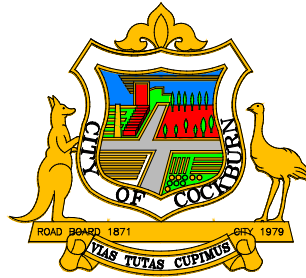


CITY OF COCKBURN



AUDIT & STRATEGIC FINANCE COMMITTEE

AGENDA PAPER

FOR

THURSDAY, 20 JULY 2017

CITY OF COCKBURN

SUMMARY OF AGENDA TO BE PRESENTED TO THE AUDIT & STRATEGIC FINANCE COMMITTEE MEETING TO BE HELD ON THURSDAY, 20 JULY 2017 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, 20 JULY 2017 AT 6:00 PM**

1. **DECLARATION OF MEETING**
2. **APPOINTMENT OF PRESIDING MEMBER (If required)**
3. **DISCLAIMER (To be 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)**
5. **APOLOGIES & LEAVE OF ABSENCE**
6. **PUBLIC QUESTION TIME**
7. **CONFIRMATION OF MINUTES**
 - 7.1 **(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

8. DEPUTATIONS

9. PETITIONS

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

12. COUNCIL MATTERS

12.1 (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

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 5 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

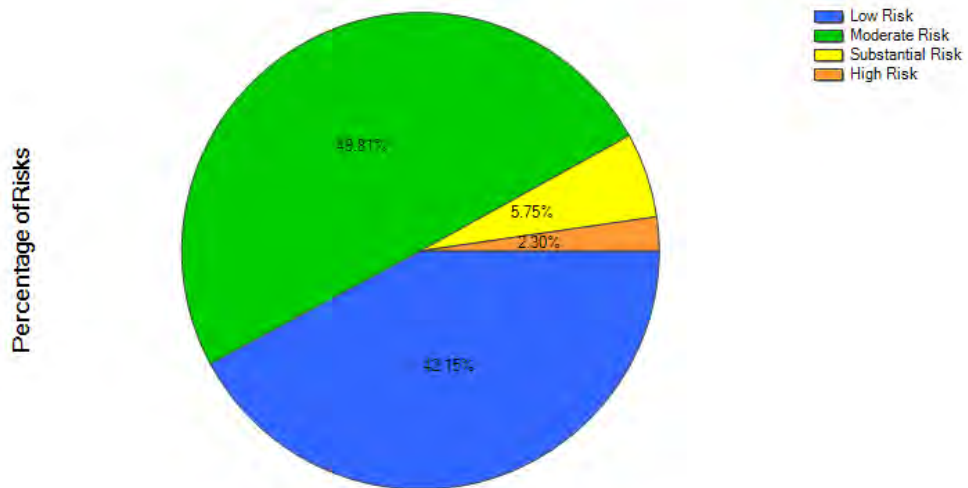


Figure 2: Risk Matrix - This matrix maps out the distribution of risks within the City’s Risk Matrix.

		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 (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**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 party 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 (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**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 (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

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>
<u>Purchases</u>	
<p>Issue</p> <p>Our review of the outstanding purchase orders file revealed that 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>The Procurement Services Team co-ordinates and reviews all outstanding 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>Audit Finding</u>	<u>Management Response</u>
<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 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>The period noted coincided with the departure of the previous service unit 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>Audit Finding</u>	<u>Management Response</u>
<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>
<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</p>	<p>Information Services have as one of their 2017/18 strategic items to recommend a suite of policies and procedures designed to</p>

<u>Audit Finding</u>	<u>Management Response</u>
<p>"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>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 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>The aforementioned suite of policy and procedure reviews/creations will address the checking of actual establishment data 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>

<u>Audit Finding</u>	<u>Management Response</u>
<p data-bbox="395 210 472 237">Issue</p> <p data-bbox="395 271 831 360">We believe, the IT procedures and policies, among other things, should address the following:</p> <ul data-bbox="403 365 751 584" style="list-style-type: none"> <li data-bbox="403 365 647 392">• Back-up facilities <li data-bbox="403 396 751 456">• Authority for changes and responsibilities <li data-bbox="403 461 663 488">• Password security <li data-bbox="403 492 748 553">• Contingency and disaster recovery plan <li data-bbox="403 557 732 584">• IT equipment purchases <p data-bbox="395 613 823 674">We note that the IT review has only been performed in a limited scope.</p> <p data-bbox="395 703 627 730">Recommendation</p> <p data-bbox="395 768 815 887">We recommend that a wider and more extensive IT audit be undertaken covering the key areas mentioned above.</p>	<p data-bbox="866 271 1294 297">Audit recommendation is agreed to.</p> <p data-bbox="866 331 1378 483">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 (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**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
<p>1. Fair Value Assessment and Revaluation of Land and Buildings</p> <p>Regulation 17A of the Local Government (Financial Management) Regulations 1996 requires that the City's land and building assets be revalued for the 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>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 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</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</p>

Auditor's Viewpoint	Management Viewpoint
<p>misstated due to the failure to correctly recognise and measure recognition of assets in accordance with the applicable accounting standards.</p>	<p>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 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>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>
<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</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>

Auditor's Viewpoint	Management Viewpoint
calculated in accordance with legislative requirements.	

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

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

21. MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE

22. CONFIDENTIAL BUSINESS

23. CLOSURE OF MEETING



Government of **Western Australia**
Department of **Local Government and Communities**

Our Ref: 38-11; E1716966

TO ALL LOCAL GOVERNMENTS

CIRCULAR N^o 07-2017

CHANGES TO ACCOUNTING STANDARDS – IMPLEMENTATION OF RELATED PARTY DISCLOSURES

As a result of changes to the accounting standards, from 2016/17 financial year, all local governments are required to disclose the nature of related party relationships when preparing general purpose financial reports in compliance with AASB 124.

AASB 124 is the Australian accounting standard that provides a framework for reporting relationships between the key decision makers in a reporting entity and the reporting entity. This relationship is commonly described as “related party”.

AASB 124 will only impact on disclosure in financial statements and will not impact on financial position or performance. Local governments are required to disclose when a related party transaction has occurred in the reporting year.

The Department of Local Government and Communities (DLGC) recommends that each local government establish and implement systems to identify related parties to enable recording of related party transactions from 1 July 2016. If the transaction(s) are material, this will need to be disclosed in the annual financial report in accordance with the requirements set out in AASB 124.

The [AASB124 Related Party Disclosure Implementation Guide](#) has been prepared to assist local governments to implement this new requirement and is available on the DLGC website.

The guide provides key reporting requirements, implementation steps, a useful check list, a sample council policy and sample disclosure notes. For more information, contact Ning Yan on 6552 1701 or via email ning.yan@dlgc.wa.gov.au.

A handwritten signature in cursive script, appearing to read 'J Mathews'.

Jennifer Mathews
DIRECTOR GENERAL
14 June 2017

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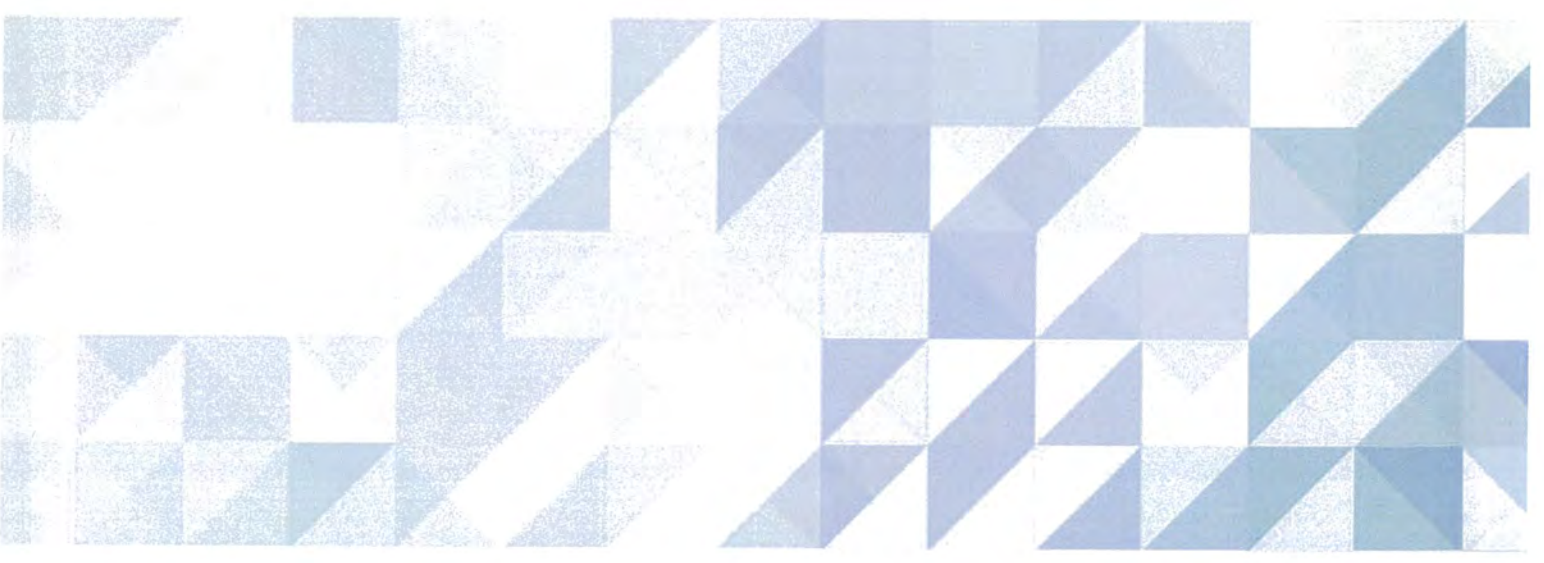
Government of **Western Australia**
Department of **Local Government and Communities**



AASB 124 Related Party Disclosures

Implementation Guide

June 2017



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AASB 124 Related Party Disclosures – Information on Implementation (May 2017)

Prepared by: Department of Local Government and Communities

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All or part of this document may be copied. Due recognition of source would be appreciated. If you would like more information please contact the Department of Local Government and Communities.

Reporting Period

Effective for reporting periods beginning on or after 1 July 2016, local governments 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 (AASB 124).

This is a requirement specified by the Australian Accounting Standard 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.

Objective of AASB 124

The objective 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 transactions and outstanding balances, including commitments, with such parties¹.

It is important to note that AASB 124 is not designed to detect and report fraud or misconduct. It is more so to enhance transparency and accountability of council transactions. This view is reiterated in AASB's April 2017 Agenda Decision² that the purpose of AASB 124 is not for assessing governance or probity issues.

Definition of a Related Party of Council

A person or entity that is related to council as defined in AASB 124, paragraph 9.

It is important that each local government consider the contents in AASB 124 and how it applies to its own situation. In considering possible related party relationships, attention is directed to the substance of the relationship and not merely the legal form³. Some of the related parties a local government can have are listed below.

- Entities related to council (i.e. 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 (i.e. mayor/president, councillors, CEOs and/or managers/directors).

¹ AASB 124, paragraph 1

² AASB Agenda Decision, "Materiality of Key Management Personnel Related Party Transactions of Not-For-Profit Public Sector entities", April 2017

³ AASB 124, paragraph 10

- Close family members of Key Management Personnel (KMP); and
- Entities that are controlled or jointly controlled by KMP or their close family members (i.e. joint ventures, companies, sporting clubs).

Entities Related to Council

A local government (council) related entity is an entity 'controlled' or 'jointly controlled' by council or over which council has 'significant influence'.

When identifying these entities, council will need to consider 'AASB 10 Consolidated Financial Statement', 'AASB 11 Joint Arrangement' and 'AASB 128 Investments in Associates and Joint Ventures'.

AASB 128 provides definition of the following key words:

- 'Significant influence' is defined as the power to participate in the financial and operating policy decisions of the entity but is not control or joint control over those policies.
- 'Joint control' is the contractually agreed sharing of control of an arrangement, and exists only when a decision relating to the activity requires the unanimous consent of the parties sharing control.

It is likely that all regional councils and regional subsidiaries will meet the definition of a related entity. For other entities, council will need to apply the definitions test in accordance with the Standard.

Key Management Personnel (KMP) of council

KMP, close family members of KMP and entities that are related to KMP or their close family members are related parties.

