels Increase burden on municipal fund	Influence	Advocacy through WALGA Specialist staff maintaining awareness of market changes	Adequate	Serious	Occasional	Moderate	Increase advocacy through WALGA and ability to influence at political level (fee structure reviews, planning building reviews)
COC-STR-03	Chief Executive Officer	Leading and Listening	Community Relationships	Inability to effectively manage community stakeholder relationships and expectations	Project management and implementation Crime/safety perceptions Community engagement levels Unmanageable community expectations Lack of research Silos within City Internal communications Community influence (political, social media) Community interest and empowerment Physical locations of community groups	Reputation damage Reignited local government structural reform agenda from community initiation Disruption of projects	Control	Community engagement strategy and framework. Annual community perceptions survey. Customer satisfaction survey. Integrated planning framework. Training and development of staff and support for community groups	Inadequate	Serious	Likely	Substantial	Review community engagement strategies and internal coordination Consider Community Consultation Unit (similar to DCU) Develop internal communication framework Engage and inform key project status to Elected Members Identify Elected Member expectations on community engagement Specific engagement with identified community groups Funding in 16/17 budget for key projects which accord with the adopted revitalisation
COC-STR-04	Chief Executive Officer	Leading and Listening	Government Relationships	Inability to effectively manage key Government stakeholder relationships and expectations (e.g. WALGA, DLG&C, WAPC, MRWA, DoL, DER, DoW)	Differing expectations Lack of access Government changes	Reputation damage Increased bureaucracy Reduction in funding Disruption of projects	Influence	GAPP - CEO Forum Key contacts with agencies WALGA zone meetings	Adequate	Serious	Occasional	Moderate	Identify key relationships Improve key contacts, multiple level relationships Improve internal communications
COC-STR-05	Chief Executive Officer	Leading and Listening	Local Government Relationships	Inability to effectively manage neighbouring local governments and regional council relationships and expectations	Differing expectations Differing agendas	Reputation damage Distractions from core services Reduce ability to form partnerships	Control	SW Group - CEO/other Forum Key contacts with LGs WALGA zone meetings Partnerships Officer network groups Joint initiatives	Adequate	Disruptive	Occasional	Moderate	Improve internal communications
COC-STR-06	Director Corporate Finance	Economic, Social and environmental Responsibility	Commercial Relationships	Inability to effectively manage key commercial stakeholder relationships and expectations (e.g. Frasers, Landcorp, Perron, JAH, Stocklands)	Differing expectations - commercial v community interests	Reputation damage Increased expenditure of appeals Disruption of projects Impacts city vision delivery Increased state government interference	Influence	Liaison meetings for major projects Informal relationship management	Adequate	Disruptive	Occasional	Moderate	Formalise engagement plan with commercial stakeholders
COC-STR-07	Chief Executive Officer	City Growth	State Political Agendas	Fail to navigate and effectively respond to changes to State political imperatives and agendas	Electoral cycles Varying elected member political influences Change in government	Reputation damage Increased expenditure Disruption of projects and services Impacts city vision delivery Increased state government interference	Concern	Key contacts with Ministers, local members and their staff WALGA through zone meetings and Growth Alliance Perth and Peel (GAPP)	Adequate	Critical	Occasional	Substantial	Seek elected member input Invite Ministers and local members to informal meetings
COC-STR-08	Chief Executive Officer	Leading and Listening	Community Led Reform	Reignited local government structural reform agenda from community initiation	Community interest and empowerment Physical locations of community groups	Changing rate base (up or down) Distraction from core services Impacts staff morale	Influence	Community engagement strategy and framework Annual community perceptions survey Customer satisfaction survey Integrated planning framework Support for community groups \$50 000 has been directed towards response to the community initiated proposal seeking to transfer Hamilton Hill and North Coogee to City of Fremantle	Adequate	Critical	Likely	High	Specific engagement with identified community groups/ City of Fremantle Funding in 16/17 budget for key projects which accord with the adopted revitalisation strategies Review service levels to identified community areas/groups (amenity, parking, presence, waste, traffic management) Communication Plan for Residents
