



AGENDA

Audit Committee Meeting

Monday, 29 June 2020 at 6.30pm

Disclaimer

The purpose of this Council meeting is to discuss and, where possible, make resolutions about items appearing on the agenda.

Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a member or officer, or on the content of any discussion occurring, during the course of the meeting.

Persons should be aware that the provisions of the Local Government Act 1995 (section 5.25 (e)) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person.

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NOTICE OF MEETING

Elected Members

An Ordinary Meeting of the Audit Committee will be held on **Monday, 29 June 2020** in the Council Chamber, 135 Canning Highway, East Fremantle commencing at 6.30pm and your attendance is requested.

GARY TUFFIN
Chief Executive Officer

AGENDA

- 1. DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS**
- 2. ACKNOWLEDGEMENT OF COUNTRY**

“On behalf of the Council I would like to acknowledge the Whadjuk Nyoongar people as the traditional custodians of the land on which this meeting is taking place and pay my respects to Elders past and present.”

- 3. RECORD OF ATTENDANCE**
 - 3.1 Attendance**
 - 3.2 Apologies**
 - 3.3 Leave of Absence**
 - 4. MEMORANDUM OF OUTSTANDING BUSINESS**
 - 5. DISCLOSURES OF INTEREST**
 - 5.1 Financial**
 - 5.2 Proximity**
 - 5.3 Impartiality**
 - 6. PUBLIC QUESTION TIME**
 - 6.1 Responses to previous questions from members of the public taken on notice**
 - 6.2 Public Question Time**
 - 7. PRESENTATIONS/DEPUTATIONS**
 - 7.1 Presentations**
 - 7.2 Deputations**
-

8. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

8.1 Audit Committee (11 March 2020)

8.1 OFFICER RECOMMENDATION

That the minutes of the Audit Committee meeting held on Wednesday, 11 March 2020 be confirmed as a true and correct record of proceedings.

9. ANNOUNCEMENTS BY THE PRESIDING MEMBER

TOWN OF
EAST FREMANTLE



MINUTES

Audit Committee Meeting

Wednesday, 11 March 2020 at 6.33pm

Disclaimer

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MINUTES OF THE ORDINARY MEETING OF THE AUDIT COMMITTEE HELD IN THE POD MEETING ROOM, 135 CANNING HIGHWAY EAST FREMANTLE ON WEDNESDAY, 11 MARCH 2020.

1. DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS

The Presiding Member opened the meeting at 6.33pm.

2. ACKNOWLEDGEMENT OF COUNTRY

"On behalf of the Council I would like to acknowledge the Whadjuk Nyoongar people as the traditional custodians of the land on which this meeting is taking place and pay my respects to Elders past, present and emerging.

3. RECORD OF ATTENDANCE

3.1 Attendance

The following members were in attendance:

Mayor J O'Neill
Cr J Harrington
Cr A McPhail
Cr A Natale
Cr A Watkins

The following staff were in attendance:

Mr G Tuffin	Chief Executive Officer
Mr P Kocian	Executive Manager Corporate Services

3.2 Apologies

Cr M McPhail

3.3 Leave of Absence

Nil.

4. MEMORANDUM OF OUTSTANDING BUSINESS

Nil.

5. DISCLOSURES OF INTEREST

5.1 Financial

Nil.

5.2 Proximity

Nil.

5.3 Impartiality

Nil.

6. PUBLIC QUESTION TIME

6.1 Responses to previous questions from members of the public taken on notice

Nil.

6.2 Public Question Time

Nil.

7. PRESENTATIONS/DEPUTATIONS

7.1 Presentations

Nil.

7.2 Deputations

Nil.

8. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

8.1 Audit Committee (29 January 2020)

8.1 OFFICER RECOMMENDATION

Moved Cr McPhail, seconded Cr Watkins

That the minutes of the Audit Committee meeting held on Wednesday, 29 January 2020 be confirmed as a true and correct record of proceedings.

(CARRIED UNANIMOUSLY)

9. ANNOUNCEMENTS BY THE PRESIDING MEMBER

Nil.

10. REPORTS

10.1 Investment Policy – Notice of Motion Councillor Collinson

Applicant	Not Applicable
File ref	F/AUD1
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date:	17 March 2020
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	1. Amended Policy – Investment of Surplus Funds 2. Summary of Investments September 2019 to January 2020

Purpose

This report recommends that Council consider approving a 0.1% price preference to financial institutions that are deemed not to invest in or finance the fossil fuel industry.

Executive Summary

The WA Local Government Association (WALGA) has published a paper ‘Divestment in Fossil Fuels’ Opportunities for Local Government in WA. The Town of East Fremantle is listed as one of eight local government case studies to have supported divestments from fossil fuels since 2014:

“In June 2016, the Town carried a unanimous motion to revoke their previous Investment Policy and introduce a new Policy Investment of Surplus Funds. The policy gives preference to financial institutions that are deemed not to invest in or finance the fossil fuel industry, subject to conditions.”

Council is requested to consider a price preference to fossil-free deposit taking institutions to facilitate greater divestment.

Background

Councillor Collinson has submitted the following notice of motion:

That Council amend its Investment Policy to provide a price preference to financial institutions that are deemed not to invest in or finance the fossil fuel industry, of 10 basis points (0.1%) below the most favourable investment quotation.

Councils Investment of Surplus Funds Policy includes the following provisions with respect to fossil fuel free investments:

Fossil Fuel Free Investments

*Prior to placing investments, preference will be given to competitive quotations from financial institutions that are deemed not to invest in or finance the **fossil fuel industry** where;*

- a) The investment is compliant with Councils investment policy with regards to risk management guidelines, and*
- b) a price preference of 0.1% compared to the most favourable investment quotation is to be provided to financial institutions that are deemed not to invest in or finance the fossil fuel industry.*

A monthly report will be provided to Council, in support of the monthly financial activity statement, which will detail the investment portfolio in terms of divestment of **fossil fuel** industry supported investments, performance, percentage exposure of total portfolio by rating category and maturity date framework.

Consultation

Audit Committee July 2019
 Manager Finance and Administration

Statutory Environment

Regulation 19 of the *Local Government (Financial Management) Regulations 1996* requires local governments to establish and document internal control procedures to ensure control over investments.

Policy Implications

Policy Number 4.2.3 Investment of Surplus Funds, with proposed tracked changes as appended to this report.

Financial Implications

Based on an average monthly investment portfolio of circa \$5.6m, and a weighted average interest rate of 1.53%, the Town would lose approximately \$5k in annual interest earnings if 80% of the investment portfolio were invested in term deposits with an unfavourable interest rate of 0.1% below the current weighted average interest rate.

Strategic Implications

Strategic Priority 5 – Leadership and Governance
 5.1 Strengthen organisational accountability and transparency
 5.3 Strive for excellence in leadership and governance

Site Inspection

Not applicable.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Town not be viewed as a supporter of Divestment.	Possible (3)	Moderate (3)	Moderate (5-9)	REPUTATIONAL Substantiated, public embarrassment, moderate impact, moderate news profile	Accept Officer Recommendation

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	9
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

Comment

Divestment is the opposite of an investment – it means getting rid of stocks, bonds, accounts or investment funds that are morally ambiguous. In the context of an Investment Policy, divestment refers to removing investment from companies who are involved in fossil fuel projects. Fossil fuels are defined as 'a natural fuel such as coal or gas, formed in the geological past from the remains of living organisms'. Fossil fuel divestment is therefore aimed at companies who invest in coal, oil and natural gas projects.