AASB 124 paragraph 9 defined KMP as persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

It is likely that mayors/presidents, councillors, CEOs, senior executives and/or senior officers are KMP. However, it would depend on the council's structure, delegation and position descriptions. Each local government will need to use judgement to decide which individual meets the definition requirement of a KMP.

Close Family Members of 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 local government (such as, without limitation, parents, sibling, grandparents, uncles/aunts or cousins).

Entities controlled or jointly controlled by KMP or their close family members are related parties.

Examples of Related Parties

Please refer to AASB 124 – Australian Implantation Guidance for not-for-profit public sector entities. Examples 4 and 7 are relevant to local government.

The Queensland Department of Infrastructure, Local Government and Planning (DILGP) has developed a guidance [bulletin](#) on related party transactions.

The bulletin has been developed in consultation with the Queensland Audit Office and is a useful reference.

Appendix 1 of the bulletin provides five useful examples that illustrate the different types of related parties.

Appendix 2 in the bulletin contains a table that lists common related parties of council.

Definition of a related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged⁴.

⁴ See AASB 124, paragraph 9

Determining if a related party transaction requires disclosure

Related party transactions that are not considered to be material do not need to be disclosed. The Australia Implementation Guidance provides the following comment regarding materiality:

“As is often the case with related party transactions, judgement would be required as to when transactions are material, especially when qualitative assessments are made about the nature of the transaction.... the entity would also need to apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure.”⁵

AASB’s April 2017 Agenda Decision provided further clarity that the key assessment is whether knowledge of the relationship and terms and conditions could influence a user’s understanding of the impact on the financial statements. Where the impact on the financial statements is not material the transaction is not required to be disclosed.

Similarly, NSW Office of Local Government – Code of Account Practice and Financial Reports provides the following:

“When councils are considering whether a disclosure of a related party transaction is material, they should consider not just the financial amount, but whether the user of the financial statements would be impacted by the information in making decisions, i.e. in their vote by councillors or if information is omitted would it made newspaper headlines if it were to be discovered.” (the Press Test).

Therefore, when assessing materiality, this should be done in consultation with council’s audit committee and external auditor and considers both the size and nature of the transaction, individually and collectively.

⁵ AASB 124, paragraph BC17

Disclosure Requirements

AASB 124 contains disclosure requirements to enable users of financial statements to understand the potential effect of the relationship on the financial statement. Key requirements are discussed below.

1. KMP Compensation in aggregate and for each of the following categories⁶:
 - a) Short-term employee benefits
 - b) Post-employment benefits
 - c) Other long-term benefits
 - d) Termination benefits
2. Relationships between council and its subsidiaries, irrespective of whether there have been transactions between them⁷.
3. Amounts incurred by council for the provision of KMP services that are provided by a separate management entity⁸.
4. Where related party transactions have occurred (this is for all categories of related parties including related entities, KMPs, KMPs' close family member/controlled entities and any other related parties council has identified):
 - a) The nature of the related party relationship;
 - b) Information about the transactions, outstanding balances and commitments including terms and conditions;*
5. Separate disclosure for each category of related party.

*In respect to the 4(b), the types of transactions disclosed can include:

- Purchase/sales and lease of goods, property and other assets
- Rendering or receiving of goods, services, property and other assets.
- Guarantees given or received
- Commitments
- Loans and settlements of liabilities

⁶ AASB 124, paragraphs 17 and 17A. Also refer to para 8 definitions in AASB 119 Employee Benefits. Note that 17A specifies that if a KMP service is obtained from another entity such as an employment agency, then that should be excluded from KMP compensation disclosure and reported separately.

⁷ AASB 124, paragraphs 13, Aus13.1, 14, 15, and 16.

⁸ AASB 124, paragraph 18A.

- Expense recognised during the period in respect of bad debts
- Provisions for doubtful debts relating to outstanding balances.

Comparatives are not required for the first year of adoption, however they will be disclosed on an ongoing basis.

Sample Disclosure Note

The department has reviewed sample disclosure notes developed by local government departments in other states, the below two are selected for reference.

- Queensland Department of Infrastructure, Local Government and Planning – [Related Party Disclosure Bulletin](#), see Appendix 3.
- NSW Office of Local Government – [2016/17 Code of Accounting Practice and Financial Reporting \(update 25\)](#) – See Note 28 on page A-134.

Disclosure in aggregate or separate

For each related party category, council can disclose items of a similar nature in aggregate, except when separate disclosure is necessary for an understanding of the effect of related party transaction on financial statement⁹.

Ordinary Citizen Transaction (OCT)

Council may decide, in council's related party disclosure policy, that there are some transactions with related parties that do not need to be captured and reported. These transactions are those that an ordinary citizen would undertake with council (Ordinary Citizen Transaction) such as transactions undertaken on arm's length terms and in the ordinary course of carrying out council's functions and activities.

For example, if a KMP (i.e. a councillor) is to use the Shire's swimming pool and pays the admission fee that would be a related party transaction. However, it is unlikely that this would be material as users of the financial statements wouldn't be interested in this transaction.

⁹ AASB 124, paragraph 22.

OCTs are not material transactions because of their nature, and therefore council may wish to identify them upfront and exclude them from being recorded as a related party transaction. However, if the OCTs were to occur on terms and conditions that are different to those offered to the general public, then the transaction may become material. Care needs to be taken in identifying these types of transactions.¹⁰

If council decides to identify and exclude them up front, then council's policy may need to specify this. Some examples of OCTs include:

- Using the council's facilities after paying the normal fee
- Fines on normal terms and conditions
- Paying rates and council fees and charges

Related Party Disclosure Policy

Similar to Queensland's approach, the department recommends that each local government adopts a council policy on related party disclosures. This policy is not required by the accounting standard, and whether to adopt such a policy is at council discretion.

The policy could consider all of the steps identified below, or could concentrate on one or two key areas. For example, council's policy could simply address how, and how often, the close family members and related entities of KMP are identified and/or whether council will separately identify and collect/collate ordinary citizen transactions with related parties.

The policy could also define key terms such as arms-length, normal terms and conditions and ordinary citizen transactions or other types of transactions which may be trivial or domestic in nature that council will collect but are unlikely to report.

¹⁰ Queensland Department of Infrastructure, Local Government and Planning, related party transaction bulletin.

Recommended steps to comply with AASB 124

The Queensland Department of Local Government Related Party Bulletin provides steps to implement the related party requirements and a check list for constructing a related party disclosure policy. The steps to implement have been summarised below, and the check list is reproduced at the end of this section.

1. Establish system to identify and record related parties.
2. Identify Ordinary Citizen Transactions (OCT) that will not be disclosed.
3. Establish a system to identify and record related party transactions and related terms and conditions.
4. Assess materiality of transactions captured.
5. Make disclosure in Annual Financial Report.

Step 1 - Establish a system

Establish a system to identify related parties and relationships and monitor changes on continues basis.

The system should identify:

- Entities related to council
- KMPs
- Close family members of KMPs and their related entities.

Council may wish to outline the system that will be used in the related party disclosure policy. Alternatively, council's policy could simply specify that management are to implement a suitable system to identify related parties.

A component in the system that can be implemented includes a register of related party transactions. The Queensland related party bulletin provides a sample of such register.

Initial identification of related parties need to cover the period starting from 1 July 2016. It is important to document the process council uses to identify related parties and to provide this information to council's external auditors to substantiate disclosure in the financial statement.

A review of related parties will then need to be made at regular intervals. Particularly after events such as elections, with change of councillors as well as when there is staff movements such as changes to CEO's and senior management, including acting arrangements.

For individuals that are considered to be a KMP, the recommended procedure is for a self-assessment form to be filled out, declaring, or notifying council of any existing or potential relation party transactions between council and either themselves, their close family members or entities controlled or jointly controlled by them or any of their close members.

Step 2 - Identify ordinary citizen transactions (OCT)

Identify OCTs and specific in council policy what types of transactions can be exclude from being recorded.

Council policy will need to either specify the types of OCTs that will be excluded or specify a framework so reporting officers can identify them. See discussion on [OCT](#).

If the OCTs were to occur out of general terms and conditions and/or above materiality threshold, then these could be reported if the finance officer assessed that the disclosure is necessary for the user of the financial report to understand the effect of the transaction on the financial report.

Step 3 - Identify related party transactions

The next step is to establish, or change existing systems so that related party transactions can be separately identified and reported. This may be as simple as identifying related party transactions with a special code in council's accounting system. Council will also need a system to:

- Identify transactions that do not pass through council's accounting system.
- Identify the associated terms and conditions of the related party transactions.

Step 4 - Assess materiality

Prior to preparing the disclosure in the council's financial statements, related party transactions should be assessed for materiality. Transactions that are not considered material do not need to be disclosed.

Assessing materiality requires judgement and should be done in consultation with council's external auditor and audit committee.

When assessing materiality, councils need to consider both the size and nature of the transaction, individually and collectively.

The term “material” is defined in AASB 101 Presentation of Financial Statements (AASB 101.7) and further guidance can be found in AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (AASB 108.5) and the Framework for the Preparation and Presentation of Financial Statements (paragraph QC11). The International Accounting Standards Board has also released guidance on materiality.

Step 5 - Make the disclosures

The final step is to make the necessary disclosures in council’s annual financial statements. See [disclosures requirements](#) and [sample disclosures disclosure note](#).

Checklist for Related Party Disclosure Policy

The department suggests that councils adopt a policy about related party disclosures. This policy is not required by legislation and councils are free to choose what to include in such a policy, if one is adopted. The following checklist is provided to assist councils in considering what to include in their policy.

Note: It is important to consider how changes in KMP, their close family members and related entities will be recorded. For example, how KMP advise council about changes to close family members or entities controlled by them.

Identifying related parties section:	Check box for "yes":
1. Will the policy need to state how council staff will identify and capture changes in: <ul style="list-style-type: none"> <li data-bbox="236 864 778 902">(a) Entities that are related to council? <li data-bbox="236 947 804 985">(b) Key management personnel (KMP)? <li data-bbox="236 1014 735 1052">(c) Close family members of KMP? <li data-bbox="236 1081 1054 1155">(d) Entities that are controlled or jointly controlled by KMP or their close family members? 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
2. Does the policy consider how councillors and staff will be kept informed if they are affected by the related party disclosure requirements, for example, will they be given a copy of the intended disclosure for comment?	<input type="checkbox"/>

Ordinary citizen transactions (OCTs) section:	Check box for "yes":
3. Will council capture OCTs with related parties (see process for capturing transactions with related parties below)?	<input type="checkbox"/>
4. Will council disclose OCTs with related parties above a certain threshold, or where terms and conditions differ from normal practice, or not at all? (Note: OCTs that are on different terms and conditions from normal could be material in nature and give rise to an audit issue if not disclosed)	<input type="checkbox"/>
5. Does the policy need to specify how council staff will identify OCTs (if not captured)?	<input type="checkbox"/>

Ordinary citizen transactions (OCTs) section:	Check box for “yes”:
6. Does the policy need to give examples of OCTs for council staff to follow?	<input type="checkbox"/>
7. Does the policy need to identify a process for regularly reviewing OCTs?	<input type="checkbox"/>

Process to capture and record transactions with related parties section:	Check box for “yes”:
8. Will the policy need to include how council will capture related party transactions and determine their arm’s length status (i.e. terms and conditions)?	<input type="checkbox"/>
9. Will the policy need to include how the council can identify related party transactions in the accounting system and outside the accounting system (non-monetary transactions, contracts, service level agreements)?	<input type="checkbox"/>
10. Will the policy need to include the council’s record keeping requirements?	<input type="checkbox"/>

Privacy and Freedom of Information section:	Check box for “yes”:
11. Does the policy need to cover privacy issues?	<input type="checkbox"/>
12. Has the council sought advice about freedom of information and other legal obligations to be included in the policy?	<input type="checkbox"/>

Frequently Asked Questions

Question 1: Is a senior officer a KMP if not part of the executive team?

Answer: If the officer has the authority and responsibility to plan, direct and control the activities of the council, then the officer is a KMP of council. Could include any acting positions even if for a short period of time.

Question 2: Is the payment of rates by a KMP a related party transaction?

Answer: It is a related party transaction, however, council would not require disclosing this transaction if the KMP is paying rates just like every other rate payer. However, the council would need to disclose the transaction if the KMP had not paid rates as an example, for the last 3 years.