COC-STR-09	Director of Engineering and Works	Economic, Social and Environmental Responsibility	Water Availability	Reducing water availability to irrigate City and maintain service delivery and amenity	Drying climate Lower allocation of groundwater, by Department of water.	Poor appearance of street scapes and parks	Concern	Water management plan Adapt landscaping plans Water recharge options Community education CCAP, Water Operating Plans	Adequate	Serious	Almost Certain	High	Prioritisation of resources Implement water recharge options
COC-STR-10	Chief Executive Officer & Director of Governance and Community Services	Economic, Social and Environmental Responsibility	Bush Fire	Fail to adequately manage bush fire risk exposure within City	Fuel loads not in control of City Interagency communication Delays to programmed back burning Non-compliance	People and property losses Loss of public confidence Non-compliance Emergency Management Act Reputation damage Increased cost of land management (e.g. security) Rehabilitation	Influence	Emergency Management Arrangements Interagency engagement (DFES and DPaw) Bushfire Risk Management Plan and fuel load register	Adequate	Catastrophic	Likely	Extreme	Key stakeholder engagement Annual initiation of mitigation programme Increase resources for volunteer BFB and community education Review fire inspection programme scope into areas not in City control Respond to EM Act changes
COC-STR-11	Director Engineering & Works	Economic, Social and Environmental Responsibility	Coastal Hazards	Fail to consider and adequately manage coastal planning and related coastal erosion	Failure to adequately manage and resource Adaptation plan	Loss of assets and coast line Property damage Community class actions from planning and development approvals	Influence	CCAP Mitigation works Asset management plan Foreshore management plans State agency engagement Cockburn Sound coastal alliance Naval base shacks management plan	Adequate	Serious	Rare	Low	Railway infrastructure and Robb Road coastal planning Additional monitoring of structural coastal elements
COC-STR-12	Director Planning and Development	City Growth	City Growth	Failure of City growth outcomes to be met	State of economy Impact of urban planning schemes Lack of stimulus from State investments or land use approval Decreasing population growth in the form of net migration becoming negative (more people leaving than arriving WA)	Lower DCA13 Lower than forecasted rates income Pressure on operating budget to meet CapEx Community expectations not met	Concern	Forecasting reviews Integrated planning framework Lobbying Communications Strategy	Adequate	Disruptive	Likely	Moderate	Collaborative lobbying - SW Group Branding Cockburn as a destination of choice within the Metropolitan Region - make it more competitive in attracting the dwindling investment taking place)
COC-STR-13	Director Planning and Development	City Growth	Built Environment	Failure of City's built environment to deliver appearance or quality outcomes as intended	Competing forces for planning and development Community expectations SAT and JDAP determinations Developer, private and public funds constraints	Poor built form and quality of development Development not aligned to planning guidelines Increased on-street parking Less trees Community complaints	Influence	Town planning scheme Council policies Budget provisions Corporate strategies (greening plan, public open space, public art)	Inadequate	Disruptive	Occasional	Moderate	Review greening strategy Review urban infill programs. Develop Greening plan. An Urban Forest Strategy to be developed Ongoing community consultation Development of Design Review Panel for major and complex applications to provide independent design advice on built form.
COC-STR-14	Director of Engineering and Works	Moving Around	Roads / Utility Infrastructure	Inability to deliver roads and utility infrastructure in line with population growth (e.g. increased population and traffic congestion)	Population growth beyond estimated forecast Infrastructure investment not meeting needs Utility providers restrictions or delays Older subdivisions without utility provisions	Traffic congestion Reputation damage Complaints Impacts regional and local economy Restricts investment and development	Influence	Lobbying DCAs Integrated planning framework and review process Stakeholder communications	Adequate	Serious	Likely	Substantial	Community Connect South Project (phase 3 for State Election) Increase NBN lobbying Increasing budget allocations to infrastructure from other areas