WALGA have published a list of deposit taking institutions that are deemed not to fund the fossil fuel industry:

Bank	Long Term Credit Rating (Standard and Poor)	Long Term Credit Rating (Fitch)
Suncorp	A+	A+
Adelaide Bank	BBB+	A-
Bendigo Bank	BBB+	A-
Rural Bank	BBB+	-
Rabobank	-	-
ME Bank	BBB	-
Bank of Queensland	BBB+	A-
Auswide	BBB-	BBB+

Market Forces have also published a list of banks that do and don't have a record of funding fossil fuels (www.marketforces.org.au). They have identified that the Bank of Queensland has financed companies directly involved in fossil fuel mining (as at 31 August 2018).

Councils Investment of Surplus Funds Policy requires a minimum 'A' long term rating for investment of funds. There is therefore only one Bank (Suncorp) that has a rating of 'A' or higher from Standard and Poor and four Banks that having a rating of 'A' or higher from Fitch.

Standard and Poor have offices in 24 countries and a history that dates back more than 150 years, and is considered a global leader in objective risk analyses and evaluations of the credit worthiness of issuers worldwide.

Fitch Ratings, founded in 1913, is an international rating agency that provides global capital market investors with ratings and research.

The Town maintains a rolling investment portfolio, with term deposits maturing on a regular basis to meet cash-flow requirements, whilst optimising investment returns. Generally, 3 quotes are sought on term deposit rates including 1 from a financial institution that is deemed not to invest in or finance the fossil fuel industry (i.e. Suncorp). The decision to 'divest' is made pursuant to Council Policy, with the interest rate required to be favourable compared with other quotations.

It is also prudent to note that Suncorp will not accept a capital value less than \$500k, and stipulates terms greater than 30 days, which makes divestment restrictive from time to time.

A spreadsheet is attached to this report summarizing the composition of the investment portfolio between September 2019 and January 2020. For the purposes of assessing divestments, the Bank of Queensland is determined to be a fossil free bank (based on the WALGA report). The following snapshot is provided:

- The average monthly investment portfolio is circa \$5.66m
- The average weighted interest rate on investments is 1.53%
- Annual forecast interest earnings is circa \$86k
- An average of 22.63% of the portfolio is divested
- Interest rates from Suncorp have generally outperformed the four major banks

Under Councils Investment of Surplus Funds Policy, for Banks with a credit rating of 'A', no more than 40% of the total portfolio can be invested with any one institution and no more than 80% of the total portfolio can be exposed to all banks with this credit rating. Based on all of the above variables, if 80% of the portfolio was divested to banks with an unfavourable interest rate of 0.1% below the weighted average interest rate of 1.53%, the Town would incur total annual losses of circa \$5k.

Based on the attached review of investments, there is an opportunity to divest the longer maturing investments (Reserve and Trust Funds) to Suncorp (and possibly the Bank of Queensland) as interest rates are currently favourable.

10.1 OFFICER RECOMMENDATION

The Audit Committee recommend to Council to:

1. amend the Investment of Surplus Funds Policy to provide a price preference to financial institutions, that are deemed not to invest in or finance the fossil fuel industry, of 10 basis points (0.1%) below the most favourable market quotation.
2. request the Chief Executive Officer (or his delegate) to divest longer maturing investments such as Reserve Funds and Trust Funds (as current term deposits mature), on the proviso that credit exposures are managed in accordance with the Investment of Surplus Funds Policy.

*Moved Mayor O'Neill, seconded Cr Harrington
The adoption of the Officer's recommendation.*

LOST 2:3

Reason for Not Supporting Officer's Recommendation

The opportunity cost of foregone interest was considered to be too great as the Town is dealing with the public purse, and there is currently only one bank that meets the credit risk exposure for divestment

10.2 Mid-Year Review of 2019/20 Budget for period 1 July 2019 to 31 December 2019

Applicant	Not Applicable
File ref	F/FNS2
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date:	17 March 2020
Voting requirements	Absolute Majority
Documents tabled	Nil
Attachments	1. Statement of Financial Activity including Budget Review

Purpose

Council is requested to consider and adopt the budget review as presented in the Statement of Financial Activity by Program and Statement of Financial Activity by Nature and Type for the period 1 July 2019 to 31 December 2019.

Executive Summary

The *Local Government (Financial Management) Regulations 1996*, regulation 33A, requires that local governments conduct a budget review between 1 January and 31 March in each financial year. A copy of the review and determination is to be provided to the Department of Local Government within 30 days of the adoption of the review.

Background

A Statement of Financial Activity incorporating year to date budget variations and forecasts to 30 June 2020 for the period ending 31 December 2019 is presented to Council to consider.

Forecasts for the 30 June 2020 have been assigned to all accounts, resulting in a forecast surplus position of \$2,362, which is a favourable result compared to the adopted budget (surplus of nil) and amended budget (deficit of \$24,662).

Consultation

Management team

Statutory Environment

Regulation 33A (Review of Budget) of the *Local Government (Financial Management) Regulations 1996*, as amended, requires the local government to carry out a review of its annual budget between 1 January and 31 March each year as follows:

33A. Review of budget

- (1) *Between 1 January and 31 March in each financial year a local government is to carry out a review of its annual budget for that year.*
- (2A) *The review of an annual budget for a financial year must —*
 - (a) *consider the local government’s financial performance in the period beginning on 1 July and ending no earlier than 31 December in that financial year; and*
 - (b) *consider the local government’s financial position as at the date of the review; and*

- (c) *review the outcomes for the end of that financial year that are forecast in the budget.*
- (2) *Within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the council.*
- (3) *A council is to consider a review submitted to it and is to determine* whether or not to adopt the review, any parts of the review or any recommendations made in the review.*
**Absolute majority required.*
- (4) *Within 30 days after a council has made a determination, a copy of the review and determination is to be provided to the Department.*

Policy Implications

Significant Accounting Policies are adopted by Council on an annual basis. These policies are used in the preparation of the statutory reports submitted to Council.

Financial Implications

Material variances are disclosed in the Statement of Financial Activity.

As part of the adopted 2019/20 Budget, Council adopted the following thresholds as levels of material variances for financial reporting.

In accordance with regulation 34 (5) of the Local Government (Financial Management) Regulations 1996, and AASB 1031 Materiality, the level to be used in statements of financial activity in 2018/19 for reporting material variances shall be:

- (a) *10% of the amended budget; or*
- (b) *\$10,000 of the amended budget.*

whichever is greater. In addition, that the material variance limit be applied to total revenue and expenditure for each Nature and Type classification and capital income and expenditure in the Statement of Financial Activity.

Strategic Implications

The matter being put to the Council is not likely to have a direct impact on the strategies of the Council.

4.9 A financially sustainable Town – Provide financial management services to enable the Town to sustainably provide services to the community.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That Council does not approve the schedule of budget variations	Rare (1)	Moderate (3)	Low (1-4)	SERVICE INTERRUPTION Prolonged interruption of	Accept Officer Recommendation

impacting service delivery				services - additional resources; performance affected < 1 month	
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Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	3
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

Site Inspection

Not applicable.

