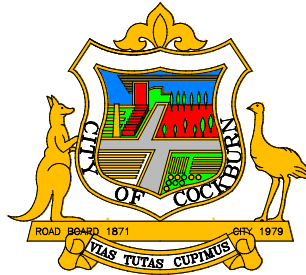


CITY OF COCKBURN



AUDIT & STRATEGIC FINANCE COMMITTEE

MINUTES

FOR

THURSDAY, 20 JULY 2017

These Minutes are subject to Confirmation

Presiding Member's Signature

Date: 16 November 2017

CITY OF COCKBURN

SUMMARY OF MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 20 JULY 2017 AT 6:00 PM

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CITY OF COCKBURN

MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 20 JULY 2017 AT 6:00 PM

PRESENT:

ELECTED MEMBERS

Mr S Portelli	-	Councillor (Presiding Member)
Mr L Howlett	-	Mayor
Mrs C Reeve-Fowkes	-	Deputy Mayor
Mr K Allen	-	Councillor
Dr C Terblanche	-	Councillor
Mr B Houwen	-	Councillor

IN ATTENDANCE

Mr S. Cain	-	Chief Executive Officer
Mr D. Green	-	Director, Governance & Community Services
Mr S. Downing	-	Director, Finance & Corporate Services
Mr N. Mauricio	-	Manager, Financial Services
Ms M. Tobin	-	Executive Manager, Strategy & Civic Support
Mr J Ngoroyemoto	-	Governance & Risk Management Co-ordinator
Mrs B. Pinto	-	Executive Assistant to Directors – Fin. & Corp. Services/Gov. & Comm. Services

1. DECLARATION OF MEETING

The Presiding Member declared the meeting open at 6.05 pm.

He acknowledged the Noongar people who are the Traditional Custodians of this Land. He also paid respect to the Elders, both past and present, of the Noongar Nation and extended that respect to other Indigenous Australians who may be present.

2. APPOINTMENT OF PRESIDING MEMBER (If required)

Nil.



3. DISCLAIMER (Read aloud by Presiding Member)

Members of the public, who attend Council Meetings, should not act immediately on anything they hear at the Meetings, without first seeking clarification of Council's position. Persons are advised to wait for written advice from the Council prior to taking action on any matter that they may have before Council.

4. ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN DECLARATIONS OF FINANCIAL INTEREST AND CONFLICT OF INTEREST (BY PRESIDING MEMBER)

Nil

5. APOLOGIES & LEAVE OF ABSENCE

Nil

6. PUBLIC QUESTION TIME

Nil

7. CONFIRMATION OF MINUTES

7.1 (MINUTE NO 190) (ASFC - 20/7/2017) - MINUTES OF THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING - 16 MARCH 2017

RECOMMENDATION

That Committee confirms the Minutes of the Audit and Strategic Finance Committee Meeting held on Thursday, 16 March 2017, as a true and accurate record.

COMMITTEE RECOMMENDATION

MOVED Cllr C Terblanche SECONDED Mayor L Howlett that the recommendation be adopted.

CARRIED 6/0

8. DEPUTATIONS

Nil



9. PETITIONS

Nil

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

Nil

11. DECLARATION BY ELECTED MEMBERS WHO HAVE NOT GIVEN DUE CONSIDERATION TO MATTERS CONTAINED IN THE BUSINESS PAPER PRESENTED BEFORE THE MEETING

Nil

12. COUNCIL MATTERS

12.1 (MINUTE NO 191) (ASFC - 20/7/2017) - RISK MANAGEMENT INFORMATION REPORT (021/012) (J NGOROYEMOTO)

RECOMMENDATION

That Council receive the quarterly report on the Risk Management Program.

COMMITTEE RECOMMENDATION

MOVED Mayor L Howlett SECONDED Cllr C Terblanche that the recommendation be adopted.

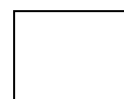
CARRIED 6/0

COUNCIL DECISION

Background

The City's Risk Program, is committed to a culture of risk management, 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 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 information report was submitted to the Audit Committee.

The purpose of this report is to provide an overview of the current and planned risk management activities by the City of Cockburn, incorporating the Status of the City Business Continuity Management Program.

Submission

N/A

Report

This Risk Report covers the months of April to July 2017 and outlines the risk and business continuity management activities undertaken during these months.

Risk Management Program;

Update on High and Extreme Risks

As at 5th of July 2017, 25 Strategic Risks and 205 Operational risks currently sit on the City’s Risk Registers.

- No **EXTREME** risks
- 6 **HIGH** risks
- 16 **SUBSTANTIAL** risks
- 131 **MODERATE** risks
- 77 **LOW** risks

These risks are monitored and reviewed in priority of the risk rating level as per the City of Cockburn risk treatment levels. Updates on the identified HIGH/EXTREME risks are detailed below:

Risk ID	Risk Statement	Existing Controls	Risk Rating
252	Bush Fire: Fail to adequately manage bush fire risk exposure within City	Emergency Management Arrangements Interagency engagement (DFES and DPaW) Bushfire Risk Management Plan and fuel load register. An additional employee is to be engaged in 2017 whose specific task will relate to Bushfire Mitigation within the District.	High

Comment

Currently trialling a new concept of rural inspections by a Bushfire Risk Assessment Officer, as opposed to a member of the Rangers team. The trial has improved compliance and land owners understanding of



fire prevention. To date, the Assessment Officer has issued 230 infringements, up 183 percent between for the period of 1 November to 18 January.