Question 3: If a KMP's child applied to do school based work experience with the council, does this need to be disclosed?

Answer: No, if the term and conditions of the work experience is the same as what is available to the general public. However, if the council made a decision to pay for the work experience when others had not been paid for the same work experience, then it may require disclosure.

Question 4: Would council officer with purchasing delegation be a KMP?

Answer: No, if the officer can exercise a financial delegation to purchase goods and services on behalf of the council it does not make them a KMP as they do not have the responsibility to plan and direct or control the activities of the council.

Question 5: What about transactions with previous KMPs (ex-councillors, CEO, council staff)?

Answer: From 1 July 2016, all local governments are required to capture related party transactions with KMP, this includes all councillors/staff members deemed as KMPs during the reporting period.

Question 6: Do services have to be provided by the related party directly or is it enough that the related party is employed by the consulting firm providing the services?

Answer: It depends on how much influence the related party has on the consultancy firm. For example, if KMP is a cleaner of a consultancy firm, there would be no influence. But if the KMP is a managing partner/director or senior employee, they would have some influence and would need to be considered.

Question 7: Does the disclosure of KMP compensation include remuneration paid during the year or accrued during the year?

Answer: It includes the total amount of KMP compensation included as part of the Income Statement – employee expenses, plus elected member’s remuneration disclosed in the annual financial statement.

Question 8: Do Long Service Leave and Annual Leave balances need to be disclosed?

Answer: Amount charged for annual leave and long service leave as part of AASB 119 expense would be included. Balances are not needed to be disclosed.

Question 9: Are use of council assets also included in related party transactions?

Answer: Yes, just because it is not a financial transaction does not mean it does not need to be disclosed. E.g. if a councillor used shire equipment for personal purposes, this would be considered a transaction even though it is not a financial transaction.

Question 10: Who will be responsible for identifying and reporting related party transactions?

Answer: The finance officer responsible for financial reporting will be responsible for identifying council related parties from the council’s reporting system (such as a related entities register) and assess which transaction/s require disclosure.

References and Useful Links

[AASB 124 Related Party Disclosures.](#)

[AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector](#)

[AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements and AASB 128 Investments in Associates and Joint Ventures.](#)

[Sample Council Policy – City of Wollongong related party disclosure](#)

[CPA AASB 124 Related Party Disclosures Public Sector Not-For-Profit Entities](#)

[The NSW Office of Local Government – Code of Account Practice and Financial Reports](#)

[Queensland Department of Infrastructure, Local Government and Planning– Related Party Disclosure Bulletin](#)

For more information, please contact:

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To: Chief Executive Officers **From:** Tony Brown,
 Executive Manager Governance
 And Organisational Services
Organisation: All Local Governments **Date:** 22 June 2017
Reference: **Priority:** High
Subject: Related Party Disclosures AASB 124

IN BRIEF:

Operational Area:	Finance & Governance
Key Issues:	• Related Party Disclosures need to be made for the year ending 30 June 2017
Action Required:	Ensure related party disclosures are made in accordance with the accounting standards

Local Governments are required to disclose related party transactions in annual financial reports in 2017.

Changes to accounting standards mean certain transactions of Key Management Personnel (effectively all senior management and Councillors) will need to be detailed separately in the annual financial report for the year ended 30 June 2017.

This will have significant impact on both the disclosures within the financial report as well as the mechanisms in place to ensure related parties are properly identified and the necessary data collected.

What needs to be disclosed?

All related party transactions during the periods covered by the annual financial report.

This includes:

- the nature of the related party relationship; and
- information about those transactions and outstanding balances.

Examples include:

- a) purchases or sales of goods (finished or unfinished);
- b) purchases or sales of property and other assets;
- c) rendering or receiving of services; and
- d) leases.

At a minimum, disclosures shall include:

- a) The amount of the transactions;
- b) The amount of outstanding balances, including commitments, and:
 - i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c) Provisions for doubtful debts related to the amount of outstanding balances; and
- d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.



Who is a Related Party?

Essentially for local government it will relate to those defined as Key Management Personnel (KMP).

KMP include all senior management, Councillors and their close family members or even wider if there is a strong personal connection.

Responsibility

It also needs to be remembered this differs from the primary/annual return disclosure requirements.

Those are the responsibility of the individuals concerned whereas financial statements disclosures are, required by the Act and regulations as the responsibility of management (and ultimately the CEO).

Further information

The Department of Local Government have produced a circular which is available here: <https://www.dlqc.wa.gov.au/Publications/Pages/Circular-07-2017.aspx>

Further, WALGA has been working with Moore Stephens who have prepared the attached Guidance Note and are available to assist Local Governments with presentations and forums.

If your Local Government is interested in contracting Moore Stephens for a presentation please contact David Tomasi on (08) 9225 5355.

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

AASB 2015-6

This Standard was issued in March 2015 and extends the Scope of AASB 124 *Related Party Disclosures* to include application by not-for-profit entities.

Operative Date for Local Government: 1 July 2016 (effectively for the year ended 30 June 2017).

Comparatives: No comparatives will be required to be presented in the period of initial implementation.

AASB 124

SUMMARY

APPLICATION AND SCOPE

AASB 124.2

This standard is applied in:

- Identifying related party transactions and relationships;
- Identifying outstanding balances including commitments between an entity and its related parties;
- Identifying circumstances in which disclosure of the above items are required;
- Determining the disclosures to be made about those items.

PURPOSE OF RELATED PARTY DISCLOSURES

AASB 124.5 TO 124.8

Knowledge of related party transactions, outstanding balances and relationships is important to understanding and assessing an entity’s operations.

DEFINITIONS

AASB 124.9 TO 124.12

Definitions include related party, compensation, control, key management personnel, director and remuneration as well as some explanations and clarifications.

DISCLOSURE

AASB 124.13 TO 124.27

Includes:

- Relationships between parents and subsidiaries of the entity, regardless of whether there have been any transactions between the related parties (may be applicable to local government under new legislation);
- Information about key management personnel compensation in total and for certain categories;
- Certain Information about transactions between related parties and any outstanding balances at reporting date for each type of related party; and
- Information about government-related entities.

ILLUSTRATIVE EXAMPLES

Includes illustrative examples – one specifically relating to a Councillor of a local government.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

DISCLOSURES

KEY REQUIREMENTS OF AASB 124

AASB 124.17

A local government shall disclose key management personnel compensation in total and for each of the following categories:

- a) Short-term employee benefits;
- b) Post-employment benefits;
- c) Other long-term benefits;
- d) Termination benefits; and
- e) Share-based payment.

AASB 124.18

If the local government has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- a) The amount of the transactions;
- b) The amount of outstanding balances, including commitments, and
 - i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c) Provisions for doubtful debts related to the amount of outstanding balances; and
- d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

AASB 124.18A

Amounts incurred by the local government for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

AASB 124.19

The disclosures required by paragraph 18 should be made separately for each of the following categories:

- a) The parent;
- b) Entities with joint control or significant influence over the entity;
- c) Subsidiaries;
- d) Associates;
- e) Joint ventures in which the entity is a venturer;
- f) Key management personnel of the entity or its parent; and
- g) Other related parties.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

DISCLOSURES (CONTINUED)

AASB 124.21

The following are examples of transactions that are disclosed if they are with a related party:

- a) purchases or sales of goods (finished or unfinished);
- b) purchases or sales of property and other assets;
- c) rendering or receiving of services; and
- d) leases.

AASB 124.23

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

AASB 124.24

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the local government.

RELEVANT DEFINITIONS

AASB 124.9

Related Party:

A person or entity that is related to the local government that is preparing its financial statements.

A person or a close member of that person's family is related if that person:

- i. (not applicable to local government);
- ii. Has significant influence over the reporting entity; or
- iii. Is a member of the key management personnel of the reporting entity.

An entity is related if any of the following conditions applies:

- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others) - may be applicable; or
- ii. A person is a member of the key management personnel of the entity.

Note: Many of the other conditions listed in this paragraph do not apply and we have chosen, for the sake of clarity, not to list them here.

Related Party Transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

RELEVANT DEFINITIONS (CONTINUED)

Close Members of the Family of a Person:

Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- a) That person’s children and spouse or domestic partner;
- b) Children of that person’s spouse or domestic partner; and
- c) Dependants of that person or that person’s spouse or domestic partner.

Compensation

Includes all employee benefits – refer to content of AASA 124.9 for specific details.

Key Management Personnel

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

In the case of local government will include all Councillors and Senior Staff.

Senior Staff would include the CEO, deputy CEO and any staff member at a Director or Executive Manager level.

In the case of rural/regional local governments, there would also be the need to include the works supervisor, health inspector, planning officer where they have direct responsibility for an operational area of local government.

SUBSTANCE OVER FORM

AASB 124.10

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

CLARIFICATIONS

AASB 124.11

In the context of AASB 124, the following are not related parties:

- a) Two entities simply because they have a member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- b) Two joint ventures simply because they share joint control over a joint venture.
 - i. providers of finance,
 - ii. trade unions,
 - iii. public utilities, and
 - iv. departments and agencies of a government that does not control, jointly control or significantly influence the local government.
 - v. simply by virtue of their normal dealings with the local government (even though they may affect the freedom of action of a local government or participate in its decision-making process).
- c) A customer, supplier, franchisor, distributor or general agent with whom the local government transacts a significant volume of business.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

EXAMPLE DISCLOSURE

NOTE: Such disclosure is not required until the year ended 30 June 2017. The City/Town/Shire of Somewhere model will be adjusted to incorporate the disclosure requirements of AASB 124 at that time.

The purpose of this example disclosure is to provide information and guidance with respect to upcoming requirements.

They are in addition to existing disclosure requirements which will be adjusted at the time.

For example, if material, certain disclosures relating to sales of goods, assets etc are already made elsewhere in the financial report and can easily be expanded to include a line item for related parties.

We have also only provided examples of those relating to local government with a comment on their likelihood.

Please see pages 6 and 7 for example disclosure.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

EXAMPLE DISCLOSURE

Key Management Personnel Compensation Disclosure

The totals of remuneration paid to KMP of the City/Town/Shire during the year are as follows:

	2017	2016
	\$	\$
<i>AASB 124.17(a)</i> Short-term employee benefits	AAA	EEE
<i>AASB 124.17(b)</i> Post-employment benefits	BBB	FFF
<i>AASB 124.17(c)</i> Other long-term benefits	CCC	GGG
<i>AASB 124.17(d)</i> Termination benefits	DDD	HHH
Total KMP compensation	<u>ZZZ</u>	<u>XXX</u>

Short-term employee benefits

These amounts include all salary, paid leave benefits, fringe benefits and cash bonuses awarded to KMP.

Details in respect to fees and benefits paid to Councilors may be found at Note XX.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the City/Town/Shire's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service benefits accruing during the year.

Termination benefits

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

EXAMPLE DISCLOSURE (CONTINUED)

Related Party Transactions Detail Disclosure**Related Parties****The City/Town/Shire’s main related parties are as follows:**i. *Key management personnel:*

AASB 124.9, 18

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Councilor, are considered key management personnel.

ii. *Entities subject to significant influence by the City/Town/Shire*

AASB 124.9, 18

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

For details of interests held in associated entities, refer to Note X.

iii. *Joint venture entities accounted for under the equity method:*

AASB 124.9, 18

The Group has a 50% interest in Somewhere Regional Council. The interest in the joint venture entity is accounted for in these financial statements using the equity method of accounting. For details of interests held in joint venture entities, refer to Note YY.

Transactions with related parties:

AASB 124.23

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

2017

\$

Associated companies/individuals:

Sale of goods and services

Likely

Purchase of goods and services

Likely

Joint venture entities:AASB 124.18(a),
19(e), 21(g)

Distributions received from joint venture entities

Possible

Amounts outstanding from related parties:

Trade and other receivables

Possible

AASB 124.19(d),
21(g)

Loans to associated entities

Possible but highly unlikely

AASB 124.19(f)

Loans to key management personnel

Possible but highly unlikely

Note: If loans of this nature are provided, then details relating to terms and conditions should be disclosed in narrative form.

Amounts payable to related parties:

Trade and other payables:

AASB 124.19(d),
21(g)

Loans from associated entities

Possible



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

IMPLEMENTATION GUIDANCE

Implementation and guidance applying to public sector entities (ie local government) forms an integral part of AASB 124.