Comment

A budget review was undertaken during January and February 2020 based on the December 2019 financial statements in accordance with the requirements of the *Local Government (Financial Management) Regulation 33A*.

In discussing proposed budget amendments, recommended budget variations are categorised as either Favourable, Unfavourable or Contra. This status relates to their impact on the Town's net current asset position. As an example, a project that is fully funded by grants or reserves would generally be a contra entry – that is, it will have a nil impact on net current assets as the expenditure is fully supported by specific source funding. The balance of net current assets is a key indicator of the Town's ability to meet its debts and obligations as and when they fall due, and its financial flexibility in responding to opportunities, such as dollar for dollar grants, as and when required.

In constructing the mid-year budget review, forecasts for the 30 June 2020 have been assigned to all accounts, and are being reported in the Statement of Financial Activity by Program and Statement of Financial Activity by Nature and Type at a summary level. A copy of these financial statements is provided below:

TOWN OF EAST FREMANTLE
STATEMENT OF FINANCIAL ACTIVITY
(Statutory Reporting Program)
For the Period Ended 31 December 2019

	Note	Annual Budget - Hardcoded	Annual Budget - Synergy	Current Budget	Amended YTD Budget (a)	YTD Actual (b)	Forecast 30 June 2020	Var. \$ (b)-(a)	Var. % (b)/(a)	Var.
		\$	\$	\$	\$	\$	\$	\$	%	
Opening Funding Surplus(Deficit)	3	758,451	758,451	775,201	758,451	951,855	951,855	193,404	25%	
Revenue from operating activities										
Governance		10,000	10,000	10,000	5,000	4,858	25,000	(142)	(3%)	
General Purpose Funding - Rates	9	8,045,480	8,451,394	8,451,394	8,274,937	8,072,254	8,248,005	(202,683)	(2%)	
General Purpose Funding - Other		405,914					0	0		
Law, Order and Public Safety		33,700	33,700	33,700	29,350	22,845	28,700	(6,505)	(22%)	
Health		14,400	14,400	14,400	7,200	12,813	17,900	5,613	78%	
Education and Welfare		819,933	819,933	819,933	409,967	462,885	839,933	52,918	13%	▲
Housing		85,140	85,140	85,140	42,570	40,861	85,140	(1,709)	(4%)	
Community Amenities		194,000	194,000	194,000	169,750	150,347	221,000	(19,403)	(11%)	▼
Recreation and Culture		509,884	509,884	459,884	276,222	219,927	390,384	(56,295)	(20%)	▼
Transport		360,744	360,744	410,744	233,024	187,734	410,744	(45,290)	(19%)	▼
Economic Services		79,000	79,000	79,000	39,500	35,040	79,000	(4,460)	(11%)	
Other Property and Services		74,068	74,068	74,068	37,034	23,106	74,068	(13,928)	(38%)	▼
		10,632,263	10,632,263	10,632,263	9,524,554	9,232,670	10,419,874			
Expenditure from operating activities										
Governance		(1,256,860)	(1,256,860)	(1,056,860)	(592,202)	(657,364)	(1,172,703)	(65,163)	(11%)	▼
General Purpose Funding		(161,878)	(161,878)	(161,878)	(80,939)	(128,615)	(234,878)	(47,676)	(59%)	▼
Law, Order and Public Safety		(173,561)	(173,561)	(173,561)	(88,199)	(86,306)	(177,061)	1,894	2%	
Health		(191,298)	(191,298)	(191,298)	(96,617)	(101,441)	(192,365)	(4,825)	(5%)	
Education and Welfare		(1,043,896)	(1,043,896)	(1,043,896)	(530,926)	(569,411)	(1,141,958)	(38,486)	(7%)	
Housing		(50,200)	(50,200)	(50,200)	(25,700)	(22,929)	(43,200)	2,771	11%	▲
Community Amenities		(2,854,492)	(2,854,492)	(2,864,492)	(1,447,947)	(1,556,279)	(2,954,062)	(108,332)	(7%)	
Recreation and Culture		(3,590,406)	(3,590,406)	(3,607,406)	(1,811,855)	(1,270,717)	(2,577,407)	541,138	30%	▲
Transport		(2,544,657)	(2,544,657)	(2,594,657)	(1,322,327)	(1,424,061)	(2,648,858)	(101,734)	(8%)	
Economic Services		(121,878)	(121,878)	(121,878)	(60,939)	(53,807)	(119,878)	7,132	12%	▲
Other Property and Services		(152,316)	(152,316)	(152,316)	(105,361)	(66,017)	(142,316)	39,345	37%	▲
		(12,141,442)	(12,141,444)	(12,018,443)	(6,163,011)	(5,936,948)	(11,404,686)			
Operating activities excluded from budget										
Add back Depreciation		2,472,904	2,472,904	2,472,904	1,236,452	779,421	1,661,354	(457,031)	(37%)	▼
Adjust (Profit)/Loss on Asset Disposal	8	(7,700)	(7,700)	(7,700)	(7,700)	0	(7,700)	7,700	(100%)	
Amount attributable to operating activities		2,465,204	2,465,204	2,465,204	1,228,752	779,421	1,653,654			
Investing Activities										
Non-operating Grants, Subsidies and Contributions	11	881,867	881,867	1,211,214	487,198	328,747	1,211,214	(158,451)	(33%)	▼
Proceeds from Disposal of Assets	8	37,700	37,700	42,000	20,909	20,909	42,000	(0)	(0%)	
Land and Buildings		(477,385)	(488,105)	(636,215)	(481,217)	(316,556)	(569,500)	164,661	34%	▲
Infrastructure Assets - Roads		(1,314,300)	(1,314,300)	(1,578,647)	(16,500)	(4,250)	(1,916,500)	12,250	74%	▲
Infrastructure Assets - Public Open Space		(396,720)	(446,000)	(446,000)	(258,500)	(60,317)	(367,000)	198,183	77%	▲
Infrastructure Assets - Footpaths		(247,132)	(247,132)	(302,408)	(189,408)	(119,684)	(252,826)	69,724	37%	▲
Infrastructure Assets - Drainage		(100,000)	(100,000)	(115,255)	(115,255)	(33,731)	(133,000)	81,524	71%	▲
Infrastructure Assets - Other		(393,000)	(433,000)	(349,000)	(157,500)	(15,977)	(289,000)	141,524	90%	▲
Infrastructure Assets - Carparks		(494,000)	(494,000)	(494,000)	(412,000)	(142,763)	(386,000)			
Plant and Equipment		(319,320)	(219,320)	(429,500)	(255,000)	(369,782)	(369,500)	(114,782)	(45%)	▼
Furniture and Equipment		(75,000)	(75,000)	(75,000)	(75,000)	(36,807)	(75,000)	38,193	51%	▲
Amount attributable to investing activities		(2,897,290)	(2,897,290)	(3,172,811)	(1,452,273)	(750,209)	(3,105,112)			
Financing Activities										
Transfer from Reserves	7	1,242,814	1,242,814	1,353,924	0	0	1,534,777	0		
(Transfer to Reserves)	7	(60,000)	(60,000)	(60,000)	(25,000)	(21,090)	(48,000)	3,910	16%	▲
Amount attributable to financing activities		1,182,814	1,182,814	1,293,924	(25,000)	(21,090)	1,486,777			
Closing Funding Surplus(Deficit)	3	0	(2)	(24,662)	3,871,472	4,255,700	2,362			

The following high-level snapshot of the budget impact of proposed variations on the Statement of Financial Activity by Program is provided:

- Forecast total operating revenue \$10,419,874 versus amended budget of \$10,632,263 (unfavourable variance of \$212,389);
- Forecast total operating expenditure of \$11,404,686 versus amended budget of \$12,018,443 (favourable variance of \$613,757 – includes depreciation non-cash variance of \$811,550);
- Forecast total depreciation expense of \$1,661,354 versus amended budget of \$2,472,904 (non-cash variance);
- Forecast total capital expenditure of \$4,358,326 versus amended budget of \$4,426,025.