Risk ID	Risk Statement	Existing Controls	Risk Rating
264	Project Management: Fail to consistently apply project management methodology and implementation to City projects	Project management tools Staff training Cross functional meetings Long term financial plan	High

Comment

The City is implementing a project management system to minimise the risk highlighted above. The City to date has implemented a capital budgeting module which is part of the overall project management methodology for capital expenditure projects. The need however is to have a consistent approach to project management across all business units of the City.

Risk ID	Risk Statement	Existing Controls	Risk Rating
265	Records Management: Inconsistently applied record management practices	Record management policy and guidelines Training Dedicated resources ECM	High

Comment

Continuing education is being undertaken to reinforce the requirements of all staff to record documentation in the City's record management system, so as to comply with the state Records Act. A knowledge management project has been initiated to support current efforts and ensure the records management system is being consistently used across the organisation to store the City's corporate information.

Risk ID	Risk Statement	Existing Controls	Risk Rating
254	Community Led Reform: Reignited local government structural reform agenda from community initiation	Community engagement strategy and framework Annual community perceptions survey Customer satisfaction survey Integrated planning framework Support for community groups \$50 000 was directed towards response to the community initiated proposal seeking to transfer Hamilton Hill and North Coogee to City of Fremantle	High



Comment

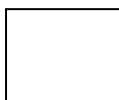
The LGAB resolved in late 2016 to advise the Minister for Local Government to reject the proposed boundary change with Fremantle. Strong community support had been demonstrated for the City's boundaries to remain intact, which was noted by the LGAB. With this issue now complete and none of the City's neighbours seeking to reignite debate, it is most unlikely there will be further boundary adjustment proposals in the near future. The issue of boundary review is also not being pursued by the new State Government. As such, the level of risk is recommended to reduce to 'low' for the foreseeable future.

Risk ID	Risk Statement	Existing Controls	Risk Rating
155	Community Services Major Projects: Failure to coordinate Community Services major projects on behalf of the City of Cockburn	Contract independent specialist consultants, project control group, project working group, committees, Council reference group, consulting teams/meetings, financial monitoring, extensive project program, monthly progress reports, Risk management Plans. A Project Portfolio Management system is to be implemented to provide a consistent format for the delivery of large capital works Projects across the organisation.	High

Comment

Cockburn Aquatic Recreation Centre was handed over to the City and is now in operation, currently finalising the geothermal. Final testing of the geothermal is in progress. Construction of the new Hockey and Community Facilities on Lakeland Reserve has started with the legal agreements to be prepared and the concept design developed. Concept design for new Recreation and Community facilities on Frankland Reserve has been completed. The City has developed project governance framework and undertook an audit on project management and has initiated a project for implementation of a project management technical solution which will further mitigate the risk associated with the management of Community services major projects.

Risk ID	Risk Statement	Existing Controls	Risk Rating
255	Water Availability: Reducing water availability to irrigate City and maintain service delivery and amenity	Water Management Plan Adapt landscaping Plans Water Recharge Options Community education CCAP, Water Operating Plans	High



Comment

The City continues to prioritise current water resources through the implementation of the Water Conservation Plan and Local Water Action Plan. Investigation continues with the Department of Water on Managed Aquifer Recharge projects and redistribution of abstracted groundwater for the future golf course and development along the Cockburn Coast. Liaison with the Department of Water will continue on water availability from recycled water for POS irrigation through the DOW South West subregion.

Risk Profile

All of the City's risk information is continuously reviewed by the risk owners in RMSS. The distribution of risk ratings for both strategic and operational risks throughout the organisation is shown in the following risk matrix and pie chart. The pie chart demonstrates the overall image of the City's risk categorised into Low, Medium, Substantial, High and Extreme risks. The City is proactively managing its risks with only no Extreme risk identified and only 2.30% rated as High. The distribution of the risk ratings is likely going to change as the City transitions through the Risk Maturity Road Map and continues to review all operational and strategic risks.

Figure 1: Distribution of risk ratings as at 30 June 2017

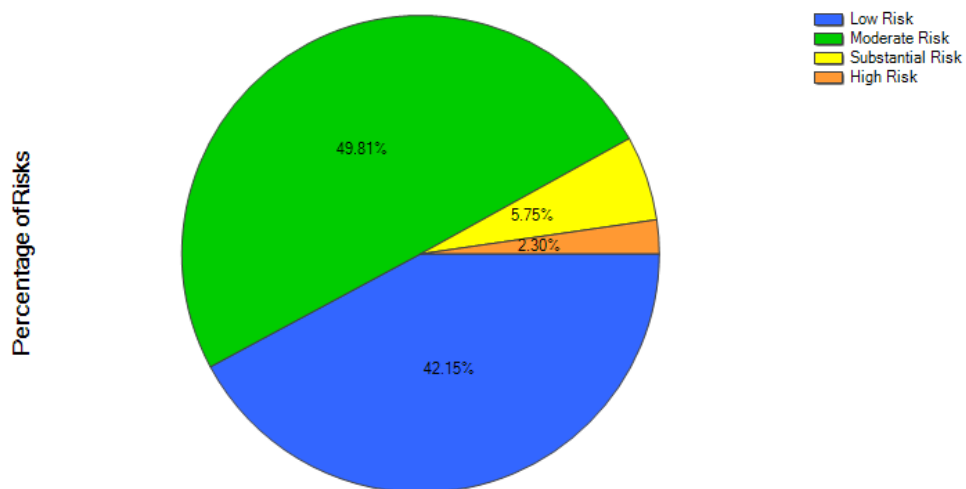


Figure 2: Risk Matrix - This matrix maps out the distribution of risks within the City's Risk Matrix.