City of Cockburn
Strategic Risk Register as at 11/07/2016

Ref No	Risk Owner	Strategic Theme	Risk (Short Title)	Risk Description	Causal Factors	Resulting In	Ability to Influence	Existing Controls	Overall Control Rating	Consequence Rating	Likelihood Rating	Level of Risk	Treatment Options
COC-STR-15	Director Corporate Finance	Leading and Listening	Digital / Social Media	Fail to identify and effectively capitalise on digital and social media trends	Rapid uptake of changing technology Resource constraints	Reduced capability Appear to be reactive Reputation damage Lack of influence to stakeholders Reduce efficiencies	Control	Integrated planning framework Social media strategy Social media platforms Shared resources	Adequate	Disruptive	Likely	Moderate	Develop Digital Communication Strategy
COC-STR-16	Director Corporate Finance	Community, Lifestyle and Security	Technology Use	Fail to identify and capitalise on the effective and efficient use of technology	Rapidly changing technology Lack of understanding Complexity Legacy systems Public sector constraints Cyber security threats	Organisational inefficiencies Difficulty interfacing technology with stakeholders Missed opportunities Reduced customer service levels	Control	Information services strategic plan Working groups with stakeholders Manager IS is a member of the WALGA ICT Advisory panel where services and contracts are considered that have direct relevance on the services the City may procure.	Adequate	Serious	Possible	Moderate	Industry approaches to technology solutions - WALGA Paperless strategies Provider led technology solutions Promote mentoring and supporting internal champions The City is approaching industry leaders to help set strategic direction (e.g. Cisco, Hitachi, etc.) regarding community and infrastructure services. Paperless strategies remain an item of the City's IS Sustainability agenda. As part of the IS Workforce Planning Review, an ICT Security Analyst has been recommended to help combat the range and complexity of risks facing the city's infrastructure on a daily basis.
COC-STR-17	Chief Executive Officer	Leading and Listening	Allocation of Resources	Inability to have the right resources at the right time in the right place to meet City outcomes (Human inclusive of volunteers, Financial and Technical)	Skills constraints Lack of capacity and capability Commitment to projects Insufficient volunteers and community engagement Budget constraints Labour market constraints Misalignment of actual versus promised workforce culture	Turnover Morale implications System failures Poor service delivery	Influence	Workforce plan and associated strategies Training and development opportunities EBAs Employee value proposition Staff surveys	Adequate	Disruptive	Likely	Moderate	Better capture of corporate knowledge Conclude engineering services organisational structure review Ongoing organisational reviews Review current business processes to identify and implement improvements Focus on a competitive Enterprise Agreement that is capable of creating the best organisational environment to achieve the best people who are able to produce the best work. An IS Knowledge Management Plan is set for drafting by Dec 2016 which addresses all existing and anticipated information asset needs of the City.
COC-STR-18	Director of Corporate Finance & Executive Manager Strategy & Civic Support	City Growth	Project Management	Inconsistently apply project management framework to City projects	Resistance to cultural change Inconsistent and duplication of processes Lack of skills training Inconsistent project management frameworks Selecting the wrong project management software solution for the city. fundamental lack of governance from an IS perspective	Silo approach to projects Budget impacts "Parachuted projects" Incomplete and changes to project scoping	Control	Project management tools Staff training Cross functional meetings Long term financial plan	Inadequate	Critical	Likely	High	Establish project governance framework Certificate IV in project Management has been scheduled for relevant employees throughout the organisation to raise understanding in fundamentals of project management
COC-STR-19	Director of Corporate Finance	Leading and Listening	Records Management	Inconsistently applied record management practices	Lack of audit trail for documents/external sent emails not saved in elm Non compliance with processes and requirements Lack of awareness and training No perceived consequences Increased Officer workloads	Breach State Records Act Inefficiencies Incomplete records Loss of records	Control	Record management policy and guidelines Training Dedicated resources ECM	Inadequate	Serious	Almost Certain	High	Compulsory training (Staff & Elected Members) Assurance activities (Internal Audit - spot review of compliance) Leadership Review technology solutions CoC recently renewed its Recordkeeping Plan to the State Records Commission and currently awaiting their response. The effectiveness of the City's ECM system remains satisfactory, but compliance with requirements to comply remain a priority and will immediately follow the formation of the Knowledge Management Plan document which will act as a guide to which actions to take to achieve the goal of best practices.
COC-STR-20	Director Governance and Community Services	Leading and Listening	Internal Communications	Inability to adequately communicate key messages and decisions throughout organisation	Nature of communications Change management Lack of internal communications strategy Staff turnover Loss of corporate knowledge Silos	Lack of implementation and alignment Reputation damage Inconsistent leadership Poor decision making Impacts staff morale	Control	Team meetings Staff communication systems	Inadequate	Disruptive	Likely	Moderate	Develop internal communications plan
COC-STR-21	Chief Executive Officer	Leading and Listening	Compliance Requirements	Increasing compliance requirements remove focus from City service delivery	Additional statutory changes Increased community expectations Additional audits imposed on City Increased compliance reporting from external agencies	Pressure on existing resources Compliance breaches Reduced service delivery	Influence	Stakeholder communications Workforce management Investing in technology	Adequate	Disruptive	Likely	Moderate	Continue technology roll out Staff consultation to determine impacts of compliance activities - SBMG Risk based approach to compliance resource allocations
COC-STR-22	Director Engineering & Works	Economic, Social and Environmental Responsibility	Waste Management	Failure to provide and deliver sustainable and long term waste management objectives	Community behaviour Failure to comply with obligations under SMRC Closure of Henderson Waste Facility Increased costs of waste management Delay of alternatives	Service disruption Increased costs Non-compliance - penalties Public health risks	Influence	Waste management strategy Master plan for Henderson Waste Facility Investigating alternative waste disposal SMRC membership Membership of key waste groups	Adequate	Critical	Possible	Moderate	Deliver waste strategic plans Decisions on alternative waste disposal
COC-STR-23	Chief Executive Officer	Community, Lifestyle and Security	Workforce Safety	Failure to provide a environment that promotes health, safety and wellbeing of staff	Non compliance with safety and wellbeing and Occupational Health & Safety policies and legislation Lack of training Workplace culture Significant incident or crisis High risk activities Lack of awareness Inadequate risks assessment	Injuries Lost time Non-compliance Workers compensation claims Impacts morale Damaged reputation	Control	Safety management systems Dedicated safety resources - people and equipment Education and training Safety is a core value	Adequate	Critical	Possible	Moderate	Education and training Auditing of the workplace Zero Harm project Reward positive behaviours Investigate recycling of redundant SLLC gym equipment for setup within the Admin Centre and new Operations Centre to enable greater fitness and wellbeing opportunities
COC-STR-24	Chief Executive Officer	Community, Lifestyle and Security	Public Safety	Failure to provide a environment that promotes health, safety and wellbeing of community	Lack of awareness Inadequate risks assessment Human factors	Injuries Non-compliance Liability claims Impacts morale Damaged reputation	Influence	Risk assessments Asset management plans Occupational Health and Safety program	Adequate	Critical	Possible	Moderate	Public Occupational Health and Safety register Raise awareness of public on safety concerns
COC-STR-25	Director Governance & Community Services	Economic, Social and Environmental Responsibility	Business Continuity	Failure to develop robust processes to ensure business continuity in the event of a significant disaster	Poor business continuity planning Lack of testing Poor internal communications Rare events Staff turnover	Inability to respond to disasters Reputation damage Service disruption	Control	Business continuity plans and associated documents Continual testing of BCP	Adequate	Critical	Rare	Low	Develop Location based BCPs Increase staff awareness of BCPs and roles Develop Crisis Management Plan