TOWN OF EAST FREMANTLE
STATEMENT OF FINANCIAL ACTIVITY
(By Nature or Type)
For the Period Ended 31 December 2019

	Note	Annual Budget - Hardcoded	Annual Budget - Synergy	Current Budget	Amended YTD Budget	YTD Actual (b)	Forecast 30 June 2020	Var. \$ (b)-(a)	Var. % (b)-(a)/(a)	Var.
		\$			\$	\$		\$	%	
Opening Funding Surplus (Deficit)	3	758,451	758,451	775,201	758,451	951,855	951,855	193,404	25%	▲
Revenue from operating activities										
Rates	9	8,045,480	8,045,480	8,045,480	8,030,480	7,854,860	7,872,352	(175,620)	(2%)	
Operating Grants, Subsidies and Contributions	11	1,171,341	1,171,341	1,171,341	609,323	509,170	1,080,080		(16%)	
Fees and Charges		1,124,467	1,124,467	1,124,467	714,913	741,438	1,195,467	26,525	4%	
Interest Earnings		221,000	221,000	221,000	131,000	101,969	182,000	(29,031)	(22%)	▼
Other Revenue		62,275	62,275	62,275	31,138	25,233	82,275	(5,904)	(19%)	
Profit on Disposal of Assets	8	7,700	7,700	7,700	7,700	0	7,700			
		10,632,263	10,632,263	10,632,263	9,524,554	9,232,670	10,419,874			
Expenditure from operating activities										
Employee Costs		(4,126,285)	(4,126,285)	(4,136,285)	(2,096,514)	(2,322,116)	(4,260,832)	(225,602)	(11%)	▼
Materials and Contracts		(4,427,824)	(4,427,826)	(4,294,826)	(2,164,909)	(2,072,015)	(4,308,396)	92,894	4%	
Utility Charges		(320,000)	(320,000)	(320,000)	(160,000)	(163,670)	(330,000)	(3,670)	(2%)	
Depreciation on Non-Current Assets		(2,472,904)	(2,472,904)	(2,472,904)	(1,236,452)	(779,421)	(1,661,354)	457,031	37%	▲
Insurance Expenses		(167,605)	(167,605)	(167,605)	(167,605)	(234,137)	(185,781)	(66,532)	(40%)	▼
Other Expenditure		(626,824)	(626,824)	(626,824)	(337,531)	(365,588)	(658,324)	(28,057)	(8%)	
Loss on Disposal of Assets	8	0	0	0	0	0	0			
		(12,141,442)	(12,141,444)	(12,018,443)	(6,163,011)	(5,936,948)	(11,404,686)			
Operating activities excluded from budget										
Add back Depreciation		2,472,904	2,472,904	2,472,904	1,236,452	779,421	1,661,354	(457,031)	(37%)	▼
Adjust (Profit)/Loss on Asset Disposal	8	(7,700)	(7,700)	(7,700)	(7,700)	0	(7,700)	7,700	(100%)	
Amount attributable to operating activities		2,465,204	2,465,204	2,465,204	1,228,752	779,421	1,653,654			
Investing activities										
Non-operating Grants, Subsidies and Contributions	11	881,867	881,867	1,211,214	487,198	328,747	1,211,214	(158,451)	(33%)	▼
Proceeds from Disposal of Assets	8	37,700	37,700	42,000	20,909	20,909	42,000	(0)	(0%)	
Land and Buildings		(477,385)	(488,105)	(636,215)	(481,217)	(316,556)	(569,500)	164,661	34%	▲
Infrastructure Assets - Roads		(1,314,300)	(1,314,300)	(1,578,647)	(16,500)	(4,250)	(1,916,500)	12,250	74%	▲
Infrastructure Assets - POS		(396,720)	(446,000)	(446,000)	(258,500)	(60,317)	(367,000)	198,183	77%	▲
Infrastructure Assets - Footpaths		(247,132)	(247,132)	(302,408)	(189,408)	(119,684)	(252,826)	69,724	37%	▲
Infrastructure Assets - Drainage		(100,000)	(100,000)	(115,255)	(115,255)	(33,731)	(133,000)	81,524	71%	▲
Infrastructure Assets - Other		(393,000)	(433,000)	(349,000)	(157,500)	(15,977)	(289,000)	141,524	90%	▲
Infrastructure Assets - Carparks		(494,000)	(494,000)	(494,000)	(412,000)	(142,763)	(386,000)			
Plant and Equipment		(319,320)	(219,320)	(429,500)	(255,000)	(369,782)	(369,500)	(114,782)	(45%)	▼
Furniture and Equipment		(75,000)	(75,000)	(75,000)	(75,000)	(36,807)	(75,000)	38,193	51%	▲
Amount attributable to investing activities		(2,897,290)	(2,897,290)	(3,172,811)	(1,452,273)	(750,209)	(3,105,112)			
Financing Activities										
Transfer from Reserves	7	1,242,814	1,242,814	1,353,924	0	0	1,534,777	0		
(Transfer to Reserves)	7	(60,000)	(60,000)	(60,000)	(25,000)	(21,090)	(48,000)	3,910	16%	▲
Amount attributable to financing activities		1,182,814	1,182,814	1,293,924	(25,000)	(21,090)	1,486,777			
Closing Funding Surplus (Deficit)	3	0	(2)	(24,662)	3,871,472	4,255,700	2,362	384,227	10%	

The following high-level snapshot of the budget impact of proposed variations on the Statement of Financial Activity by Nature and Type is provided:

- Forecast rates revenue of \$7,872,352 versus amended budget of \$8,045,480 (unfavourable variance of \$173,812 attributable to reversal of prepaid rates as at 1 July 2019 – further explained below);
- Forecast operating grants of \$1,080,080 versus amended budget of \$1,171,341 (unfavourable variance of \$91,261);
- Forecast fees and charges of \$1,195,467 versus amended budget of \$1,124,467 (favourable variance of \$71,000);
- Forecast interest earnings of \$182,000 versus amended budget of \$221,000 (unfavourable variance of \$39,000);
- Forecast employee expenses of \$4,260,832 versus amended budget of \$4,136,285 (unfavourable variance of \$124,547);
- Forecast materials and contracts expense of \$4,308,396 versus amended budget of \$4,294,826 (unfavourable variance of \$13,570).

A complete schedule of forecasts as at 30 June 2020 is included within the body of the attached monthly financial report. There are a number of variations at income/expenditure code level; however, comparatives between actuals and year to date budget are assessed at general ledger account level, and therefore, any minor variances between IE code allocations (notably the 350/500 IE Codes) does not impact on the materiality of reporting.