		Likelihood				
		1 Rare	2 Possible	3 Occasional	4 Likely	5 Almost Certain
Consequence	Minor 1 - 1	L	L	L	L	M
	Disruptive 2 - 2	12 Risk(s)	61 Risk(s)	59 Risk(s)	25 Risk(s)	4 Risk(s)
	Serious 3 - 3	4 Risk(s)	16 Risk(s)	20 Risk(s)	5 Risk(s)	1 Risk(s)
	Critical 4 - 4	L	11 Risk(s)	6 Risk(s)	2 Risk(s)	E
	Catastrophic 5 - 5	M	1 Risk(s)	3 Risk(s)	E	E

E	Extreme	Significant impact making it unlikely for the organisation to achieve its objectives. Capability of the organisation Risk Treatment: Eliminated. Requires treatment to eliminate risk. Formal assessment and action plan prepared.
H	High	Significant impact making it difficult for organisation to achieve objectives. Will diminish capability of organisation. Risk Treatment: mitigate. Risk requires treatment to mitigate impact. Formal assessment and action plan prepared.
S	Substantial	Will Impact on the ability of organisation to achieve objectives or will diminish capability. Risk Treatment: Accepted with detailed review and assessment. Action Plan prepared.
M	Moderate	May Impact on the ability of organisation to achieve objectives or may diminish capability. Risk Treatment: Accepted with review.
L	Low	Little or no impact on the achievement of objectives or capability Risk Treatment: Accepted without detailed review.

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The City's Business Continuity Management Program:

Business Continuity Plan Test

As part of its on-going commitment to enhance and improve its incident management and business continuity capabilities, the City of Cockburn conducted an exercise to validate and rehearse its Business Continuity Plan (BCP) on 28th March 2017. Riskwest facilitated the Business Continuity Scenario, with the Crisis Team lead by the Chief Executive Officer to test the City's Business Continuity Plan (BCP) and Crisis Management capabilities. This exercise achieved the following key outcomes;

1. To validate the completeness and accuracy of the BCP
2. To provide an opportunity for Crisis Management Team (CMT) to rehearse the process for activating the BCP and mobilising to the recovery location
3. To validate the adequacy of the recovery site to support the CMT
4. To identify any shortcomings in business continuity arrangements, and identify opportunities for improvement

This exercise was facilitated through a workshop with the scenario incorporating a major disruption to council operations. The exercise was conducted in 2 phases:

- Phase 1 – notification and activation of the CMT outside office hours, and mobilisation of the CMT to the recovery site at the Youth Centre
- Phase 2 – when the CMT was at the recovery site, the exercise was conducted using table top approach. The table top exercise ran in compressed time over 3 segments as follows:
 - Segment 1 – Immediate response: upon activation of the CMT
 - Segment 2 – On-going response: dealing with emerging issues
 - Segment 3 – Recovery: dealing with the aftermath of the crisis

In each segment the CMT discussed the actions that must be carried out to address the issues presented in the scenario and injects, assign responsibilities, maintain incident logs and where required, carry out specific tasks. A hot debrief was carried out immediately after the exercise to identify lessons learned, areas for improvement and next steps.

Within the limitations and confines of a table top exercise, members of CMT who participated in the exercise demonstrated competence in applying the principles and procedures outlined in the BCP. Good leadership was demonstrated by the CMT Leader in keeping the team engaged and focused on resolving the issues presented. Team



members demonstrated cohesive team work and discipline in working under tight time constraints and demanding conditions. There was no evidence from the exercise to suggest that the team will not be able to effectively execute the BCP in an actual crisis.

There were slight gaps identified within the plan in relation to the plan activation, communication and information management, decision making, and human resources management during times of Crisis. The City will develop tools to quickly notify and communicate with employees in a crisis, in order to improve coordination and information sharing. Working from home was identified by most business units as a viable strategy during the exercise, therefore the City will review the work from home strategy to ensure technical and operational capabilities of the policy.

In response to the above findings the City has developed and is currently finalising the Crisis Management Plan with Incident escalation protocols. The Crisis Communications Plan will provide effective communications, clear roles and responsibilities, good information management, and well-rehearsed decision making process.

In addition the City is also currently reviewing, and testing the Information Services Disaster Recovery Plan, to ensure that all Information Technology recovery strategies are reliable and effective. Phase 2 of this project will see the review and development of a Records Management Disaster recovery Plan.

Key outcomes from the exercise will also drive the following business continuity initiatives in the next two financial years;

- i. Development of location specific business continuity plans, for the City's buildings and precinct.
- ii. Develop processes and protocols for notifying and communicating emergency messages in a crisis situation
- iii. Review of the Working from Home Policy
- iv. Development of a Critical Incident Plan

Insights and moving forward:

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

- I. A review the City's risk registers, by conducting annual risk controls reviews. The main objective of the control reviews is to ensure that City of Cockburn can not only identify its risks, but also have confidence that key risks have adequate controls in place and that these controls are adequate. A fully functioning and transparent risk management program ensures that Council is aware of its risks, and will have the means to develop instructive and practical



mitigation strategies, and monitor the status and the validity of all existing controls

- II. A review of the Risk Management Framework, focusing on consolidating the Enterprise Risk Policy and the Business Continuity Policy, and reviewing the Risk Management Strategy document and alignment with Project Risk Management Framework.
- III. Development of Location Specific Based Business Continuity Plans in 2017-2019 Financial Years (Business Impact Analysis, Identify Response Options, Develop Response Plans, Train Exercise and Maintain).
- IV. Continue working with all business units to implement robust processes for embedding risk management and provision of risk management training for officers to improve the City's risk culture and commitment, and development of a risk management training program.