CITY OF COCKBURN STRATEGIC INTERNAL AUDIT PLAN

Objective:

To identify the internal audit's objectives, strategies, and the audit work to be undertaken. The Internal auditor should have a long term strategic plan and annual work program to guide their Work. Long term strategic plans that are prepared with input from and approval by the Audit and Strategic Finance committee should be risk based.

Internal audit is an independent, objective assurance and consulting activity that seeks to add value and improve Council's operations. The activity assists Council in accomplishing its objectives, by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control, financial reporting and governance processes. The internal audit activity provides assurance to Council, executive management and the Audit Committee that key organisational risks are understood and managed appropriately. It also serves as an in-house advisory service providing management with guidance, advice and support in relation to governance, risk and control matters.

Approach:

Internal audit plan will be based on a risk assessment of the council's key strategic and operational areas to determine an appropriate timing and frequency of coverage of each of these areas. Best practice will also include audit judgment of areas that should also be reviewed despite not appearing as a high priority in the council's risk profile.

Process:

Internal Audit adopts a risk based approach as mandated by the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards), and ensures that the priorities of the internal audit activity are consistent with Council's goals and objectives.

The Annual Internal Audit Plan is developed based on Council's audit-risk universe using a risk-based methodology, including input and collaboration with Senior Management, Audit Committee members, and external audit.