The significant changes in forecasts for Council information and approval are:

Account Number	Account Description	Nature and Type Category	19/20 Current Budget	19/20 Forecast (Amended Budget)	Favourable (F) Unfavourable (U) Contra (C)	Comment
	Surplus 1 July 2019		\$775,201	\$951,855	Contra	\$176,654 variance due to recognizing prepaid rates as revenue 30 June 2019 (rather than a current liability)
I03057	Prepaid Rates	Rate Revenue	(\$0)	(\$176,654)	Contra	Reversal of above entry 1 July 2019
E14601	Electrical Services - Buildings	Capex	(\$100,000)	(\$72,000)	F	Electrical upgrades completed
E14604	Depot Admin Building	Capex	(\$72,385)	(\$40,000)	F	Refurbishment works completed
E11708	Richmond Raceway - Security Bars	Capex	(\$15,000)	(\$22,000)	U	RFQ finalized for fabrication/installation
E11707	Purchase Plant and Equipment	Capex	(\$137,500)	(\$87,500)	F	Steam weed treatment unit not purchased
E12784	Riverside Road	Capex	(\$1,562,147)	(\$1,900,000)	Contra	Approved SCM 25/2/20
E12739	Leeuwin Carpark Upgrade	Capex	(\$157,000)	\$0	Contra	Approved SCM 25/2/20
341	Transfer from Strategic Asset	Financing	\$161,110	\$341,963	Contra	Approved SCM 25/2/20

	Management Reserve					
E12699	Footpath – Canning Highway	Capex	(\$130,582)	(\$61,000)	Contra/F	Unspent budget allocated to landscaping at Tricolore Carpark (\$30k) and Oakover St Footpath (\$20k)
E12793	Footpath – Oakover Street	Capex	(\$55,000)	(\$75,000)	Contra	See above
E12737	Carpark - Tricolore	Capex	(\$255,000)	(\$285,000)	Contra	See above
E11695	Irrigation and Returfing – Chapman Reserve	Capex	(\$170,000)	(\$145,000)	F	RFQ finalized and contract awarded
E12661	Carpark – EF Football Club	Capex	(\$37,000)	(\$53,000)	U	Actual cost
4080	Depreciation – Education and Welfare	Non-Cash	(\$68,500)	(\$120,000)	Non-Cash	Reclassification of depreciable assets
4121	Depreciation - Roads	Non-Cash	(\$523,000)	(\$600,000)	Non-Cash	\$1.9m expenditure Riverside Road
4115	Depreciation - Parks	Non-Cash	(\$1,540,000)	(\$600,000)	Non-Cash	Turf assets are now fully depreciated
224	Transfer to Strategic Asset Management Reserve	Financing	(\$60,000)	(\$48,000)	Contra	Revised forecast for interest earnings on Reserves
1689	Reserve Fund Interest	Interest Revenue	\$60,000	\$48,000	Contra	See above
I03188	Municipal Fund Interest	Interest Revenue	\$75,000	\$40,000	U	Revised forecast for interest earnings on Municipal Fund
I11167	EF Oval – Business Plan Grant	Operating Grants	\$50,000	\$0	Contra	No grant received
E11246	EF Oval Business Plan	Materials and Contracts	(\$150,000)	(\$108,000)	Contra	FRQ finalized and consultant appointed
E03257	Rates Debt Recovery Legal Costs	Materials and Contracts	\$0	(\$30,000)	Contra	Separate account established for legal costs (previously included in E03258 Direct Cost of Levying Rates)
E03300	Rates Exemptions and Non Ratable Properties	Other Expenses	\$0	(\$42,000)	U	Southern Cross Care Rate Exemption
E04201	Salaries - Administration	Employee Expenses	(\$1,227,870)	(\$1,301,037)	U	Relief Manager Finance and Admin (AL and LSL), Records Officer (LSL) and Senior Finance Officer (extended AL). Potential

						recoup from balance sheet.
E07211	Salaries – Health Inspection	Employee Expenses	(\$71,909)	(\$81,476)	U	Contract relief for EHO (LSL). Potential recoup from balance sheet.
E08207	Salaries - CHSP	Employee Expenses	(\$416,875)	(\$436,487)	U	Program is fully funded from CHSP grant. Additional staffing to support client services.
E12303	Salaries - Parking	Employee Expenses	(\$152,800)	(\$160,000)	U	Additional overtime public holidays and events
E04221	Computer System Support and Licenses	Materials and Contracts	(\$160,000)	(\$195,000)	U	Additional support work resulting from GCC Audit
E04240	Internal and External Audit Projects	Materials and Contracts	\$0	(\$20,000)	U	New account and budget proposed to advance audit project work
E04266	Communications , Advocacy and PR	Materials and Contracts	(\$120,000)	(\$100,000)	F	Reduction in general consultancy allocation
E08203	Donations	Other Expenditure	(\$7,000)	(\$15,000)	U	Bushfire appeal donation
E10100	Waste Collection Costs - FOGO	Materials and Contracts	(\$166,192)	(\$196,579)	Contra	Restructuring of waste collection and disposal accounts to match change to invoicing arrangements to specify waste streams
E10101	Waste Collection Costs - Recycling	Materials and Contracts	(\$205,242)	(\$91,011)	Contra	See above
E10102	Waste Collection Costs – General Waste	Materials and Contracts	\$0	(\$83,779)	Contra	See above
E10109	Gate Fees - Recycling	Materials and Contracts	(\$97,368)	(\$108,805)	Contra	See above
E10110	Gate Fees - General	Materials and Contracts	\$0	(\$208,014)	Contra	See above
E10111	Gate Fees - FOGO	Materials and Contracts	(\$599,328)	(\$357,993)	Contra	See above
E10208	Waste Removal - Bund	Materials and Contracts	\$0	(\$80,000)	U	Bund clean up and disposal - Tricolore
E10216	Consultants – Town Planning	Materials and Contracts	(\$155,000)	(\$100,000)	F	Deferment of Commercial Strategy (\$30k) and general planning consultancy (\$20k)

10.2 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A010320

Moved Cr Watkins, seconded Cr A McPhail

The Audit Committee recommend to Council:

1. by absolute majority, approve the mid-year budget review as per the forecast figures disclosed in the attached Statement of Financial Activity by Program and Statement of Financial Activity by Nature and Type for the period ending 31 December 2019.
2. to note the change in the forecast closing budget surplus from a deficit of (\$24,662) to a surplus of \$2,362 as at 30 June 2020.
3. to request that the Chief Executive Officer forward a copy of the mid-year budget review to the Department of Local Government within 30 days of Council's consideration.

(CARRIED UNANIMOUSLY)

10.3 Recurrent Status Report – Risk Management, Internal Controls and Legislative Compliance

File ref	F/AUD1
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date:	11 March 2020
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	1. Status Report

Purpose

It is recommended that the Audit Committee receive a status report on all outstanding matters raised in external audit reports, financial management reviews, performance audits, internal audit reports and any other review relevant to the Audit Committee's Terms of Reference.

Executive Summary

A status report has been prepared reporting against identified issues with respect to audit, risk management, internal controls, procurement matters and legislative compliance. The status report is not an exhaustive listing and will become a living document and updated as issues are identified. It is presented to the Audit Committee to assist in their role to report to Council and provide advice and recommendations on matters relevant to its terms of reference.