Strategic Plan/Policy Implications

Leading & Listening

- Deliver sustainable governance through transparent and robust policy and processes

Budget/Financial Implications

Budget allocation for external consultants to develop location based business continuity plans will need to be included in the next two financial years.

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

There are no risks associated with adopting the recommendation. However presentation of this report provides assurance that the City is actively monitoring and reviewing its risks and mitigating risks in accordance with the City's risk appetite.

Attachment(s)

N/A



Advice to Proponent(s)/Submissioners

N/A

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

Nil.

12.2 (MINUTE NO 192) (ASFC - 20/7/2017) - RELATED PARTY DISCLOSURES (091/001) (S DOWNING) (ATTACH)

RECOMMENDATION

That Council

- (1) receive the report; and
- (2) prepare a Policy on Related Party Disclosures for consideration at the next Delegated Authorities, Policies and Position Statements Committee Meeting.

COMMITTEE RECOMMENDATION

MOVED Mayor L Howlett SECONDED Deputy Mayor C Reeve-Fowkes that the recommendation be adopted.

CARRIED 6/0

COUNCIL DECISION

Background

Effective for the reporting period on or after 1 July 2016, all local governments in WA including the City of Cockburn must disclose certain related party relationships and related party transactions together with information associated with those transactions in its annual financial report in order to comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

This is a requirement specified by the Australian Accounting Standards and is different from the Disclosure of Interest and Gift and Travel Disclosure requirements that are imposed under the Local Government Act 1995 and associated Regulations.



Submission

N/A

Report

The objective of the new Accounting standard is to ensure that local government financial statements contain the disclosures necessary to draw attention to the possibility that its financial position may have been affected by the existence of related parties and by the transaction and outstanding balances, including commitments, with such related parties.

The definition of an entity that is related to Council as defined in AASB 124. It is important that each Council considers how the standard will apply to itself. Attention is directed to the substance of the relationship and not merely the legal one. Some related parties the City of Cockburn can have are noted below:

- Entities related to Council (that is, an entity set up, controlled or is significantly influenced by Council such as a regional council and regional subsidiaries.
- Key Management Personnel (KMP) of Council that is the Mayor, Elected members, CEO and/or Directors
- Close family members of KMP;
- Entities that are controlled or jointly controlled by KMP or their close family members (JVs, companies sporting clubs).

Entities related to Council is an entity controlled or jointly controlled by Council or over which Council has significant influence. This is where there is power to participate in the financial and operating policy decisions of the entity but not control or joint control. It is likely that regional councils or subsidiaries will meet the definition of a related entity.

Key Management Personnel (KMP), close family members of KMP and entities that are related to KMP or their close family members are related parties. It is likely that mayors, elected members, CEO, directors are KMP. Close family members of KMP are those family members who may be expected to influence or be influenced by the KMP in their dealing with the Council.

AASB 124 contains a number of disclosure requirements to enable users of financial statements to understand the potential effect of the relationship on the financial statement. The key ones are as follows:

1. KMP Compensation in aggregate and for each of the following categories:
 - a. Short term employee benefits (pay/siting fees/allowances)
 - b. Post term benefits (superannuation)
 - c. Other long term benefits (long service leave)
 - d. Termination benefits (separation – not normally applicable)



2. Relationships between council and its subsidiaries, irrespective of whether there have been transactions between them.
3. Amounts incurred by Council for the provision of KMP services that are provided by a separate management entity.
4. Where related party transactions have occurred:
 - a. The nature of the related part relationship
 - b. Information about the transaction, outstanding balances and commitments including terms and conditions
5. Separate disclosures for each category of related party. In respect of 4 (b) above, the types of transactions disclosed can include:
 - a. Purchase/sale and lease of goods, property and other assets
 - b. Rendering or receiving of goods, services, property and other assets
 - c. Guarantees given or received
 - d. Commitments
 - e. Loans and settlements of liabilities
 - f. Expenses recognised during the period in respect of bad debts
 - g. Provisions for doubtful debts relating outstanding balances

The financial statements are not required to provide comparisons for the first year.

Council may exclude Ordinary Citizen Transactions (OCT) on the basis that they are the same as ordinary citizens transact with Council. These include:

- Use of Council facilities eg Cockburn ARC
- Fines on normal terms and conditions
- Paying rates and council fees and charges on normal terms and conditions.

As such a draft policy will be prepared for consideration at the next DAPPS meeting. As the implementation of this Accounting Standard will apply to the preparation of the 2016-17 annual financial statements for the City a draft has been prepared for consideration of the members of the Committee. It will cover the following:

- The need to establish a system/relevant controlling mechanism. The system should identify, entities related to Council, KMPs, Close family members of KMPs and their related entities
- Need to identify ordinary citizen transactions
- Identify related party transactions
- Need to assess materiality
- Make the relevant disclosure for KMPs.



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

N/A

Legal Implications

N/A

Community Consultation

N/A

Risk Management Implications

Non-adoption of the Related Party Disclosures will put Council in breach of Australian Accounting Standards and will ensure the annual financial statements are qualified by the external auditors.

Attachment(s)

1. Copy of Department of Local Government explanatory note – Related Party Disclosures
2. Copy of WALGA's explanatory note – Related Party Disclosures
3. Draft Policy – Related Party Disclosures

Advice to Proponent(s)/Submissioners

N/A

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

Nil.