Some key paragraphs to assist with interpretation have been extended and are detailed (unaltered) as follows:

KEY MANAGEMENT PERSONNEL

AASB 2015-6. IG 3

Paragraph 9 of the Standard defines key management personnel as being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity. In a public sector context, entities should consider the facts and circumstances in assessing whether a person is a member of the key management personnel, as defined, of the entity. For example, the facts and circumstances may reflect that not all persons described as ‘senior executive staff’ or ‘Secretary’ or ‘Minister’ may be key management personnel of the entity. Similarly, in relation to a not-for-profit public sector entity, the facts and circumstances may reflect that a person’s powers do not give rise to a capacity to direct or control the activities of an entity, where the powers are only ceremonial or procedural in substance.

RELATED PARTY TRANSACTIONS

AASB 2015-6. IG 9

Paragraph 18 of the Standard requires an entity to disclose information about transactions that have occurred between the entity and its related parties, including transactions between the entity and its key management personnel or key management personnel of the entity’s parent, that is necessary for users to understand the potential effect of the relationship on the financial statements.

AASB 2015-6. IG 10

Ministers, councillors and other senior public servants may qualify as a related party of a public sector entity under one or more of the criteria set down in paragraph 9(a) of the definition of ‘related party’ in AASB 124. For example, a Minister who is a member of the key management personnel of his government is, under the definition of ‘related party’, a related party not only of the government but also of each controlled entity of that government. In such instances, the Standard requires the controlled government entity to disclose related party transactions with that Minister, whether or not the Minister has responsibility for the entity.

AASB 2015-6. IG 11

A related party transaction is a transfer of resources, services or obligations between an entity and its related party, regardless of whether a price is charged. In the not-for-profit public sector, many entities are likely to engage frequently with persons who are a related party of that entity in the course of delivering the entity’s public service objectives, including the raising of funds (for example, rates and taxes) to meet those objectives. These related party transactions often occur on terms and conditions no different to those applying to the general public (for example, the Medicare rebate or public school fees). A not-for-profit public section entity may determine that information about related party transactions occurring during the course of delivering its public service objectives and which occur on no different terms to that of the general public is not material for disclosure in its general purpose financial statements is included in AASA 101 “Presentation of Financial

Statements and AASA 108 "Accounting Policies, Changes in Accounting Estimates and Errors. The factors described in paragraph 27 of the Standard may also assist an entity in making this determination.

SOMEWHERE

AASB 124 – "RELATED PARTY DISCLOSURES"

IMPLEMENTATION GUIDANCE (CONTINUED)

AASB 2015-6. IG 12

Examples 7-8 describe different types of related party transactions that may occur between not-for-profit public sector entities and their related parties.

Example 7

Councillor P is a member of the key management personnel of the LMN local government (the Council). The Council's functions include raising revenue to fund its functions and activities, and planning for and providing services and facilities (including infrastructure) for the local community. In carrying out its functions, the Council undertakes a wide range of activities including the imposition of rates and charges upon constituents, and the provision without charge of services such as parks and roads.

Councillor P is a ratepayer residing within the Council's constituency. As such, he takes advantage of the availability of free public access to local parks and libraries. Councillor P also used the swimming pool at the Council's Recreation Centre twice during the financial year, paying the casual entry fee applicable to the general public each time. The recreation centre has approximately 20,000 visitors each financial year.

All of the transactions described above between the Council and Councillor P are related party transactions of the Council and are considered for disclosure in the Council's general purpose financial statements. Based on the facts and circumstances described, the Council may determine that these transactions are unlikely to influence the decisions that users of the Council's financial statements make having regard to both the extent of the transactions, and that the transactions have occurred between the Council and Councillor P within a public service provider/taxpayer relationship.

Note: Example 8 was not included as it does not relate to local government.

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

BASIS FOR CONCLUSIONS

Whilst not forming part of the standard, the AASB has provided explanations in respect to their conclusions. We have extracted (unaltered) some key bases (as they relate to local government).

DEFINITION OF KEY MANAGEMENT PERSONNEL

AASB 2015-6. BC 8

The Board considered whether an amendment of the definition of key management personnel for the not-for-profit public sector would be necessary to facilitate a decision to remove the not-for-profit public sector exemption from AASB 124, but decided that the present definition was suitable. The AASB noted that, in a public sector context, entities should consider the facts and circumstances in assessing whether a person is a member of the key management personnel, as defined, of the entity.

AASB 2015-6. BC 9

The Board considered that normally, the determination of key management personnel will be similar for entities in the public sector or the private sector. For example, a not-for-profit public sector entity will need to determine whether all, or only certain, of its senior executive service employees meet the definition of key management personnel. However, the Board acknowledged constituents' concerns that the determination of key management personnel may not be straightforward in the not-for-profit public sector given ministerial type roles. The Board noted that it does not regard a Minister to always be a member of the key management personnel of a not-for-profit public sector entity or of a for-profit public sector entity; rather, this is dependent on the particular circumstances of the jurisdiction and of the entity. Accordingly, the Board decided to add guidance to the Standard, in the absence of a private sector analogy, to assist public sector entities in applying the definition of key management personnel to Ministers, as ministerial-type roles do not usually arise in a private sector.

AASB 2015-6. BC 17

The Board noted that, as is often the case with related party transactions, judgement would be required as to when transactions are material, especially when qualitative assessments are made about the nature of transactions. The Board considered situations in which Ministers or local government councillors paid taxes, levies or other statutory charges or fees faced generally by citizens. The Board does not expect, absent unusual circumstances, that the application of materiality would result in disclosure in many of these situations. In contrast, a commercial contract entered into by a Minister or local government councillor with a related public sector entity may be relevant for disclosure, similar to a commercial contract between a member of the key management personnel of a for-profit entity and the reporting entity (for example, a contract to provide accountancy services between the entity and an entity controlled by a member of the key management personnel). Accordingly, the Board observed that a not-for-profit public sector entity would also need to apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure. The Board noted that it would expect appropriate criteria to be identified so that information about transactions that are possible material (for example, transactions that have occurred at a different price or volume to that applying to the general public) is captured for assessment.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

DEFINITION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

AASB 2015-6. BC 18

Having regard to the role of materiality, the Board decided that no specific exemption from disclosure of the related party transactions with key management personnel of a not-for-profit public sector entity, including any Ministers or local government councillors where so identified, was necessary. However, to respond to constituents’ requests for clarification on the extent of disclosures required of related party transactions that occur in the not-for-profit public sector, the Board decided to add implementation guidance to AASB 124 to assist not-for-profit public sector entities in this regard.

APPLICATION DATE AND TRANSITIONAL PROVISIONS

AASB 2015-6. BC 30

The Board considered the application date and transitional provisions of the amendments to extend the scope of AASB 124 to include not-for-profit public sector entities. The Board acknowledged constituent concerns about the ability of existing systems, processes and controls to capture the information required, and requests for a lengthy transition period prior to mandatory application of the amendments.

AASB 2015-6. BC 31

The Board was disinclined to unnecessarily further extend the period to which these amendments are on issue before mandatory application, having made its key decisions on the amendments in 2012, and as the finalised amendments are largely as were exposed. Further, the Board noted that Australian Implementation Guidance to AASB 10 Consolidated Financial Statements relating to the application of control by not-for-profit entities had been issued by the Board in October 2013. The Board also noted that the forthcoming issue of an amending standard extending the scope of AASB 124 to not-for-profit public sector entities has been signalled in its publicly available work program. Accordingly, the Board decided that the amendments should apply to annual reporting periods beginning on or after 1 July 2016.

AASB 2015-6. BC 32

However, having regard to constituent concerns, the Board decided not to require comparative related party disclosures to be presented in the period of initial application of the amendments.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

BUSINESS OPERATING PROCEDURE

Corporate Services/Governance & Finance

Procedure Number XXX

PROCEDURE FOR RELATED PARTY DISCLOSURES

The scope of AASB 124 *Related Party Disclosures* was extended in July 2015 to include application by not-for-profit entities, including local governments. The operative date for Local Government is 1 July 2016, with the first disclosures to be made in the Financial Statements for year ended 30 June 2017. This procedure outlines required mechanisms to meet the disclosure requirements of AASB 124.

BACKGROUND

The objective of the standard is to ensure that an entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and transactions.

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the *Shire/Town/City* must make an informed judgement as to who is considered to be a related party and what transactions need to be considered, when determining if disclosure is required.

The purpose of this procedure is to stipulate the information to be requested from related parties to enable an informed judgement to be made.

1. Identification of Related Parties

AASB 124 provides that the *Shire/Town/City* will be required to disclose in its Annual Financial reports, related party relationships, transactions and outstanding balances.

Related parties includes a person who has significant influence over the reporting entity, a member of the key management personnel (KMP) of the entity, or a close family member of that person who may be expected to influence that person.

KMP are defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

For the purposes of determining the application of the standard, the *Shire/Town/City* has identified the following persons as meeting the definition of *Related Party*:

- An elected Council member
- Key management personnel being a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer or Director
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or domestic partner, dependents of that person or person's spouse or domestic partner.
- Entities that are controlled or jointly controlled by a Council member, KMP or their close family members. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs).

The *Shire/Town/City* will therefore be required to assess all transactions made with these persons or entities.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

2. Identification of related party transactions

A related party transaction is a transfer of resources, services or obligations between the *Shire/Town/City* (reporting entity) and the related party, regardless of whether a price is charged.

For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services have been identified as meeting this criteria:

- Paying rates
- Fines
- Use of *Shire/Town/City* owned facilities such as [Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)]
- Attending council functions that are open to the public
- Employee compensation whether it is for KMP or close family members of KMP
- Application fees paid to the *Shire/Town/City* for licences, approvals or permits
- Lease agreements for housing rental (whether for a *Shire/Town/City* owned property or property sub-leased by the *Shire/Town/City* through a Real Estate Agent)
- Lease agreements for commercial properties
- Monetary and non-monetary transactions between the *Shire/Town/City* and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the *Shire/Town/City* (trading arrangement)
- Sale or purchase of any property owned by the *Shire/Town/City*, to a person identified above.
- Sale or purchase of any property owned by a person identified above, to the *Shire/Town/City*
- Loan Arrangements
- Contracts and agreements for construction, consultancy or services

Some of the transactions listed above, occur on terms and conditions no different to those applying to the general public and have been provided in the course of delivering public service objectives. These transactions are those that an ordinary citizen would undertake with council and are referred to as an Ordinary Citizen Transaction (OCT). Where the *Shire/Town/City* can determine that an OCT was provided at arms length, and in similar terms and conditions to other members of the public and, that the nature of the transaction is immaterial, no disclosure in the annual financial report will be required.

3. Disclosure Requirements

For the purposes of determining relevant transactions in point 2 above, elected Council members and key management personnel as identified above, will be required to complete a *Related Party Disclosures - Declaration* form for submission to financial services.

Ordinary Citizen Transactions (OCTs)

Management will put forward a draft resolution to Council annually, declaring that in its opinion, based on the facts and circumstances, the following OCT that are provided on terms and conditions no different to those applying to the general public and which have been provided in the course of delivering public service objectives, are unlikely to influence the decisions that users of the Council's financial statements make. As such no disclosure in the quarterly *Related Party Disclosures - Declaration* form will be required.

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

- Paying rates
- Fines
- Use of *Shire/Town/City* owned facilities such as Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)
- Attending council functions that are open to the public

Where these services were not provided at arms length and under the same terms and conditions applying to the general public, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form about the nature of any discount or special terms received.

All other transactions

For all other transactions listed in point 2 above, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form.

Frequency of disclosures

Elected Council members and KMP will be required to complete a *Related Party Disclosures - Declaration* form each quarter.

Disclosures must be made by all Councillors immediately prior to any ordinary or extraordinary election.

Disclosures must be made immediately prior to the termination of employment of/by a KMP.

Confidentiality

All information contained in a disclosure return, will be treated in confidence. Generally, related party disclosures in the annual financial reports are reported in aggregate and as such, individuals are not specifically identified. Notwithstanding, management is required to exercise judgement in determining the level of detail to be disclosed based on the nature of a transaction or collective transactions and materiality. Individuals may be specifically identified, if the disclosure requirements of AASB 124 so demands.