In developing the internal audit plan, risks are reviewed along the following organisational contexts. External audit already plays a significant role in reviewing risks and controls within the financial context, allowing for internal audit to have a greater focus on non-financial risk areas. The process takes into consideration compliance requirements under the Local Government (Financial Management) Regulations.

Corporate & Governance Processes

- Corporate Governance Structure
- Risk Management Framework
- Fraud prevention management (to include anti-bribery and corruption)

Core Assurance Functions

- Core Financial Systems (to be scoped yearly but to include): Accounts Payable, Accounts Receivable,
- Budgeting, forecasting and management accounts
- Expenses and company credit cards
- Capital Expenditure, Income, Payroll
- Cash and Bank
- Fixed Asset Management (including security arrangements) Follow-up of management actions
- Investments Management

Strategic & Operational Emerging Risks

- Capital Works
- Project Management
- Land Development and Developer Contributions
- Procurement and Contract Management
- Fleet Management
- Waste Services
- Human Resources
- Records Management
- Rates Model
- Resources Allocation (Long Term Financial Planning)
- Internal Communications

IT, Specialist and Advisory Audits

- Information Technology Controls
- Business Continuity Management (including Disaster Recovery)
- Data Security/Information Security

Management Activities

- Audit Committee – Preparation, attendance and follow-up
- General liaison (including meetings)
- Annual planning

The Audit plan will generally be developed as follows:

- Review of the most recent version of the council's operational and strategic risk registers
- Review of the council's key objectives and plans;
- Reference to previous audit and assurance work, including follow up of the implementation of previous recommendations
- Reference to weaknesses identified in previous special investigations into fraud and irregularity;
- Reference to compliance framework changes or identified gaps
- Discussions with the Strategic Managers
- Discussions with the Executive
- Discussions with Council's external Auditors
- Review and approval by the Audit & Finance Strategic Committee.

Generally, such a plan assists the Internal Auditor to identify:

- The audit projects that will be carried out during the year and rationale for selecting each
- When each audit project is expected to commence and the time allocated for each
- The performance measures that will be used to evaluate the performance in relation to established goals / objectives and strategies
- Any areas that cannot be covered within existing budgets and additional areas, which in the opinion of the internal auditor, should be reviewed
- Whether the audit projects identified require the use of external expertise.

A rolling three year plan of coverage can be proposed so that it can be readily determined what areas will be covered in any given year, and if their area is not covered in a given year, when it is scheduled for review. The ability of the internal auditor to execute this plan over a three year cycle is a useful method to assess whether internal audit is adequately resourced. However the plan should be reviewed at least annually to ensure that it still aligns with the council's risk profile.