13. PLANNING & DEVELOPMENT DIVISION ISSUES

Nil



14. FINANCE & CORPORATE SERVICES DIVISION ISSUES

14.1 (MINUTE NO 193) (ASFC - 20/7/2017) - ANNUAL DEBTS WRITE-OFF (069/002) (N MAURICIO) (ATTACH)

RECOMMENDATION

That Council write off the bad debts for commercial and community based debt totalling \$6,502.37 (inc. GST), as shown in the attachment to the Agenda.

TO BE CARRIED BY AN ABSOLUTE MAJORITY OF COUNCIL

COMMITTEE RECOMMENDATION

MOVED Cllr K Allen SECONDED Mayor L Howlett that the recommendation be adopted.

CARRIED 6/0

TO BE CARRIED BY AN ABSOLUTE MAJORITY OF COUNCIL

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 a good track record in managing and collecting its outstanding debts, there will always be some that become uncollectible for various reasons.

The typical debtors mix for the City comprises commercial debtors (mainly landfill trade debtors) and community based debtors (hall and reserve hire and provision of community related services). Bad debts are usually attributable to failing businesses and untraceable companies and individuals. Also, some debts are not worth pursuing further due to the cost of formal debt recovery processes.

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	1,648.46	1,813.30
Community (hall/reserve hire, services)	5	3,885.84	4,274.42
Sundry Debts Sub-Total		5,534.30	6,087.72
Infringement – Dog Act	1	414.65	414.65
Debt write off Total		5,948.95	6,502.37

It should be noted that the impact on Council's financial position will be \$5,948.95, being the GST exclusive value of the debts to be written off.

Commercial Debtors

There are two small landfill debts totalling \$1,813.30 needing to be written off. Given the amount of turnover for the HWRP landfill operation during the year (\$4.7M), the recommended write off is well within normal business expectations (representing around 0.03% of the annual revenue invoiced).

Community Group Debtors

Community based debts totalling \$4,274.42 are recommended for write-off. This amount includes the following:

- \$3,566.42 – hall hire fees (4 debtors)
- \$708.00 – sportsground hire fees (1 debtor)

A number of initiatives were implemented to improve the recovery of hall hire fees. These included more substantial bonds, restricting credit facilities and seeking advance payments for recurrent bookings. The City raised \$543,000 in revenue from the hire of halls, community facilities and sportsgrounds during the 2016/17 financial year. The recommended write off represents 0.8% of the revenue raised.



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).

87 Infringements totalling \$8,917.30 were written off under delegation. This amount comprised:

- \$1,648.00 - Fines Enforcement Registry recommendations (11 debts)
- \$5,100.00 - unsearchable interstate plates (54 debts)
- \$2,169.30 – unable to proceed due to unregistered vehicles and offenders living outside Australia (22 debts)

Another 3 small hall hire related debts totalling \$521.80 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

Budget/Financial Implications

A write off of bad debts totalling \$5,948.95 (ex GST) will marginally reduce the operating revenue reported for the 2016/17 financial year and 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 are focused on collectible debts.



Attachment(s)

List of outstanding debts to be written off in 2016-2017.

Advice to Proponent(s)/Submissioners

N/A

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

Nil.

14.2 (MINUTE NO 194) (ASFC - 20/7/2017) - INTERIM AUDIT MANAGEMENT REPORT- 2016/17 (067/001) (N MAURICIO) (ATTACH)

RECOMMENDATION

That Council receive the Interim Audit Management Letter for the year ended 30 June 2017, as shown in the attachment to the Agenda.

COMMITTEE RECOMMENDATION

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Clr B Houwen that the recommendation be adopted.

CARRIED 6/0

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 further action to be taken.

Council is also required to meet with the Auditor of the Local Government at least once every year. This will occur when the annual financial statements and final audit report are brought to the November meeting of the Audit & Strategic Finance Committee.

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



Submission

N/A

Report

Council's External Auditor (Macri Partners) conducted their interim audit of the City during May 2017 and provided their findings and recommendations in the Interim Audit Management Letter (attached). The 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 **(2 issues identified)**
- Payments and Creditors
- Rates and ESL
- Receipts and Sundry Debtors **(3 issues identified)**
- Payroll **(2 issues identified)**
- General Accounting – Journals, etc.
- IT Controls **(3 issues identified)**
- Registers - Tenders Register, etc.
- Fixed Assets - Property, Plant & Equipment and Infrastructure
- Review of Council Minutes

The review also included an examination of some 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 2016-2017 financial statements of the City of Cockburn.

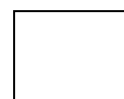
Whilst the interim audit is carried out in accordance with auditing standards, it is still possible that fraud, error and legislative non-compliance may go undetected due to the inherent limitations of internal control structures. The City manages these risks through its risk management framework, internal audit and governance systems.

The interim audit has resulted in 10 issues being raised in the Auditor's management letter, with most recommendations made relating to improving internal controls and management oversight.