4. Materiality

Management will apply professional judgement to assess the materiality of transactions disclosed by related parties and their subsequent inclusion in the financial statements.

In assessing materiality, management will consider both the size and nature of the transaction, individually and collectively.

Associated Regulatory Framework

AASB 124 Related Party Disclosures

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

Associated Policies

Include if relevant

Further Information

Related Party Disclosures - Declaration form



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

Review Responsibility

Coordinator Financial Services

Date Adopted: XX

Review Required: As Required

Review Undertaken: XX

Chief Executive Officer

Date

Approved / Not Approved



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

Close Family Members

Close family members include:

- a child, spouse or domestic partner;
- children of your spouse or domestic partner;
- dependents of you or your spouse or domestic partner;
- any other close family member;

who may be expected to influence, or be influenced by, your dealings with the council.

The following table may assist you in identifying your close family members:

Definitely a close family member	May be a close family member
Your spouse/domestic partner	Your brothers and sisters, if they could be expected to influence or be influenced by you in their dealings with council
Your children	Your aunts, uncles and cousins, if they could be expected to influence or be influenced by you in their dealings with council
Your dependants	Your parents and grandparents, if they could be expected to influence or be influenced by you in their dealings with council
Children of your spouse/domestic partner	Your nieces and nephews, if they could be expected to influence or be influenced by you in their dealings with council
Dependants of your spouse/domestic partner	Any other member of your family if they could be expected to influence or be influenced by you in their dealings with council

There may be relationships that a council has which are not identified in this appendix but still meet the definition of a related party.

Example: Cousin of Councillor

A Councillor for the *Shire/Town/City* has lived in the *Shire/Town/City* her whole life. In fact her family has been in the area for generations.

The Councillor’s cousin, owns and operates the local newsagent through a company ABC Pty Ltd, in which she owns 100% of the shares. The Councillor and her cousin have always been close and regularly socialise together.

From these facts it would appear that the Councillor’s cousin is a close family member of the Councillor because she would be expected to influence, or be influenced by, that person in her dealings with Council.

Both the cousin and the company she controls, ABC Pty Ltd would therefore be related parties of Council.

Any transactions that the Council makes with the newsagent would need to be separately identified and may need to be disclosed.



SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

Control in entities

What is an entity that I, or my close family member, control or jointly control?

Entities include companies, trusts, incorporated and unincorporated associations such as clubs and charities, joint ventures and partnerships.

You control an entity if you have

- a) power over the entity;
- b) exposure, or rights, to variable returns from involvement with the entity; and
- c) the ability to use your power over the entity to affect the amount of your returns.

To jointly control an entity there must be contractually agreed sharing of control of the entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

In some cases it will be obvious that you or a family member control or have joint control over an entity. In other cases it will be less clear.

In some cases it will be obvious that you or a family member control or have joint control over an entity. In other cases it will be less clear.

If you are unsure whether you, or a close family member, has control or joint control of an entity then you should contact the Manager Financial Services for a confidential discussion.

Example: Clubs or other incorporated bodies

(A *Shire/Town/City* Councillor is the President of a local football club)

A *Shire/Town/City* Councillor is the President of *Shire/Town/City* Football Club Inc, the local football club. This club is overseen by a committee which comprises the President and four other committee members. Each member has a single vote when making decisions at meetings. The committee members are not related and do not have agreements to vote with one another. The club has over 100 members that each have a vote in electing the committee members at the club’s annual general meeting.

From these facts it would appear that the Councillor does not control or jointly control the football club so it will not be a related party of Council just because the Councillor is the president of the club.

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

Other examples

Example 1 (Audit committee member)

Shire/Town/City of Anywhere's audit committee comprises two Councillors and a local retired accountant, Fred. Fred has no other connection with the council.

The audit committee attends to the functions as required under the *Audit Regulations*. It does not make any decisions on behalf of the council but simply provides reports, with recommendations, for the Mayor and councillors to consider.

Based on the facts outlined Fred would not be a KMP of council.

Example 2 (Son of CFO employed by council)

Shire/Town/City of Anywhere has recently employed Paul's son (George) in the Council's parks and garden's area. Paul is Council's Deputy Chief Executive Officer but was not involved in hiring George. This process was managed by the Director of Parks and Gardens and included an independent assessment process. Paul did not have any influence in George securing the job.

Paul has been identified as a KMP of council, which makes him a related party.

George will also be a related party of Council because he is a close family member of Paul. The recruitment process that was undertaken for George's position is irrelevant when assessing whether George is a related party.

Example 3 (Cousin of Mayor - related party commonly known but omitted from declaration)

Shelley, the Mayor of Shire/Town/City of Nowhere forgets to include her cousin Mavis, and Mavis' company, when she completes her KMP declaration.

It is commonly known in the community that Shelley and Mavis are close and that Shelley would be expected to influence, or be influenced by, Mavis in her dealings with Council and vice versa.

Mavis and her company are related parties of Council, even though Shelley omitted them from her declaration.

Example 4 (Example of control)

Fred is the Mayor of Shire/Town/City of Nowhere and owns 100% of the ordinary shares in Shire/Town/City of Nowhere Development Company Pty Ltd (the company). The ordinary shares are the only shares in the company that have voting rights.

Fred controls the company because he has the power to affect the company's decisions and the return that he will get from the company.

Fred will need to include the company on his related party declaration.

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

Example 5 (Example of joint control)

Fred is the Mayor of *Shire/Town/City of Nowhere* and owns 50% of the ordinary shares in *Shire/Town/City of Nowhere* Development Company Pty Ltd (the company). Fred's brother Stan owns the other 50% of ordinary shares. Fred and Stan are the only Directors of the company and have equal voting rights on the board.

Fred and Stan have joint control of the company because any decisions require the unanimous consent of them both.

Fred will need to include the company on his related party declaration.

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

3. ORDINARY CITIZEN TRANSACTIONS – NOT PROVIDED AT ARMS LENGTH

Did you or any member of your close family use facilities provided at Recreation Centre, attend any event at the Civic Centre, or use any other council provided facility AND you received a discount or special terms that would not otherwise be offered to any other member of the public?

Name of person using the facility	Service/Facility used	Nature of transaction	Nature of discount or special conditions received.

Note: Recreation Centre membership provided as part of employment has been provided under the same terms as those memberships provided to the public.

4. LEASING AGREEMENTS - DOMESTIC RESIDENTIAL

Did you, a close family member or related entity, enter into a lease agreement with the **Shire/Town/City** (either as lessee or lessor) for the provision of a domestic rental property (Includes properties owned by the **Shire/Town/City** and privately owned properties sub-leased through the **Shire/Town/City** from a real estate agent)? Did you receive or provide a discount or special terms that would not otherwise be offered to any other member of the public?

Name of Person party to the lease	Property Address	Term of Lease & Weekly rent	Detail of any non-arms length conditions

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

5. LEASING AGREEMENTS - COMMERCIAL

Did you, a close family member or related entity, enter into a commercial leasing agreement with the **Shire/Town/City** for the provision of a commercial property? Did you receive a discount or special terms that would not otherwise be offered to any other member of the public?

Name of person party to the lease	Property Address	Term of Lease & Weekly rent	Detail of any non-arms length conditions

6. TRADING ARRANGEMENTS

Were you or a close family member (as defined above) the owner of any business (or in a position to substantially control the business) that provided goods or services to the **Shire/Town/City**? Were those goods or services provided on the same terms and conditions as those available to any other customer? If not, please provide details of the specific terms provided to the **Shire/Town/City**.

Business name	Goods or services provided	Approximate value for the reporting period	Terms & conditions

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

8. PURCHASE OF PROPERTY

Did you, a close family member or related entity, purchase any property or other assets from the **Shire/Town/City**? (This may include vehicles or other plant items, land or buildings).

Was the purchase made at arms length (for e.g. at public auction), and on terms and conditions available to any other member of the public? If not, please provide details of the specific terms provided to you.

Name of person or entity name	Property purchased	Value of the purchase	Terms & conditions

9. SALE OF PROPERTY

Did you, a close family member or related entity, sell any property or other assets to the **Shire/Town/City**? (This may include vehicles or other plant items, land or buildings).

Was the sale made at arms length, and on terms and conditions available to any other member of the public? If not, please provide details of the specific terms provided.

Name of person or entity name	Property Sold	Value of the Sale	Terms & conditions

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

10. FEES & CHARGES FOR APPLICATIONS

Did you, a close family member or related entity, make an application to Council for a trading, building, planning or development application, licence or approval, or any other type of permit or licence?

Name of person or entity name	Application type	Application and/or receipt number

11. SELF SUPPORTING LOANS

Did you, a close family member or related entity, enter into a loan agreement with the **Shire/Town/City**?
For e.g. a club for which you have control (See Appendix 2 for example)

Name of person or entity name	Loan details	Value of the loan	Terms & conditions

12. OTHER AGREEMENTS

Please list any other agreement or arrangement you believe is a related party transaction and should be declared.

Name of person or business/company	Nature of agreement	Value of agreement	Terms & conditions

SOMEWHERE

AASB 124 – “RELATED PARTY DISCLOSURES”

I declare that all information and details provided in this form are true and correct to the best of my knowledge and belief and that no known relevant information has been omitted.

I have made this declaration after reading the information supplied by Council which details the meaning of the definitions to which this declaration relates.

SELECT OPTION 1: Handwritten Signature

Signed: _____ Date: ____/____/____

Once signed please provide to the **Manager Financial Services**.

OR

SELECT OPTION 2: Electronic Signature

This form can be sent by email to the **Manager Financial Services** provided the email is sent by the person making the disclosure from their work or personal (e.g. Councillors) email account.

POL	RELATED PARTY DISCLOSURES	
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POLICY CODE:	
DIRECTORATE:	
BUSINESS UNIT:	
SERVICE UNIT:	
RESPONSIBLE OFFICER:	
FILE NO.:	
DATE FIRST ADOPTED:	
DATE LAST REVIEWED:	
ATTACHMENTS:	
DELEGATED AUTHORITY REF.:	
VERSION NO.	

Dates of Amendments / Reviews:	
DAPPS Meeting:	
OCM:	

BACKGROUND:

This policy outlines the required mechanisms to meet the disclosure requirements of Australian Accounting Standards Board AASB 124 – Related Party Disclosures.

The Related Party Disclosures Policy applies to Related Parties of the City of Cockburn and their Related Party Transactions with the City of Cockburn (as defined in the policy definition section of this policy).

The scope of AASB124 was extended in July 2015 to included application by not for profit entities including Local Governments. The operative date for Local Governments is 1 July 2016, with the first disclosures to be made in the Financial Statements for year ended 30 June 2017.

PURPOSE:

The purpose of this policy is to define the parameters for Related Party Transaction and the level of disclosure and reporting required for Council to achieve compliance with the Australian Accounting Standard AASB 124 – Related Party Disclosures

The objective of AASB 124 is to ensure that an entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit & loss may have been affected by the existence of related parties and transactions.

POL	RELATED PARTY DISCLOSURES	
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POLICY:

(1) Identification of related parties

AASB 124 provides that the City of Cockburn will be required to disclose in its Annual Financial report, related party relationships, transactions and outstanding balances. Related parties include a person or entity that has significant influence over the reporting entity. The City of Cockburn will therefore be required to assess all transactions made with these persons or entities.

(2) Review of Related Parties

The Chief Executive Officer will regularly review Key Management Personnel where changes are made to existing persons.

Identification of Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Council and the related party, regardless of whether a price is charged.

For the purposes of determining whether a related party transaction has occurred, the following transactions or provisions of services have been identified as meeting this criterion:

- Paying fees and charges or any other amount to the Council
- Use of Council owned or operated facilities (whether charged a fee or not)
- Attending Council functions that are opened to the public
- Employee compensation whether it is for KMP or close family members of KMP
- Lease arrangements for properties (whether for a council owned property or property sub-leased by the council)
- Monetary and non-monetary transactions between the Council and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the Council
- Sale or purchase of an property owned by the Council to a person identified above
- Sale or purchase of any property owned by a person identified above to the council
- Loan arrangements
- Contracts and agreements for construction, consultancy or services

(3) Required Disclosures and Reporting

For the purposes of determining relevant transaction, Elected Members and KMP as identified above, will be required to complete a Related Part Disclosures – Declaration form for submission to Financial Services.