Background

The Department of Local Government has published an Operational Guideline on Audit in Local Government. Appendix 3 of this Guideline lists a number of matters that should be presented to an Audit Committee for review and monitoring:

Risk Management:

- Reviewing whether the local government has an effective risk management system;
- Reviewing whether the local government has a current and effective business continuity plan;
- Reviewing areas of potential non-compliance with legislation, regulations and standards and local governments policies;
- Reviewing the following; litigation and claims, misconduct, and significant business risks;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local governments internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.

Internal Control Systems:

- Separation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;

- Limit of direct physical access to assets and records;
- Control of computer applications and information system standards;
- Regular maintenance and review of financial control accounts and trial balances;
- Comparison and analysis of financial results with budgeted amounts;
- Report, review and approval of financial payments and reconciliations;
- Comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review managements plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Considering the internal auditors role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.

Consultation

Chief Executive Officer

Manager Finance and Administration

Statutory Environment

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

Policy Implications

There are no Council Policies relevant to this item.

Financial Implications

There are no financial implications relevant to this item.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That key findings are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance	Control through oversight by the Audit Committee and ensuring adequate budget allocation for resourcing

Risk Matrix

Consequence \ Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	4
Does this item need to be added to the Town’s Risk Register	No
Is a Risk Treatment Plan Required	No

Strategic Implications

- Strategic Priority 5 – Leadership and Governance
- 5.1 Strengthen organisational accountability and transparency
- 5.3 Strive for excellence in leadership and governance

Comment

The status sheet has been updated accordingly.

10.3 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A020320

Moved Cr A McPhail , seconded Cr Harrington

That the Audit Committee receives the status report on items relevant to its Terms of Reference.

(CARRIED UNANIMOUSLY)

11. MATTERS BEHIND CLOSED DOORS

Nil.

12. CLOSURE OF MEETING

There being no further business, the Presiding Member declared the meeting closed at 7.18pm.

*I hereby certify that the Minutes of the ordinary meeting of the **Audit Committee** of the Town of East Fremantle, held on **11 March 2020**, Minute Book reference **1. to 12.** were confirmed at the meeting of the Committee on*

.....

Presiding Member

10. REPORTS

10.1 Report to the Audit Committee on the Application of New Accounting Standards for the year ended 30th June 2020.

File ref	F/AUD1
Prepared by	John Mordini, Manager Finance and Administration
Supervised by	Peter Kocian, Executive Manager Corporate Services
Meeting Date:	29 June 2020
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	Moore Stephens – New Accounting Standards impacting the Town of East Fremantle at 1 July 2019.

Purpose

The purpose of this report is to advise the Audit Committee on new accounting standards impacting the financial statements for the year ending 30 June 2020.

Executive Summary

The Town requested Russel Barnes from Moore Stephens to provide general guidance on the application and impact of new accounting standards for the 2020 financial year. There are three accounting standards that are required to be considered. These are as follows:

- AASB 15 Revenue from Contracts with Customers
- AASB 1058 Income of Not for Profit Entities, and
- AASB 16 Leases.

AASB 15 – Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers establishes the accounting principles a local government shall apply in relation to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The core principle is that an entity will recognise revenue at an amount that reflects the consideration entitled in exchange for transferring goods or services to a customer.

As at the 31st May 2020, the Town had \$84,302 of unspent grant funding on its balance sheet. These funds will be recognised as income when the requirements of the contract are completed. This amount is not considered to have a material impact on the financial statements for the year ending 30th June 2020.

AASB 15 provides a comprehensive framework for revenue recognition using the following five-step model:

Five step revenue recognition model

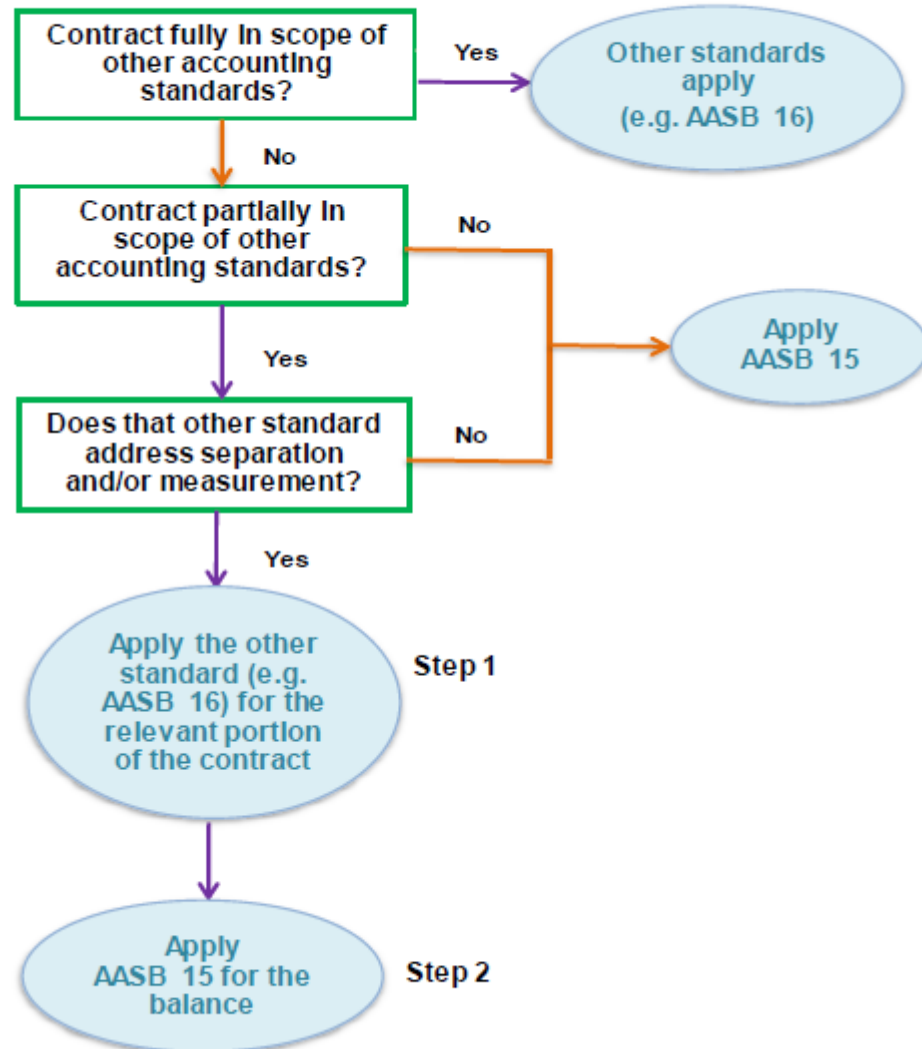


The standard requires a local government to recognise revenue aligned to the transfer of promised goods or services to customers for an amount that reflects the consideration the local government is entitled for those goods or services.

Each contract with a customer needs to be assessed to identify the performance obligations it creates. If there is a mismatch between the timing of performance obligations under a contract and receiving an asset in exchange, for example, cash, or undertaking works and services in advance, then a contract liability or contract asset is created until the performance obligation(s) under the contract are satisfied. Once the performance obligation(s) are satisfied, the associated level of revenue is recognised.