CITY OF COCKBURN STRATEGIC INTERNAL AUDIT PLAN

Function/Process/Activity	Reason	Audit Scope	Organisational Context	2016/17	2017/18	2018/19
Project Management	High risk as identified in the strategic risk register Project management across the organisation is inconsistent and inefficient and has been highlighted in the Organisational review and employee surveys. The likelihood of the risk eventuating to the level of critical consequences is frequent.	Consideration and testing of the design and effectiveness of the project management procedures adopted at the City, and to propose any potential additional measures that may assist the City in improving its project management skills and practices. The focus of this review covers the project management activities currently implemented and adopted by the City of Cockburn in managing its projects.	Emerging Strategic & Operational Risks	√		
Land Development and Developer Contributions	Substantial risk as identified in the operational risk register Accurate analysis is critical for the feasibility of Land Development and Projects funded through Developer Contributions.	The review objective is to assess the adequacy of the management control framework relating to land development projects and the City's developer Contribution schemes. Audit will look at the extent to which the City is complying with key legislative, planning scheme, policies, procedures, guidelines, and other requirements in delivering land development projects and administering the developer contribution schemes.	Emerging Strategic & Operational Risks		√	
Fleet Management	Moderate risk as identified in the operational risk register The city has a considerable investment in its fleet assets and considerable resources are consumed in operating and maintaining the fleet to ensure it services the City's business requirements. Independent review will assist determine the effectiveness of the fleet management model.	The objective of the review is to assess the adequacy of the management control framework and related risk management strategies for the fleet management function, including processes relating to the planning, organizing, controlling, directing, communicating, and the management of vehicle assets. Extent to which the City's is complying with policies, procedures, guidelines, and with laws and regulations pertaining to fleet management.	Emerging Strategic & Operational Risks			√
Records Management	High risk as identified in the strategic risk register The effectiveness of the City's ECM system remains a recurring question and thus a high priority and will immediately follow the formation of the Knowledge Management Plan document which will act as a guide to which actions to take to achieve the goal of best practices. There is lack of audit trail for documents/external, sent emails not saved in ECM. Non-compliance with processes and requirements, Lack of awareness and training, and no perceived consequences and Increased Officer workloads.	The purpose of this audit is to assess City of Cockburn's management of both paper and electronic records. The key objectives are to determine if the City is meeting both its program and legislative requirements, and if it has struck the right balance in doing so. In The City of Cockburn, officers and individuals all have responsibility for records management. The Information Services has functional responsibility for records management and supports departmental staff in meeting these records management responsibilities. The audit will review the operations of the central records management system which provide functional direction and support to business units.	Emerging Strategic & Operational Risks		√	
Rates Model	Moderate risk as identified in the operational risk register The City's Budget Management Policy requires that internal audit review the annual rate setting process and the outcomes, paying particular attention to the parameters used for applying the rates concession scheme to residential improved properties.	To have reasonable assurance of the City of Cockburn's rate setting model for the annual budget, with a focus on the City's objectives of applying a maximum equivalent rates increase for residential improved properties using a concession and of continuing to provide a benefit to pensioners from the City's rates incorporation strategy.	Emerging Strategic & Operational Risks	√	√	√
Resources Allocation	Moderate risk as identified in the strategic risk register The Long Term Financial Plan is a critical planning document for ensuring the future financial sustainability of the City in terms of resources allocation. An independent review of the methodology and the basis of underlying assumptions used will support the governance over this exercise.	The objective for this audit is to assess the level of compliance and alignment of the City's LTFP with the DLGC Strategic Planning Framework. The review will also look at how well the LTFP integrates with and informs the City's other financial planning processes including the corporate business plan, annual business plan and annual budget. Improvement opportunities are to be identified.	Emerging Strategic & Operational Risks			√

CITY OF COCKBURN STRATEGIC INTERNAL AUDIT PLAN

Function/Process/Activity	Reason	Audit Scope	Organisational Context	2016/17	2017/18	2018/19
Internal Communications	<p>Moderate risk as identified in the strategic risk register</p> <p>Internal Communications across the organisation was also highlighted in the Organisational review and employee surveys. The likelihood of the risk eventuating to the level of critical consequences has been occurring routinely. There is currently no internal communication plan or policy.</p>	<p>Review of the top down communication from the Executive to their direct reports and heads of departments, and the cascade of information by Strategic Managers to their direct reports and then on to all staff across their departments. Lateral communication across departments. The interface for staff who wish to communicate internally or seek advice on internal communication. Communication around change programmes and new initiatives. The appropriate use of email and the storing of information electronically. Information sharing across the whole organisation inclusive of Elected Members. The communication skills and practices of managers and key communicators. The effectiveness of the current main communication channels.</p>	Emerging Strategic & Operational Risks	√		
Financial Management Systems and Procedures	<p>Obligation under Section 5(2) (c) of the Local Government (Financial Management) Regulations 1996 - requires the Chief Executive Officer to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures of the Local Government regularly (and not less than once in every four financial years) and report to the Local Government the results of those reviews.</p>	<p>Review effectiveness and appropriateness of collection, custody and security of all money owing or held by the City. Maintenance and security of the financial records in specific to accounting for municipal or trust, revenue received or receivable, expenses paid or payable, assets and liabilities, and authorisation for the incurring of liabilities and the making of payments. Maintenance of payroll, stock control and costing records, preparation of budgets, budget reviews, accounts and reports required by the Act or the regulations.</p>	Compliance Requirement			√

4 July 2016

Chief Executive Officer
City of Cockburn
PO Box 1215
BIBRA LAKE WA 6965

Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDED 30 JUNE 2016

We carried out an interim audit of the City of Cockburn for the year ended 30 June 2016.

Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Bank Reconciliations
- Investment of Surplus Funds
- Purchases
- Payments and Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tenders Register, etc.)
- Fixed Assets (Property, Plant & Equipment and Infrastructure)
- Review of Council Minutes

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



Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Cockburn.