POL	RELATED PARTY DISCLOSURES	
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The notification requirement above does not apply to:

1. Related party transaction that are ordinary citizen transaction not assessed as being material; and
2. For Elected Members allowances and expenses incurred that are provided to an Elected Member during the financial year, under the Local Government Act 1995 and Elected Member Expenses Reimbursement Policy, the particulars of which are contained in Council's annual report pursuant to the Local Government Act and Regulations.

(3) Register of Related Party Transactions

The City will maintain and keep up to date a register of related party transactions that captures and records information required for disclosure purposes for each existing or potentially related party transaction (including ordinary citizen transaction assessed) as being material in nature during a financial year.

Definitions:

AASB 124:	Australian Accounting Standards Board, Related Party Disclosures Standard
Close family members or close members of the family:	<p>In relation to a key management Personnel:</p> <ul style="list-style-type: none"> • Family members who may be expected to influence, or be influenced by, that key management personnel in their dealings with Council and include: <ul style="list-style-type: none"> (a) that person's children and spouse or domestic partner (b) children of that person's spouse or domestic partner; (c) dependants of that person or that person's spouse or domestic partner. <p>For the purposes of AASB 124, close family members could include extended members of a family (such as, without limitation, parents, siblings, grandparents, uncles/aunts or cousins) if they could be expected to influence, or be influenced by, the key management person in their dealings with Council.</p>
Entity:	May include a body corporate, a partnership of trust, incorporated association, or unincorporated group or body.
Control:	<p>Control of an entity is present when there is:</p> <ul style="list-style-type: none"> (a) power over the entity; and (b) exposure or rights to variable returns from involvement with the entity; and (c) the ability to use power over the entity to affect the

POL	RELATED PARTY DISCLOSURES	
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	<p>amount of returns received, as determined in accordance with AASB 10 Consolidated Financial Statements, paragraphs 5 to 18, and Appendices A (Defined Terms) and B (Application Guidance).</p>
Joint Control:	<p>The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.</p>
Key Management Personnel (KMP):	<p>Defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.</p> <p>For the purposes of determining the application of the standard, the SMRC has identified the following persons as meeting the definition of Related Party:</p> <ul style="list-style-type: none"> (a) A Member Local Government (b) A Council member (c) Key management personnel being a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer or Senior Executive Managers. (d) Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or domestic partner, dependents of that person or person's spouse or domestic partner. (e) Entities that are controlled or jointly controlled by a Council member, KMP or their close family members. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs). <p>The Council will therefore be required to assess all transactions made with these persons or entities.</p>
Materiality:	<p>Management will apply professional judgement in consultation with council's external auditors to assess the materiality of transactions disclosed by related parties and their subsequent inclusion in the financial statements.</p> <p>In assessing materiality, management will consider both the size and nature of the transaction, individually and collectively.</p>
Ordinary Citizen Transactions (OCTs):	<p>Transactions that an ordinary citizen would undertake with council, which is undertaken on arm's length terms and in the ordinary course of carrying out council's functions and activities. Examples of ordinary citizen transactions assessed to be not material in nature include:</p>

POL	RELATED PARTY DISCLOSURES	
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	<ul style="list-style-type: none"> (a) fees and charges approved by council that are on terms and conditions to the general public and by their nature or amount are not material; (b) using council's public facilities after paying the corresponding fees.
Related Party:	<p>A person or entity that is related to council as defined in AASB124, paragraph 9. Examples of related parties are:</p> <ul style="list-style-type: none"> (a) council subsidiaries; (b) key management personnel; (c) close family members of key management personnel; (d) entities that are controlled or jointly controlled by KMP or their close family members
Related Party Transactions:	<p>Is a transfer of resources, services or obligations between the council and a related party, regardless of whether a price is charged.</p>

LIST OF OUTSTANDING DEBTS 2016-2017

ASFC 20/7/2017 - Agenda Item14.1

Sundry Debts

Debtor Name	Debtor No	Debt Category	Date of Debt	\$ Amount (Ex GST)	\$ Amount (Inc GST)	Details of Charges	Write Off Reason
Mag-Itaties (Maggie Wright)	414642	Hall Hire	2013/2014	1,595.57	1,755.13	Hall Hire	Dispute with Bookings Team re hire dates. Several transaction summaries and emails back and forth with debtor. Bookings cannot validate dates back that far. Given inability to prove recommend write off
Megalight	415870	Hall Hire- Youth cnt	10/02/2016	337.08	370.79	Casual venue Hire	Several phone calls to Debtor and CS Legal letter with no response Given balance amount not worth pursuing
The Pure Diamonds	415866	hall hire	June/July 16	645.00	709.50	Hall Hire	Several statements sent. CS legal letter sent Not a valid company name. Unable to pursue
Sandra Delica	416108	Hall Hire- Youth cnt	24/08/2016	664.55	731.00	Casual venue Hire	One off hire. Cannot locate owners whereabouts
Banshees Softball Club	415421	Recreation Services	2014/2015	643.64	708.00	Sporting Club hire costs	Write off recommended by Nathan Johnston - club has folded
MSD Wholesale	415533	Tip Charge	19/08/2014	343.64	378.00	One off Tip charge	Cheque payment bounced. Several statements and phone calls Company now in liquidation
Perth Demolition	415294	Tip Charge	30/06/2013	1,304.82	1,435.30	One off Tip Charge	CS Legal involved with no success. Legal costs adding up and whereabouts of Debtor not known. Recommend write off
Total Sundry Debts Write-Off				\$5,534.30	\$6,087.72		

Infringements

Infringement Number	Date of Issue	Offender Name	Initial Fine Amount	Fees to be Written Off	Total Write-Off Amount	Write Off Reason
2230102010	23/10/2014	Jessica Lynnet Taylor	\$400	\$14.65	\$414.65	Sent to FER and rejected as a Final Notice had not been previously sent.



Certified Practising Accountants

PARTNERS
Anthony Macri FCPA
Domenic Macri CPA
Connie De Felice CA

28 June 2017

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 2017

We recently carried out an interim audit of the City of Cockburn for the year ended 30 June 2017.

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
- Rates and ESL
- 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.

PURCHASES, PAYMENTS AND CREDITORS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Professional judgement is used to assess the risk of material misstatement and to design and perform further audit procedures where necessary to reduce the risk to an acceptable low level. Our audit procedures have been designed to determine whether purchases of goods/services were in accordance with the City's Purchasing of Goods and Services Policy.

Generally the controls surrounding purchases, creditors and payments are appropriate to meet the City's requirements.

However, the following matters were noted as requiring attention:

- (i) Our review of the outstanding purchase orders file revealed that some purchase orders have been outstanding for over 24 months. These long outstanding purchase orders may have been completed and may require cancellation.

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.

Management Comment:

The Procurement Services Team co-ordinates and reviews all outstanding 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.



- (ii) 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.

We recommend that management looks into this matter and takes appropriate action to rectify this error.

Management Comment:

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.

SUNDRY DEBTORS

We examined the policies and procedures in relation to debtors invoicing, receipting, banking and debt collection. The debtors system, including raising of invoices, was reviewed with limited testing for some transactions.

We were satisfied that the reconciliations for sundry debtors between the general ledger control account and the subsidiary ledger have been performed and completed properly.

However, the following matters were noted and are brought to your attention:

- (i) As part of our audit process, we carried out a review of the sundry debtors. A review of the sundry debtors aged trial balance report as at 15 May 2017 indicated the following large overdue accounts in the 90 days and over category:

Debtor #	Debtor Name	Amount \$
55002	Landcorp	11,616.00
415804	Robert Sonnenklar	6,503.31
75204	Puttins Bins	33,270.62
415643	Junk Removals	7,086.96
415768	Matters Removals	6,471.12
	Various accounts balances < \$6,000.00	168,369.42
	Total balance in the 90 days and over category	233,317.43

As auditors, we have a responsibility to bring the matter to the Council's attention and will continue to review the progress and the processes undertaken by the management to recover these debts.

We will be pleased to receive feedback from management in due course as to the current status of the above accounts.



We recommend that the Council review the existing provision for doubtful debts and consider its adequacy for the financial year ending 30 June 2017.

Management Comment:

The City has a history of low debt write off, which is recommended to audit committee annually in July in accordance with Council policy.

Debtor Name	Amount \$	Debt status comments
Landcorp	11,616.00	<i>Invoice relates to a contractual obligation in dispute. Subject to future negotiation.</i>
Robert Sonnenklar	6,503.31	<i>Reviewing debt for possible inclusion as charge against the land under the Health Act.</i>
Putitin Bins	33,270.62	<i>Reviewed monthly. Payment arrangement of \$2,500 per month is in place.</i>
Junk Removals	7,086.96	<i>Reviewed weekly. Payment proposal of \$750 per week.</i>
Matters Removals	6,471.12	<i>Reviewed weekly. Payment proposal of \$750 per week.</i>
Various accounts balances < \$6,000.00	168,369.42	<i>Reviewed weekly. Debts escalated to management on a circumstantial basis.</i>
Total balance in the 90 days and over category	233,317.43	

- (ii) During our review of monthly reconciliations of sundry debtors, we noted the reconciliations for the months of September 2016 to January 2017 had not been prepared and reviewed.

We recommend that reconciliations be performed and reviewed on a monthly basis so that any discrepancies could be rectified promptly.

Management Comment:

The period noted coincided with the departure of the previous service unit 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.

- (iii) 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.

We recommend that the management look into this matter and also review other leases in order to ensure the treatment of GST is correct.



Management Comment:

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.

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 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.

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.

Management Comment:

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.

- (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.

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

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.

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.

This matter was reported in our previous management letter dated 4 July 2016. The management response then provided was as follows:

"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."

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

Management Comment:

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.

IT CONTROLS

We discussed with the Manager Information Services about the general IT controls operating at the City. Generally, the controls appear to be satisfactory.

However, the following matters were noted and are brought to your attention:

- (i) 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.

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.

We recommend that the procedures in relations to passwords be reviewed to include periodic change of passwords for all users.



Management Comment:

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

- (ii) "The City of Cockburn Active Directory Account Security" document recommends a regular 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.

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.

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.

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.

Management Comment:

The aforementioned suite of policy and procedure reviews/creations will address the checking of actual establishment data versus data held within Active Directory. It is not advisable to hold quarterly audits until this work is complete.

Management will recommend this be raised as a priority project for the next financial year.

- (iii) We believe, the IT procedures and policies, among other things, should address the following

- Back-up facilities
- Authority for changes and responsibilities
- Password security
- Contingency and disaster recovery plan
- IT equipment purchases

We note that the IT review has only been performed in a limited scope. We recommend that a wider and more extensive IT audit be undertaken covering the key areas mentioned above.

Management Comment:

Audit recommendation is agreed to.

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.



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





City of Cockburn

External Audit Plan For the Year Ending 30 June 2017

22 June 2017

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1. Purpose of the Audit

The purpose of this audit plan is to summarise our external audit approach in relation to the statutory audit of the City of Cockburn for the financial year ending 30 June 2017.

Our Audit Plan has been prepared to inform the officers and the Audit Committee of City of Cockburn about our responsibilities as your external auditors and how we plan to discharge them.

The plan focuses on:

- Documenting our audit approach, including:
 - audit process;
 - materiality;
 - approach to auditing key financial statement risk issues; and
 - completion;
- Presenting our audit engagement team;
- Highlighting relevant independence and governance matters;
- Providing a preliminary assessment of timing;

Our audit approach is focused on assessing and responding to the risk of misstatement in the financial statements.

We are committed to audit quality and the requirements of independence based on Macri Partners' and the accounting profession's strict rules and policies. We have made our initial assessment of potential threats to independence and have adopted appropriately robust safeguards to address those risks and protect independence.

2. Scope of the Audit

We will conduct an independent audit of the financial statements in order to express an opinion on it to the ratepayers of the City of Cockburn.

Our audit will be conducted in accordance with Australian Auditing Standards with the objective of reducing the level of material misstatement in the financial statements to an acceptably low level. These standards have been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2016/17 accounts.