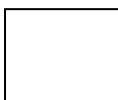
Below is a summary of the issues raised by the Audit and the associated management responses:

<u>Audit Finding</u>	<u>Management Response</u>
Purchases	
Issue	
Our review of the outstanding purchase orders file revealed that	The Procurement Services Team co-ordinates and reviews all outstanding

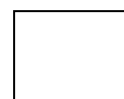
<u>Audit Finding</u>	<u>Management Response</u>
<p>some purchase orders have been outstanding for over 24 months. These long outstanding purchase orders may have been completed and may require cancellation.</p> <p>Recommendation</p> <p>We request that management review the outstanding purchase orders periodically and purge unwanted and fulfilled purchase orders from the file. This will ensure that only valid outstanding purchase orders are on the file.</p>	<p>purchase orders bi-monthly. On these occasions all orders are closed or updated according to the specific scope and response from the requesting officer. However, this process does not cover any previous backorders that may remain linked to outstanding orders. In addition to the above process, Procurement Services will now annually review all backorders as identified by the outstanding purchase orders process.</p>
<p>Issue</p> <p>We note that in instances where the purchase orders are authorised by officers having a level of authority higher than that of the Procurement Support Officer, the system by default still reflects the Procurement Support Officer as the officer authorizing the purchase order.</p> <p>Recommendation</p> <p>We recommend that management looks into this matter and takes appropriate action to rectify this error.</p>	<p>The Tech One system has now been updated with the Strategic Procurement Manager's scanned signature so that it will appear on all Purchase Orders that have been approved with his higher level of Delegated Financial Authority (DFA). The Purchase Order release system process can only be completed by a procurement officer with sufficient DFA for the PO amount being released.</p>
<u>Sundry Debtors</u>	
<p>Issue</p> <p>We carried out a review of the sundry debtors and the aged trial balance report (as at 15 May 2017) indicated several large overdue accounts in the 90 days and over category.</p> <p>Recommendation</p> <p>We will be pleased to receive feedback from management as to the current status of these accounts and recommend that Council review the existing provision for doubtful debts and consider its adequacy for the financial year ending 30 June 2017.</p>	<p>Specific comments on debt status are included in the interim audit management letter.</p> <p>The City has a history of low debt write off, which is recommended to audit committee annually in July in accordance with Council policy.</p>
<p>Issue</p> <p>During our review of monthly reconciliations of sundry debtors, we</p>	<p>The period noted coincided with the departure of the previous service unit</p>



<u>Audit Finding</u>	<u>Management Response</u>
<p>noted the reconciliations for the months of September 2016 to January 2017 had not been prepared and reviewed.</p> <p>Recommendation</p> <p>We recommend that reconciliations be performed and reviewed on a monthly basis so that any discrepancies could be rectified promptly.</p>	<p>manager and the appointment of the replacement (responsible for reviewing). The monthly reconciliation and review process was reinstated in February and it should be noted that no discrepancies have been identified for reconciliations completed since.</p>
<p>Issue</p> <p>We noted that the annual lease rental income from the kiosk was treated as input taxed with no GST being levied. We were of the view that the lease rental income from the kiosk should be subject to GST as it is commercial in nature.</p> <p>Recommendation</p> <p>We recommend that the management look into this matter and also review other leases in order to ensure the treatment of GST is correct.</p>	<p>The audit comments are acknowledged and management will review the GST treatment in relation to the lease in question. Officers are currently undertaking a review of City leases and as part of this process will ensure the treatment of GST is properly appraised.</p>
<u>Payroll</u>	
<p>Issue</p> <p>Amendments to the Payroll master file (e.g. personal, pay rates, bank account details) are performed by the Payroll Team. 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</p> <p>Recommendation</p> <p>We recommend that the report generated by the Business Systems indicating all amendments to the Payroll Master File be reviewed by an independent senior officer on a regular basis in order to reduce the risk of unauthorised amendments. The report should only highlight changes to critical fields such as rate of pay, new employees, terminated employees and banking details</p>	<p>This suggested process is supported. To ensure confidentiality, the report will be provided to the Manager Human Resources for review. This position is unable to make amendments to the payroll system thus ensuring independence of the review.</p>



<u>Audit Finding</u>	<u>Management Response</u>
<p>Issue</p> <p>We note that management has processes in place for identifying and monitoring staff that have accrued excess annual leave balances and take appropriate action.</p> <p>However, during our review of the employee annual leave entitlement balances as at 2 May 2017, we noted that 41 employees had accrued annual leave in excess of 8 weeks to a maximum of 11.76 weeks.</p> <p>Recommendation</p> <p>We will be pleased to receive feedback on the status of the balances.</p>	<p>HR continues to provide information on leave balances to the Executive and SBMG on a monthly basis. However it is noted that the information does not detail each employee – just the number of employees. Therefore HR will undertake to provide Managers with a quarterly report detailing all employees with 8+ weeks AL accrued.</p>
<u>IT Controls</u>	
<p>Issue</p> <p>In order to protect the information technology systems against potentially "unauthorised" or "fraudulent" access it is essential to ensure users change their passwords periodically. Mandated password changes are a long-standing security practice designed to periodically lock out unauthorized users who have learned users' passwords.</p> <p>We noted that the users have not had their passwords changed for over a year. A potential consequence of aged passwords is the vulnerability of the information technology systems to unauthorised access.</p> <p>Recommendation</p> <p>We recommend that the procedures in relations to passwords be reviewed to include periodic change of passwords for all users.</p>	<p>Information Services have as one of their 2017/18 strategic items to recommend a suite of policies and procedures designed to enhanced data and information security practices across the City. These documents will be a precursor to the City's longer term strategic aim to achieve ISO9001 accreditation within Information Services</p>
<p>Issue</p> <p>"The City of Cockburn Active Directory Account Security" document recommends a regular</p>	<p>The aforementioned suite of policy and procedure reviews/creations will address the checking of actual establishment data</p>