Because of 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. 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.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify.

Accordingly, our comments in this management letter are not intended to cover all aspects of the City's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matters were noted and are brought to your attention.

SUNDRY DEBTORS

Our review of the procedures relating to raising of credit notes indicated that the credit notes issued were based on the associated debtor invoice number and not sequentially numbered credit notes.

In the absence of sequentially numbered credit notes, there is a risk that credit notes raised may not be accounted for within the system and may result in loss of revenue.

We recommend that credit note numbers be automatically generated in a sequential order from the financial system to provide control and assurance that all credit notes have been properly accounted and entered in the system.

This matter was reported in our previous management letter dated 2 July 2015. The management response then provided was as follows:

"All credit notes raised within the system are now invoked by an authorised memo from the relevant manager as per the implemented audit recommendation from last year. Credit notes are associated with the relevant invoice as a debt adjustment and hence don't currently have separate numbering.

The City will review the credit note raising, approval and processing system methodology to ensure the loss of revenue risk is appropriately mitigated in future".

We will be pleased to receive management's response on the above matter.

Management Comment:

We have a system review of sundry debtors processing planned for August 2016 in consultation with a Tech One consultant. This will include reviewing credit note numbering requirements.

The City raises very few credit notes (around 6 per year) and only when they are approved by an authorised officer. Sequential numbering of credit notes is seen as less of a control than an independent periodic review by management of all credits notes raised on the system. This will be made a priority in the review.



PAYROLL

Our audit examined the City's payroll system which consists of controls assessment around the following areas:

- Reviewing the policies and procedures at the City in relation to the Payroll system
- Staff additions and terminations
- Changes to employees pay, including variations to pay
- Authorisation and monitoring of leave taken by employees
- Processing of payroll
- Segregation of duties

The following matters were noted and are brought to your attention:

- (i) Amendments to the Payroll master file (e.g. personal, pay rates, bank account details) are performed by the Human Resources Coordinator or Human Resources Officer. However, we noted that amendments to the payroll master file are not reviewed by an independent senior officer. Lack of such control may provide opportunities for inappropriate amendments to remain undetected.

We recommend that a report containing amendments to the payroll master file be produced and reviewed by an independent senior officer not responsible for entering/amending employee data in the payroll system in order to reduce the risk of unauthorised amendments. The report should only highlight changes to critical fields.

Management Comment:

HR Officers load new employees onto the Payroll Master File, however are unable to make any amendments. All amendments are undertaken by members of the payroll team. Business Systems are able to produce a report which details which member of the team made each amendment to enable auditing.

The Manager HR does not believe the creation of a report of all amendments to be checked on a regular basis (i.e. pre every payroll run) would be effective or efficient.

- (ii) The City's "Taking of Annual Leave and Long Service Leave" Policy (PSFCS20) stipulates that employees should have no more than eight weeks (304 hours) leave due to them at any time.

During our review of the employee annual leave entitlement balances as at 3 May 2016, we noted that 31 employees had accrued annual leave in excess of 8 weeks to a maximum of 13.7 weeks.

Excess annual leave entitlements may have adverse effects on the City including:

- key staff not being rotated, a preventive control against fraud;
- health and safety concerns with staff members not taking their annual entitlements; and
- increase the City's costs given salary rises and increments over time.



We note that management has processes in place for identifying and monitoring staff that have accrued excess annual leave balances and take appropriate action.

We will be pleased to receive feedback on the status of the balances.

Management Comment:

The management of leave liability has significantly improved over the past 12 months as evidenced by the drop in both the number of employees and the excess weeks. This has been achieved through initiatives such as the new HR Monthly Report to all Directors and SBMG members that regularly highlights leave liability and number of employees, by Division, with excess leave balances.

Further, as part of the Absenteeism Management training introduced this year, Supervisors are being trained on the requirements to manage leave balances and their powers to do so.

MINUTES OF MEETING

Section 5.22(3) of the Local Government Act 1995 stipulates that "The person presiding at the meeting at which the minutes are confirmed is to sign the minutes and certify the confirmation."

During our review of the council minutes, we noted that the ordinary council meeting minutes for June 2015, August 2015, November 2015 and special council minutes for June 2015, July 2015 and December 2015 were signed and certified on a date much later than that of the meeting at which they were confirmed.