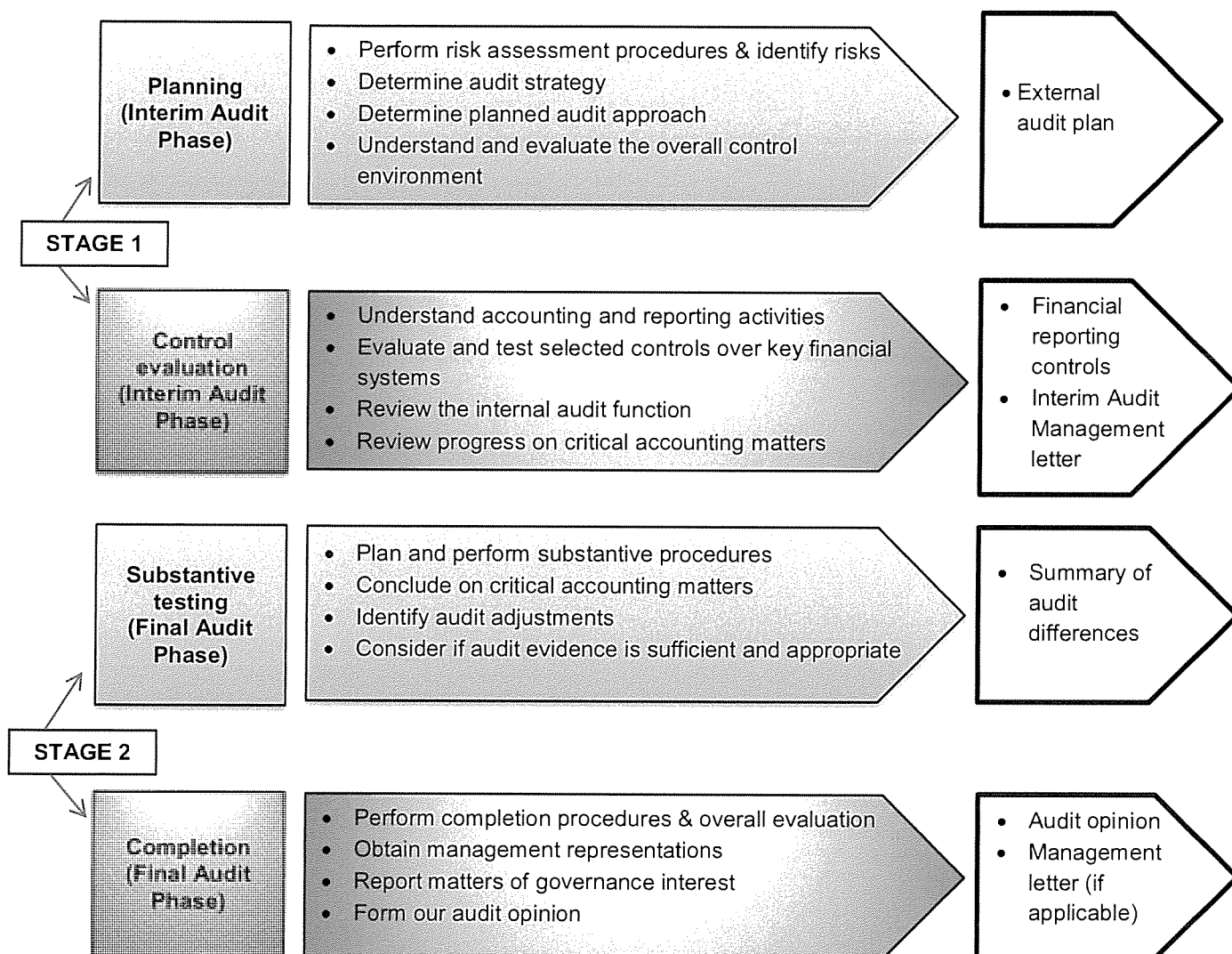
We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

3. Financial Reporting Responsibilities

Management	External Audit	Audit Committee
<ul style="list-style-type: none"> • Prepare financial statements and notes in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Design, implement and maintain effective internal control over financial reporting processes • Risk management • Exercise sound judgement in selecting and applying critical accounting policies • Safeguard assets • Prevent, detect and correct errors • Prevent and detect fraud • Provide representations to external auditors • Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements • Confirm the effective operations of financial reporting controls and disclosures in the annual financial statements 	<ul style="list-style-type: none"> • Conduct audit in accordance with professional standards and applicable financial reporting framework (i.e. Auditing Standards and Australian Accounting Standards) • Express an opinion on whether the financial statements present a true and fair view in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Plan and perform the audit to obtain reasonable assurance (not absolute assurance) as to whether the accounts are free of material misstatements, whether caused by error or fraud • Maintain audit independence 	<ul style="list-style-type: none"> • Create a culture of honesty and ethical behaviour; set the proper tone and emphasise fraud prevention • Oversee management, including ensuring that management establishes and maintains internal control to provide reasonable assurance regarding integrity and reliability of financial reporting • Oversee management activities which ensure appropriate risk management and controls are in place for monitoring risk and compliance with policies, procedures and laws • Review the Council's performance • Liaise with the external auditors to facilitate external audit • Review annual financial statements and recommend approval to the Council

4. Audit Approach

Our objective is to provide an independent auditor's opinion on the financial report of the City of Cockburn for the year ending 30 June 2017. Our audit methodology is split into two stages and is applied uniquely to your circumstances. It involves the following activities.



Our audit procedures will focus on those areas of the City of Cockburn' activities that are considered to represent the key audit risks identified in our planning memorandum and through discussions with management and the Audit Committee during the course of our audit.

Internal Control Environment

In accordance with the Australian Auditing standards, we have performed a review of the design and operating effectiveness of the City's significant financial recording and reporting processes. Our audit was designed to obtain a degree of audit comfort from independent testing of management's internal controls. This approach of understanding and evaluating controls is risk based and structured on a foundation of the City having a strong control environment.

Our audit approach was also based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wished to place reliance on them. This work was supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

A Report on Control Findings was provided to management after the interim audit, outlining our findings, significant deficiencies and our recommendations on where improvements can be made. We revisited the 2016 year audit findings to check if management's responses have been implemented during the year as agreed.

Key Financial Statement Processes

The following areas were covered for risk assessment during the interim audit:

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

Compliance Matters

An examination of some compliance matters (including registers, minutes and other legislative matters) under:

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

was carried out and no non compliance matters were identified to be reported in our Interim Audit Management Report for management information. Non compliance matters are required to be reported in our Independent Auditor's Report.

Audit Requirements Schedules

To assist the City in gathering and collating the necessary information for our final audit visit:

We will forward an Audit Requirements Schedule shortly. As the requested information will form the basis of our audit working papers, the information must be made available to us at the commencement of our audit visit. This assists us in delivering an efficient audit and minimising interruptions to the City's staff.

5. Significant Risks Identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty".

In this section, we outline the significant risks of material misstatement which we have identified.

Risk of Material Misstatement	Financial Statement Impact and Consequence	Planned Audit Approach
1. Fair Value Assessment and Revaluation of Land and Buildings		
<p>Regulation 17A of the LG (Financial Management) Regulations 1996 requires Land and Buildings or Infrastructure assets to be measured at fair value for the year ending 30 June 2017, which may be based on significant estimations and use of valuer/management's judgements and assumptions. The City will be having its land and building asset classes revalued this financial year.</p>	<p>The value of land and buildings may be materially misstated.</p> <p>The accuracy of the asset revaluation surplus and/or impairment expense may be materially misstated.</p>	<p>Review the basis of the asset revaluations (at fair value) undertaken and in doing so consider:</p> <ul style="list-style-type: none"> • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the appropriateness of valuations undertaken including the expertise of your external valuer. <p>➤ We will review other significant additions and disposals of assets during the year.</p> <p>➤ Review appropriateness of depreciation against the estimated useful life in the Council's accounting policies</p> <p>➤ Perform procedures to obtain assurance that valuations have been appropriately recorded in the fixed asset register and general ledger.</p>
2. Development Contributions and Gifted Assets		
<p>The City receives significant amount of payments, in-kind works, services or facilities, and gifted assets.</p> <p>Development contributions are payments or in-kind works provided by developers towards the supply of infrastructure to support new land developments. They are collected mainly by using Development Contributions Plans (DCPs), voluntary agreements and planning and building permit processes.</p>	<p>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>➤ Obtain an understanding of and assess the controls over the recording of development contribution revenue in the City's financial statements and collection of development contributions</p> <p>➤ Ensure that the recognition of contributed and gifted assets is performed consistently and in accordance with Australian Accounting Standards AASB116 <i>Property, Plant and Equipment</i> and AASB 13 <i>Fair Value Measurement</i></p>

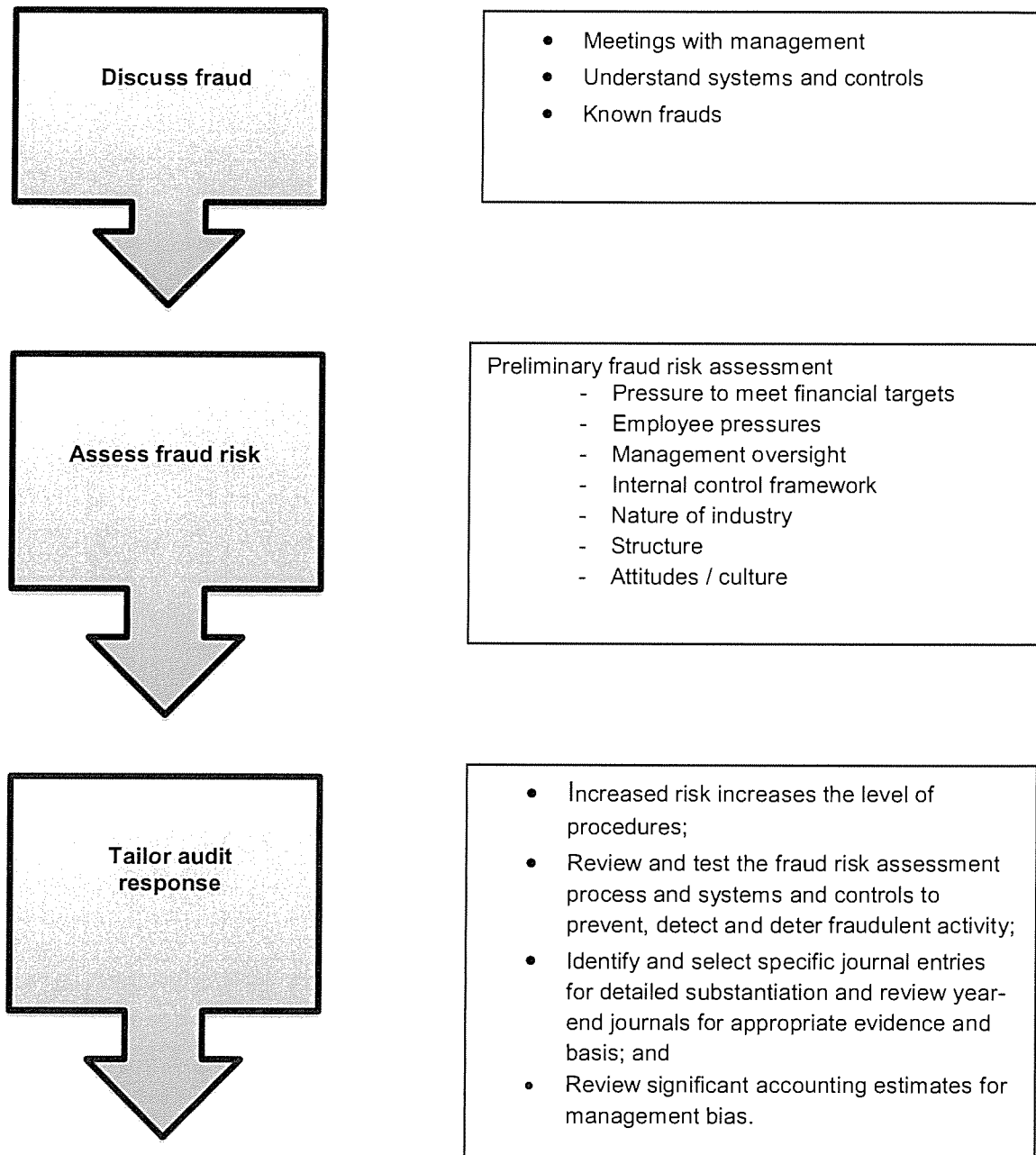
Risk of Material Misstatement	Financial Statement Impact and Consequence	Planned Audit Approach
3. Risk of Fraud through Management Override of Controls		
<p>Australian Auditing Standard ASA 240 – <i>The auditor’s responsibility to consider fraud in an audit of financial statements</i> requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud.</p> <p>In all entities, 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 by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>Assertions, account balances and operating results may be materially misstated.</p>	<p>We will assess the processes in place to prevent and detect fraud. Auditing Standard ASA 240 imposes specific audit procedures, including:</p> <ul style="list-style-type: none"> ➤ Testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements ➤ Reviewing material accounting estimates for bias ➤ Reviewing significant unusual transactions outside the normal course of business