A contract with a customer may partially be in the scope of AASB 15 and partially within the scope of other Standards. In such instances, the Town is required to apply the other standard first, if those standards specify how to separate and/or initially measure one or more parts of the contract. The entity will then apply AASB 15 to the remaining components of the contract.

Decision tree for the application of AASB 15



AASB 1058 – Income of Not for Profit Entities

AASB 1058 Income of Not for Profit Entities applies to local governments and significantly changes income/revenue recognition for local governments.

The purpose of AASB 1058 is to more closely recognise Not for Profit income transactions that are not contracts with customers in accordance with their economic reality. Therefore, AASB 1058 needs to be recognised in conjunction with AASB 15 Revenue from Contracts with Customers.

The application of AASB 1058 will impact the 2019/2020 annual financial statements of the Town. On 1 July 2019, prepaid rates of \$176,653 will be recognised as a financial asset and a related amount as a financial liability and no income recognised by the Town.

When the taxable event occurs (being when the rate in the dollar is struck), the financial liability will be extinguished, and the Town will recognised income for the prepaid rates of \$176,653 that have not been refunded.

As at 31st May, the current balance of the Excess Rates account in the general ledger was \$94,100. This amount will remain in the financial statements as a liability as at 30th June 2020.

AASB 1058 applies to:

- (a) transactions where the consideration to acquire an asset is significantly less than its fair value, principally to enable a not-for-profit entity to further its objectives, i.e. a 'donation transaction'; and
- (b) the receipt of volunteer services

A key feature of AASB 1058 is that it is necessary to first determine whether each transaction, or part of a transaction, falls in the scope of AASB 15 Revenue from Contracts with Customers. Only if AASB 15 does not apply then consider the application of AASB 1058.

The main impacts of AASB 1058 are:

- The timing of income recognition will depend on whether there is any performance obligation or other liability. This will result in better matching of income and related expenses.
- Not For Profit lessees will now recognise peppercorn leases as right-of-use assets at fair value.
- All Not For Profit entities can elect to recognise volunteer services if they can be reliably measured.

To determine if AASB 15 or AASB 1058 applies requires a two-step process.

Step 1

Not For Profit entities should first determine whether a transaction is a contract with a customer under AASB 15.

To be in scope of AASB 15, there should be:

- an 'enforceable contract' – i.e. the contract between two or more parties must create enforceable rights and obligations
- 'sufficiently specific performance obligations' – i.e. the NFP entity's promise to transfer a good or service must be sufficiently specific
- 'underlying goods or services are not retained by the entity' – i.e. the goods or services will be transferred to the customer or to other parties on behalf of the customer (AASB 1058.IE5) and not retained by the entity for its own use.

If all criteria are met, income is recognised under AASB 15 when (or as) the performance obligations under the contract are satisfied. If any of these criteria are not met, then Step 2 applies.

Step 2

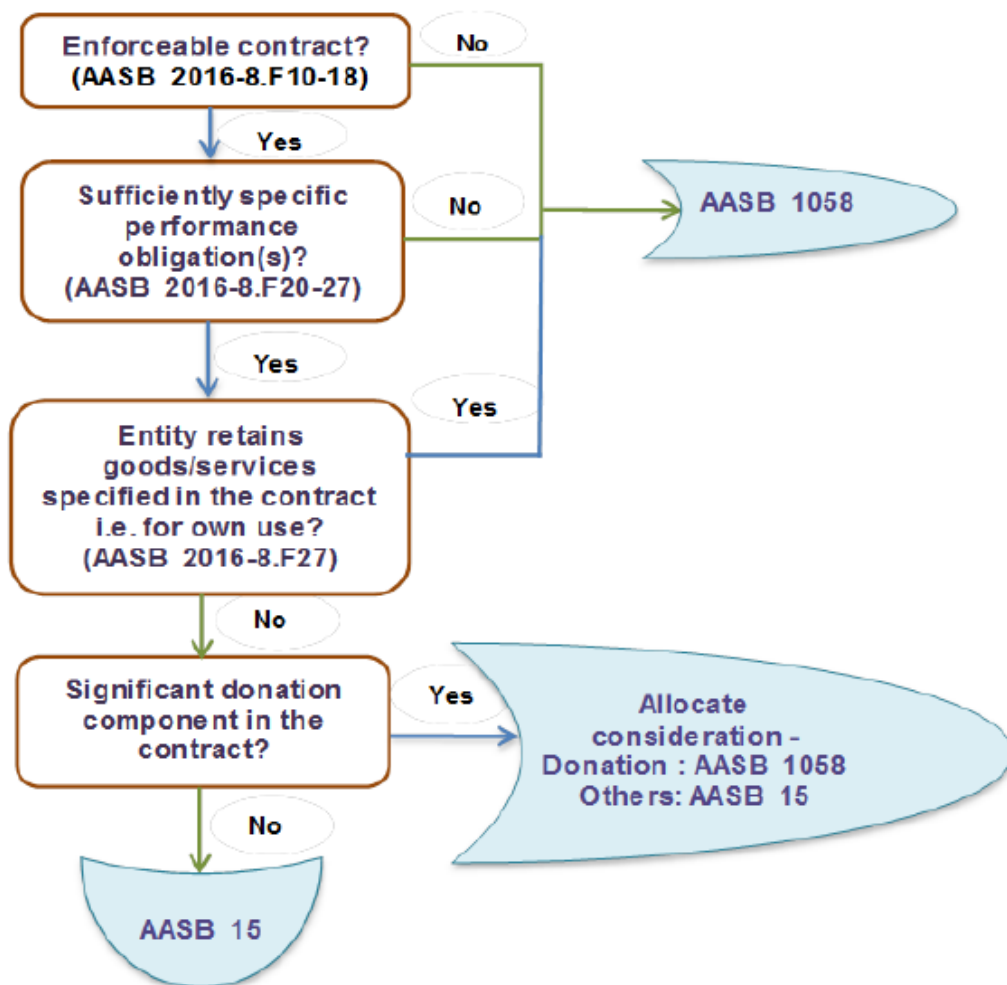
Determine if a volunteer service has been received or there is a significant 'donation' component in the contract. A donation component and thereby a donation transaction exists if:

- the consideration to acquire an asset is significantly less than its fair value; and
- the intent is primarily to enable the NFP entity to further its objectives

AASB 1058 applies if NFP entities enter into 'donation' transactions as above or receive volunteer services.

In circumstances where a contract with a customer contains both a donation and non-donation component, the transaction should be allocated between AASB15 and AASB 1058 to ensure appropriate recognition.

Decision tree for which standard to apply



Specific transactions that fall under the scope of AASB 1058 that the Town will need to consider are as follows:

- Assets received below fair value,
- Transfers received to acquire or construct non-financial assets,
- Prepaid rates,
- Leases entered into at below market rates, and
- Volunteer services.

Assets received below fair value

For an asset received below fair value a local government is required to initially measure the asset at its fair value in accordance with its relevant standard. For example, AASB 9 Financial Instruments (e.g. Cash), AASB 16 Leases, and AASB 117 Property, Plant and Equipment.

An increase in the asset will require an increase in either a liability or recognition of revenue, such as revenue or liability from a contract under AASB 15, a lease liability under AASB 16, a financial liability under AASB 9 or a provision in accordance with AASB 137.