We recommend that the council minutes be signed and certified by the presiding person as soon as is practical following the meeting at which they are tabled in accordance with the requirement of the legislation.

Management Comment:

Normal practice is for the presiding person to sign and date the minutes on the day of the meeting at which the minutes are confirmed. An internal review in May identified a number of minutes that had not yet been certified and these were duly signed. All of these had otherwise been properly confirmed at a meeting of Council.

Procedures will be reviewed to ensure the presiding person has signed and certified the minutes on the appropriate day.



ASSET RESIDUAL VALUES AND DEPRECIATION EXPENSE

The Australian Accounting Standards Board (AASB) released an agenda decision in May 2015 clarifying its interpretation of the term "residual value" for the purposes of calculating depreciation for long-lived assets such as infrastructure assets under AASB 116 *Property Plant and Equipment*.

The AASB decision highlighted that components that are re-used in the construction of new assets have not met the end of their useful life i.e. residual value must not include or reflect the cost savings from the re-use of part of an asset. The AASB decision did not represent a new requirement but rather the clarification of an existing requirement, meaning those councils with non-compliant residual values had to reassess them immediately. This had the potential to impact on depreciation expense calculations.

Given the timing of the decision (May 2015), it is likely that most local governments will have made or will be making the necessary changes to ensure full compliance. We request that management address this requirement by reviewing the residual values applied to the assets and appropriately reassess asset components and useful lives for the purposes of the calculation of depreciation expense for the 2016 financial year.

Management Comment:

The City has never applied residual values to any components of its infrastructure assets as it has never had a factual basis to do. The City's current depreciation rates are based on the best available asset data and evidence to date.

The City's Asset Services team continue gathering further asset data and evidence through asset condition surveys. This will refine useful lives for the various asset components based on a number of asset degradation factors (i.e. road hierarchy, traffic volume, pavement depth etc.) and ultimately increase the accuracy of depreciation rates.

We thank your staff for the assistance given during the audit. Should you have any queries with respect to the above or any other matters please do not hesitate to contact us.

Yours faithfully



**ANTHONY MACRI
AUDIT PARTNER**



<u>Debtor Name</u>	<u>Debt Category</u>	<u>Date of Debt</u>	<u>Amount Excl GST</u>	<u>GST Inclusive</u>	<u>Details of Charges</u>	<u>Write Off Reason</u>
Fusion Drilling	Tip Fees	31/10/2013	\$ 1,313.15	\$ 1,444.47	Tip Fees - Oct 2013, Dec 2013, Jan 2014, Mar 2014, Apr 2014, May 2014	Pursued all avenues through CS Legal. Under External Administration
Cable Synergy	Tip Fees	31/08/2012	\$ 317.64	\$ 349.40	Tip Fees - Aug 2012, Dec 2012	In Liquidation
Child Protection Services	Sundry	10/04/2014	\$ 404.55	\$ 445.01	Youth Outrage Program Apr 2014, July 2014, Sept/Oct 2014	Insufficient information to pursue
Little Learners Pre Kindy	Hall Hire	31/08/2010	\$ 2,600.72	\$ 2,860.79	Atwell Hall Hire Aug 2010, Sept 2010, Oct 2010, Nov 2010, Dec 2010	Insufficient information to pursue
(YOUTH)NGIC	Sundry	25/05/2012	\$ 447.28	\$ 492.01	Main Hall Hire May 2012	Insufficient information to pursue
Real Institute Pty Ltd	Hall Hire	9/11/2015	\$ 5,931.82	\$ 6,525.00	East Beelier Hall Hire Oct 2015, Nov 2015, Dec 2015	In Voluntary Administration
Shyma Aga	Sundry	4/11/2013	\$ 651.17	\$ 716.29	Jandakot Hall Hire Nov 2013	Pursued all avenues through CS Legal
Beeliar Soccer Club	Hall Hire	25/08/2010	\$ 2,417.27	\$ 2,659.00	Ground & Changeroom Hire 2010	Write Off approved by Recreation Services Coordinator
Tyron Herriot	Reimbursements	9/01/2015	\$ 383.00	\$ 383.00	Overpayment of Wages PE 16/12/2014	Uneconomical to pursue
			\$ 14,466.60	\$ 15,874.97		