<u>Audit Finding</u>	<u>Management Response</u>
<p>audit of the Active Directory Accounts. It further recommends that the Human Resources Department supplies an accurate record of current City of Cockburn staff list to IT department on a quarterly basis.</p> <p>Our review of access controls noted that an audit of Active Directory accounts has not been carried out to ensure only authorised and current accounts are active.</p> <p>In the absence of such an audit, there is a risk of unauthorised access to the system where dormant accounts exist of employees who have been terminated.</p> <p>Recommendation</p> <p>We recommend that an audit be carried out on a quarterly basis of the Active Directory Accounts against the current staff list from the Human Resources Department.</p>	<p>versus data held within Active Directory. It is not advisable to hold quarterly audits until this work is complete.</p> <p>Management will recommend this be raised as a priority project for the next financial year.</p>
<p>Issue</p> <p>We believe, the IT procedures and policies, among other things, should address the following:</p> <ul style="list-style-type: none"> • Back-up facilities • Authority for changes and responsibilities • Password security • Contingency and disaster recovery plan • IT equipment purchases <p>We note that the IT review has only been performed in a limited scope.</p> <p>Recommendation</p> <p>We recommend that a wider and more extensive IT audit be undertaken covering the key areas mentioned above.</p>	<p>Audit recommendation is agreed to.</p> <p>The City will be reviewing its lease equipment replacement for backup equipment and software this year. These observations will be included as part of the replacement project.</p>

The Interim Audit Management Letter attached to the Agenda provides more commentary on these findings and the associated management responses. It is important to note that no major internal control failures or errors were detected by the interim audit, holding the City in good stead for the completion and audit of the 2016-2017 financial statements.



All management responses provided in the table above will be recorded as risk control actions against the appropriate risk on the Risk Register in the Risk Management and Safety System. This will allow the City to track, monitor and review these actions in accordance with the City's Risk Framework.

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 interim audit seeks to identify issues that could lead to increased levels of financial and fraud risk for the City and makes appropriate recommendations to reduce the perceived level of risk.

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

Attachment(s)

Interim Audit Management Letter 2017

Advice to Proponent(s)/Submissioners

N/A

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

Nil.



14.3 (MINUTE NO 195) (ASFC - 20/7/2017) - EXTERNAL AUDIT PLAN - 2016-2017 (067/001) (N MAURICIO) (ATTACH)

RECOMMENDATION

That Council

- (1) adopt the External Audit Plan for the year ending 30 June 2017; and
- (2) endorse the Presiding Member of the Audit and Strategic Finance Committee to complete and sign on behalf of the Committee, the Fraud and Error Assessment 2017 document submitted by the City's appointed Auditor, Macri Partners;

as attached to the Agenda.

COMMITTEE RECOMMENDATION

MOVED Cllr K Allen SECONDED Deputy Mayor C Reeve-Fowkes that the recommendation be adopted.

CARRIED 6/0

COUNCIL DECISION

Background

Section 7.12A of the Local Government Act 1995 requires a local government to assist its appointed auditor conduct successful and expeditious audits. Regulation 16 of the Local Government (Audit) Regulations 1996 states that an audit committee may provide guidance and assistance to the local government in relation to matters to be audited and the scope of audits and this is further reinforced within Local Government Operational Guideline No 9 (Audit Committees in Local Government).

To accommodate this requirement, the City's Terms of Reference for the Audit & Strategic Finance Committee state "Discuss with the external auditor the scope of the audit and the planning of the audit" (Duties and Responsibilities 6.1.12)

Submission

N/A



Report

The City's External Auditor, Macri Partners has submitted their proposed Audit Plan for the financial year ending 30 June 2017. This aims to inform members of the Audit & Strategic Finance Committee and the City's management about the auditor's responsibilities and how they will be discharged.

The Audit Plan outlines the purpose and scope of the audit and explains the audit approach and methodology to be used. It also distinguishes the responsibilities of management, external audit and the audit committee in relation to the City's financial reporting.

Audit Approach

The external audit is delivered over two stages, being interim audit and audit completion. Planning and control evaluation activities are undertaken during the interim audit stage, with substantive testing and audit completion the focus of the final audit stage.

The interim audit stage is primarily concerned with the examination of internal controls and reviewing the control and risk assessment environment within the City. This is aimed at ultimately providing the auditor with sufficient confidence in the information reported within the City's financial statements to allow an unqualified audit opinion to be expressed.

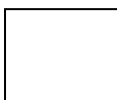
During the final audit stage, the auditor focuses on auditing and testing balances, disclosures and other information within the City's financial statements. Management representations are also sought during this stage and the auditor forms their audit opinion upon completion. The audit opinion given may be qualified if the auditor hasn't been able to achieve the necessary level of confidence required for an unqualified opinion. The City's management always aims to work cooperatively with the auditor to mitigate any risk of a qualified audit.

Significant Risks Identified

Significant risks can be attributable to large non-routine transactions and judgmental matters. The 2016-2017 Audit Plan has identified a number of areas that the auditor considers to represent a significant risk of material misstatement. These are summarised below:

Auditor's Viewpoint	Management Viewpoint
1. Fair Value Assessment and Revaluation of Land and Buildings Regulation 17A of the Local Government (Financial Management) Regulations 1996 requires that the City's land and building assets be revalued for the	The City is well prepared to address this risk and meet the regulatory requirements, having engaged a licenced valuer to complete the valuation exercise. The valuer is the