Risk of Material Misstatement	Financial Statement Impact and Consequence	Planned Audit Approach
4. Revenue Recognition		
<p>In accordance with Australian Auditing Standard ASA 240 – <i>The auditor’s responsibility to consider fraud in an audit of financial statements</i>, we presume 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.</p> <p>The standard allows the presumption to be rebutted but, given a local government’s range of revenue sources, we have concluded that there are insufficient grounds for rebuttal. This does not imply that we suspect actual or intended manipulation, but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>Budgetary pressures and performance targets may influence the revenue recognition.</p> <p>Revenue may be materially misstated due to the failure to correctly recognise and measure it in accordance with the applicable accounting standards.</p>	<ul style="list-style-type: none"> ➤ Substantiate verification of cut-off procedures to mitigate the risk of income being recognised in the wrong period. ➤ In addition, undertake a range of substantive procedures including: <ul style="list-style-type: none"> • testing receipts to ensure they have been recognised in the correct year; • testing adjustment journals; and • obtaining direct confirmation of year-end bank balances and testing bank reconciliations to the general ledger. ➤ Assess whether treatment of revenue is consistent with Accounting Standards AASB 118 <i>Revenue</i> and AASB 1004 <i>Contributions</i>
5. Financial Ratios		
<p>The Department of Local Government and Communities launched a website www.mycouncil.wa.gov.au where all key financial ratios for every Council are reported to allow the public to view the financial health score of local governments.</p>	<p>There may be a higher level of scrutiny of the results in the financial statements and the key financial ratios.</p> <p>The financial ratios may not be calculated in accordance with legislative requirements.</p>	<ul style="list-style-type: none"> ➤ Check the calculations of the financial ratios ➤ Assess the reasonableness of explanations provided for any significant variations

Additional risks may emerge over the course of the audit. These factors will be considered in our reporting to you and the design of our audit procedures.

6. Impact of Fraud on the Financial Report

In accordance with Auditing Standard ASA 240 “*The Auditor’s responsibility to consider fraud in an Audit of a Financial Report*”, we will undertake specific procedures and report findings to the Council in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.



We have forwarded a [Fraud and Error Assessment Form](#) which is required to be completed by management and Audit Committee of all our local government clients prior to our final audit visit.

The form allows us to make enquiries of management and the Audit Committee, to obtain their understanding on the risk of fraud within their local governments and to determine whether management have knowledge of fraud that has been perpetrated on or within the local government.

7. Highlights – 2016/17 Financial Year

Related Party Transactions and Disclosures

Background

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*.

Related parties include Key Management Personnel (KMP), their close family members and any entities that they control or jointly control. Any transactions with these parties, whether monetary or not, will need to be identified and may need to be disclosed. Disclosure will only be made if a transaction has occurred and the disclosure may be in aggregate. Key Management Personnel will include all Councillors, Directors and all Senior Staff as determined by the Local Government Act 1995.

The impact of this standard will be disclosure in nature only – there is no impact to reported financial position or performance. The implementation guidance reminds Councils that materiality still exists in this context.

Approach

We will review the process of the City's implementation of the following items during the course of the audit to ensure that management can fully comply with the requirements of the accounting standard:

- Creation of a Related Party Disclosure Policy
- Establishment of a system to identify and record:
 - related parties and related party relationships
 - related party transactions and related terms and conditions
- Identify ordinary citizen transactions that will not be disclosed by Council
- Implement declaration forms by Key Management Personnel
- Creation of a Related Party Register

8. Materiality

Materiality drives the scope of our audit and is determined in accordance with the auditing standard requirements. We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Type of Materiality	What is it used for?	Amount for 2017 Year
Overall materiality	Our overall materiality for the Council is calculated as a percentage of gross operating expenditure; this represents the level at which we would consider qualifying our audit opinion and is consistent with the prior year.	\$2,610,000 2% of Total Expenditure (2016/2017 Budget) \$130.5 m
Performance materiality	We determine performance materiality (from overall materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures. This is the level to which we plan our audit work and identify significant accounts.	\$1,957,500 which has been set at 75% of Overall Materiality
Trivial error threshold	Auditing Standard ASA 450 <i>Evaluation of Misstatements Identified during the Audit</i> requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are those which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We determine a trivial error threshold (from materiality) in order to accumulate misstatements identified during the audit. We will not report misstatements below the threshold level unless we believe that the nature of the misstatement should be of concern. We will include a summary of any uncorrected misstatements identified during our audit in our year-end Audit Completion Report to the Audit Committee.	\$130,500 which has been set at approximately 5% of overall materiality

We will reassess materiality based on year-end results or new information to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

9. Audit Engagement Team

The audit team consists of the key members listed below:

Engagement Role	Name	Responsibilities
Audit Partner	Anthony Macri	Engagement leader responsible for the audit, including: <ul style="list-style-type: none"> liaison with the Chief Executive Officer and audit committee members signing of external audit opinion and other relevant reports
Senior Audit Manager	S Menon	Responsible for: <ul style="list-style-type: none"> overall quality control of the audit engagement overall review of audit outputs
Audit Manager	Suren Herathmudalige	Responsible for: <ul style="list-style-type: none"> key contact for operational audit matters ensuring delivery to timetable management of targeted work

10. Communications Plan and Timetable

Auditing Standard **ASA 260 'Communication of audit matters with those charged with governance'** requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee.

Output	Timing
Interim Audit Field Work	15 May 2017 – 17 May 2017
Provide Interim Management Letter	Upon receipt of management comments on draft interim management letter
Final Audit Field Work	2 October 2017 – 4 October 2017 (Confirmed by Management)
Present the Audit Findings Report to the Audit Committee	October 2017 – November 2017 (Management to confirm)
Provide Audit Opinion on Financial Statements	October 2017 – November 2017 (Management to confirm)

11. Independence

Independence and Objectivity Confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the Audit Engagement Partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, this is the Council.

Confirmation Statement

We confirm that as of June 2017 in our professional judgement, Macri Partners is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Engagement Partner and audit staff is not impaired.

12. Disclaimer

This audit plan has been prepared for the Audit Committee and management of the City of Cockburn only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than the City of Cockburn.

MACRI PARTNERS

2017 FRAUD & ERROR ASSESSMENT

CITY OF COCKBURN

Explanatory Information

The purpose of this form is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make enquiries of the Audit Committee under auditing standards.

Background

Under the Australian Auditing Standards, auditors have specific responsibilities to communicate with the Audit Committee.

Australian Auditing Standards ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and ASA 260 *Communication with Those Charged with Governance* now make it mandatory for auditors to make enquiries of management and those charged with governance (audit committees) regarding matters that are indicated in the template form. The enquiries with those charged with governance (audit committees) are made in part to corroborate the responses to the enquiries of management.

Respective Responsibilities

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight to address fraud risk.

This form includes a series of questions on each area with provision for responses from both management and the Audit Committee.

We suggest that Management complete the relevant sections before submitting these responses to the Audit Committee.

The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.

Fraud and Error Assessment – Management

CITY OF COCKBURN

FOR THE YEAR ENDING 30 JUNE 2017

1. Has management assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?

Response:

This risk is included within the City's corporate risk registers and after considering existing control measures, management has assessed the residual risk as being moderate.

2. What processes does management have in place to identify and respond to risks of fraud?

Response:

The City has a Fraud Prevention Policy. Fraud risk factors are addressed in the City's corporate risk registers. Controls include:

- *Fraud Control Plan*
- *Fraud Awareness / Management Program*
- *City of Cockburn Risk Management Strategy*
- *City of Cockburn Risk Register*
- *City of Cockburn Incident Discipline Process*
- *Code of Conduct for Staff*
- *Code of Conduct for Elected Members*
- *Public Interest Disclosure Act 2003 & Guidelines*

3. Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?

Response:

Overall, the level of fraud risk present at City of Cockburn is well managed and importantly fraud risks are currently rated Moderate and Low (i.e. there are currently no High or Extreme identified risks) in areas of Contract Management, Procurement, People and Planning. There is potential to further reduce the fraud risk profile of the City, and the City continues to initiate controls to ensure that the fraud risk profile is reduced.

4. Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?

Response:

Management considers that adequate internal controls (including segregation of duties) are in place and are operating effectively. These are reviewed annually in accordance with the City's risk management framework requirements and annual control reviews are conducted to validate the effectiveness of mitigation controls.

5. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (e.g. because of undue pressure to achieve financial targets such as a surplus position or better performance indicators)?

Response:

There is always the potential for inappropriate influence, but Management is confident the City's existing control environment reduces this risk to a low or moderate level.

6. What arrangements are in place to report fraud issues and risks to the Audit Committee?

Response:

All High and Extreme risks are reported to the Audit Committee on an annual basis, further to that the City uses a risk management system to monitor and review all operational and strategic risks. Whereby all responsible risk owners are assigned control actions for each risk, and a review timeframe is set in accordance to the City's risk appetite. The system generated automatic notification when controls are due for review, and escalates risk actions in accordance to the City's risk treatment criteria. In addition an annual control review is conducted to validate the effectiveness of mitigation controls.

7. How does the Council communicate and encourage ethical behaviour of its staff and contractors?

Response:

The City has a Code of Conduct for Staff that provides guidelines on ethical responsibility and accountability expectations. These are covered during staff inductions and reviewed during annual appraisals.

A Statement of Business Ethics has also been developed and implemented that outlines the integrity and ethical standards expected by the City from its employees, officers, suppliers and service providers when doing business. This is communicated to all new suppliers and contractors when being engaged.

8. How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?

Response:

The City has designated Public Information Disclosure (PID) Officers, and publishes the City Internal Procedures to provide a guideline for persons wishing to make a PID on the Intranet and Website. No significant issues have been reported, and the City intends to develop a training and awareness program for staff to be aware of their own responsibilities.

9. Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

Response:

Management is not aware of any.

10. Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 July 2016? If yes, provide details of what occurred and who was involved.

Response:

Management is not aware of any.

11. Please advise if there have been any matters reported to the CCC (Corruption and Crimes Commission) by the City.

Response: None have been reported although the City referred a matter of Conflict of Interest (that resulted in an employee's termination) to the PSC. The PSC, on reviewing the submission, referred the matter to the CCC. The City has not been advised if the CCC has accepted the referral.

Signature:

Name:

Position:

CEO / Director Position

Date:

Fraud and Error Assessment – Audit Committee

CITY OF COCKBURN

FOR THE YEAR ENDING 30 JUNE 2017

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We are preparing to perform our Interim Audit risk assessment of your Council in relation to the audit for the year ending 30 June 2017. We would appreciate if you could briefly answer the following questions in the spaces provided, and return this signed letter.

1. Has the Council's management communicated to you its processes for identifying/responding to risks of fraud?

Response:

2. How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?

Response:

3. Is the Audit Committee aware of any actual, suspected or alleged fraud? If yes, please provide details.

Response:

Signature: _____

Name: _____

Position: CHAIRMAN / CHAIR LADY _____

Date: _____

Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial report may contain a material misstatement resulting from fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- Tips or complaints to the auditor about alleged fraud.

Conflicting or missing evidence, including:

- Missing documents.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important financial statement ratios or relationships – for example receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from enquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Missing or non-existent cancelled cheques in circumstances where cancelled cheques are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.
- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- An unwillingness to add or revise disclosures in the financial report to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.

Other

- Unwillingness by management to permit the auditor to meet privately with those charged with governance.
- Personal financial pressure
- Vices such as substance abuse and gambling
- Extravagant purchasing or lifestyle
- Real or imagined grievances against the organisation or management
- Increased stress, irritable, defensive and argumentative
- No vacations / sick leave / excessive overtime
- Dominant personality
- Protective of area of administration and missing documents and files from the staff's area
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's Code of Conduct.