Auditor's Viewpoint	Management Viewpoint
<p>2016/17 financial year. As the revaluation may be based on significant estimations and use of valuer/management's judgements and assumptions, the auditor believes there to be a heightened risk of material misstatement in the value of land and buildings.</p>	<p>same one that completed the City's last valuation for land and buildings, which satisfied audit and regulatory requirements at the time. The City's asset data is also accurate and up to date, allowing for an expedient process</p>
<p>2. Development Contributions and Gifted Assets</p> <p>The City receives significant amount of payments, in-kind works, services or facilities, and gifted assets through development contributions related to Development Contributions Plans (DCPs), voluntary agreements and planning and building permit processes. The auditor considers that revenue from contributions (cash/non-cash) may be materially misstated due to the failure to correctly recognise and measure recognition of assets in accordance with the applicable accounting standards.</p>	<p>Management considers it has sufficiently well developed, mature and robust processes that will satisfy audit requirements. The various DCPs are audited annually without any previous concerns having been identified. Gifted road and drainage assets are managed through a monthly system process where asset specifications are loaded into the City's GIS system and taken up in the financial system on an annual basis. Gifted parks assets are subject to an internal audit and inventory exercise and also taken up annually into the financial system.</p>
<p>3. Risk of Fraud through Management Override of Controls</p> <p>Australian Auditing Standards requires the auditor to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. Management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements through overriding controls. Due to the unpredictable way in which such override could occur, the auditor considers there to be a significant risk of material misstatement of account balances and operating results due to fraud</p>	<p>Management is confident that the risk of fraud is being adequately managed and addressed at the City. It has appropriate segregation of duties for key financial controls and a tightly controlled delegated financial authority (DFA) regime. There is no evidence (now or in the past) of management endeavouring to manipulate accounting records for fraudulent purposes.</p>
<p>4. Revenue Recognition</p> <p>The auditor presumes there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. This can be because</p>	<p>Management is confident that its control environment sufficiently manages this risk. There are sufficient segregation of duties, financial controls and rigid accounting processes to mitigate this type of risk.</p>



Auditor's Viewpoint	Management Viewpoint
<p>of the influence of budgetary pressures and performance targets and may cause revenue recognition to be materially misstated. Accordingly, the auditor will deliver their audit work with appropriate professional scepticism.</p>	
<p>5. Financial Ratios</p> <p>The Department of Local Government and Communities launched a website (MyCouncil) where all key financial ratios for every Council are reported to allow the public to view the financial health score of local governments. As a result, the auditor states there may be a higher level of scrutiny of the results in the financial statements and the key financial ratios and that they may not be calculated in accordance with legislative requirements.</p>	<p>Management is satisfied that the ratios calculated have been and will be in accordance with legislative requirements. Financial Services staff has a good understanding of the requirements and they have previously consulted the DLGC and auditors on interpretative matters. The City welcomes the higher level of scrutiny by the auditor on the financial ratios as it supports fair and accurate comparisons across the sector.</p>

Impact of Fraud on the Financial Report

The Auditor is required to consider fraud in the audit of the City's financial report in accordance with Auditing Standards. The Audit Plan outlines the procedures to be undertaken by the auditor and they will report any findings back to Council.

The Auditor requires a Fraud and Error Assessment Form to be completed and signed by the Chair of the Audit and Strategic Finance Committee on behalf of the Committee (attached to the agenda). This attests to whether Council's Policies and Procedures are adequate in minimising the risk of fraud, whether there is any awareness of fraud or suspected fraud and whether management has communicated its processes for identifying/responding to risks of fraud to the Committee.

Related Party Transactions and Disclosures

From 1 July 2016, local governments must disclose related party relationships, transactions and outstanding balances, including commitments, in the annual financial statements in accordance with Accounting Standard AASB124 Related Party Disclosures. The impact of this standard will be disclosure in nature only (there is no impact to reported financial position or performance). The implementation guidance provided to Council to date states that materiality will be a key consideration in whether to disclose or not.



The auditor has outlined in the Audit Plan their approach to ensuring the City will fully comply with the requirements of the accounting standard. To this end, a separate agenda item dealing with the matter has been prepared by Management, which is included in this meeting's agenda.

Materiality

Materiality drives the scope of the audit and is determined in accordance with auditing standard requirements. The Auditors use their professional judgement to assess what is considered material and have set various materiality thresholds within the Audit Plan as follows:

- Overall materiality - \$2,610,000 (being 2% of Total Expenditure of \$130.5 m in the 2016/17 Budget)
- Performance materiality - \$1,957,500 (which has been set at 75% of Overall Materiality)
- Trivial error threshold - \$130,500 (which has been set at approximately 5% of overall materiality)

Explanations for what and how these are used are included in the Audit Plan.

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 completing the 2016/17 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

Conduct of the external audit is a mandatory legislative requirement under Section 7.9 of the Local Government Act. Failure of the City to ensure the audit is conducted successfully and expeditiously would be a statutory non-compliance.



Attachment(s)

1. City of Cockburn External Audit Plan for the year ending 30 June 2017.
2. Fraud and Error Assessment 2017.

Advice to Proponent(s)/Submissioners

N/A

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

Nil.

15. ENGINEERING & WORKS DIVISION ISSUES

Nil

16. COMMUNITY SERVICES DIVISION ISSUES

Nil

17. EXECUTIVE SERVICES DIVISION ISSUES

Nil

18. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

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

Nil

20. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY MEMBERS OR OFFICERS

Nil

21. MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE

Nil



22. CONFIDENTIAL BUSINESS

Nil

23 (ASFC - 20/7/2017) - CLOSURE OF MEETING

6:24 pm.

The Chief Executive Officer acknowledged the Governance and Risk Management Co-ordinator and Manager, Financial Services for the work done on the Risk Report and Internal and External Audit Management Reports respectively.