Transfer received to acquire or construct non-financial assets

A transfer received to acquire or construct non-financial assets refers to grant funds received to either buy or construct a non-financial asset, such as a building, for the Council's own use.

With these transactions, the Council is not required to transfer the non-financial asset back to the transferor or other parties. The transaction also occurs under an enforceable agreement.

Once the obligations to create the non-financial asset are satisfied, the difference between the amount received to acquire/construct the non-financial asset and the grant amount received is recognised as income in the profit and loss.

If the obligation has not been fulfilled the grant amount remains as a liability until such time as the Town satisfies its obligation under the initial transfer of the financial asset.

Prepaid rates

Prepaid rates are a financial liability and are not recorded as revenue until the associated taxable event occurs. In local government, the taxable event is when Council determines land values are subject to taxation, when the rate in the dollar is struck.

This differs from the previous treatment where, as per AASB 1004, prepaid rates were recorded as revenue when received.

Leases entered into below market rates

Leases entered into at below market rates (peppercorn leases) requires the Town to measure the lease assets as a "right of use asset", with the lease liability measured at the present value of the minimum lease payments. The difference between the lease asset and liability is recorded as income.

Volunteer services

Volunteer services are services received by an entity from individuals or other entities without charge or for consideration significantly less than the fair value of those services.

Local governments are required to recognise volunteer services received as income when such services would be purchased if they had not been donated, and the fair value of those services can be reliably measured.

In many instances, the economic benefits of volunteer services will be consumed as the services are acquired, and will be expensed immediately. In other cases, the volunteer services could contribute to the development of an asset and therefore be included in the carrying amount of that asset.

AASB 16 – Leases

The Town does not currently have any assets that it leases from third parties. Therefore there is no impact on the 2019/2020 financial statements.

The Town as Lessor has a number of leases in place that are mainly for community infrastructure. Assets underlying the leases are recognised within the Town's financial statements and revenue is recognised when it is due to the Town. No change in accounting practices for these leases are currently required.

For future application should the Town enter into a lease agreement, AASB 16 Leases introduces a single lessee accounting model to the extent that there is no longer a distinction between finance and operating leases. Lessees will now recognise a right-to-use asset and a lease liability onto the 'balance sheet' for all leases.

The Standard contains an exemption for short-term leases (less than 12 months) or leases where the underlying asset is of low value (applying the mandatory level of below \$5,000).

Right-to-use assets shall initially be measured at cost. The cost shall comprise:

- Amount of initial measurement of the lease liability,
- Upfront lease payments less any lease incentives received,
- Any initial direct costs incurred, and
- Any "make-good" costs (best estimate).

Generally, local governments in Western Australia have leases that are currently defined as operating leases.

The most common examples include, although are not limited to:

- Vehicles (usually cars),
- Photocopiers,
- Computers,
- Staff Housing, and
- Phones.

AASB 16 very specifically indicates cars do not qualify as low-value assets.

AASB 16 specifically indicates tablet and personal computers, small items of office furniture and telephones qualify as low-value assets.

The implementation guidance is silent with regards to photocopiers. At this stage, and subject to further guidance, corporate photocopiers would not qualify, as they are not considered small items. They will rather need to be assessed based on their materiality to the local governments' financial statements.

Consultation

Chief Executive Officer

Statutory Environment

Part 6 and Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* applies to financial reporting and audit in local government.

Policy Implications

Nil.

Financial Implications

The adoption of these new accounting standards will have a minimal impact on preparation of the Annual Financial Report for 2019/2020.

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
The application of new accounting standards may impact the net profit or loss of the Town for the year ended 30 th June 2020.	Unlikely (2)	Minor (2)	Low (1-4)	FINANCIAL IMPACT \$10,000 - \$50,000	Control through Audit Committee monitoring and OAG financial statement year-end audit.

Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
	Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
	Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
	Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
	Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	2
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

Strategic Implications

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance


Comment

The Town has considered the impact that the adoption of new accounting standards will have on the financial report for the 2019/2020 financial year and believe that any impact will be minimal.

10.1 OFFICER RECOMMENDATION

That the Audit Committee:

- 1. Receive the report for the Application of New Accounting Standards for the year ended 30th June 2020.**
 - 2. Note that any impact on the adoption of these new accounting standards will be minimal.**
-



New Accounting Standards
impacting the
Town of East Fremantle
at 1 July 2019

Town of East Fremantle
September 2019

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1.0 Scope and Deliverables

New accounting standards that came into effect on 1 July 2019 have far reaching implications for WA Local governments as they significantly impact the timing of revenue recognition and in doing so change the calculation of the budgeted deficiency. Understanding these implications is important to ensuring the correct application of the standards, particularly where different options are available.

Correct treatment of impacted transactions within the 2019-20 Statutory Budget is required as the Budget is to be prepared in accordance with Australian Accounting Standards. Likewise, Monthly Financial Reports covering periods commencing on or after 1 July 2019 are also required to comply with the new standards.

This accounting paper covers the following transactions impacted by the new standards:

- Contracts with customers except those excluded by paragraph 5 of AASB 15 *Contracts with Customers*;
- Transactions where the consideration to acquire an asset is significantly less than the fair value (e.g. Peppercorn leases);
- Transfers to enable the Town to acquire or construct a recognisable non-financial asset under its control;
- Non contractual income arising from statutory requirements (e.g. Prepaid rates);
- Certain volunteer services received by the Town; and
- Lease contracts.

Covering recognition and measurement requirements along with presentation and disclosure requirements, our paper seeks to provide a practical approach tailored to WA local government circumstances, as well as the circumstances and transactions of the Town of East Fremantle.

The Town of East Fremantle maintains responsibility for the following items in relation to the areas covered:

- Raising of accounting entries and associated record keeping; and
- Internal controls relating to transactions and their associated entries.

This report was undertaken with the following restrictions:

- Have not examined all contracts;
- Have not examined all transactions; and
- Have not verified information received.

2.0 General Guidance - AASB15

2.1 Background and Scope

AASB 15 *Revenue from Contracts with Customers*, effective for local government from 1st July 2019, establishes the accounting principles a local government shall apply in relation to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The standard requires a local government to recognise revenue aligned to the transfer of promised goods or services to customers for an amount that reflects the consideration the local government is entitled for those goods or services.

Each contract with a customer needs to be assessed to identify the performance obligations it creates. If there is a mismatch between the timing of performance obligations under a contract and receiving an asset in exchange, for example, cash, or undertaking works and services in advance, then a contract liability or contract asset is created until the performance obligation(s) under the contract are satisfied. Once the performance obligation(s) are satisfied, the associated level of revenue shall be recognised.

When applied from the 1st July 2019, AASB 15 supersedes AASB 118 *Revenue* and AASB 111 *Construction Contracts*.

The standard (AASB 15.5) applies to all contracts with customers, except the following:

- a) Lease contracts within the scope of AASB 16 *Leases*;
- b) Insurance contracts within the scope of AASB 4 *Insurance Contracts*;
- c) Financial instruments and other contractual rights or obligations within the scope of AASB 9 *Financial Instruments*, AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*;
- d) Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers;
- e) A transfer of a financial asset to enable it to acquire or construct a recognisable non-financial asset that is to be controlled by the local government, as described in AASB 1058 *Income of Not-for-Profit Entities*; and
- f) Property rates are not within the scope of AASB 15 as they are not a contract with a customer. Prepaid property rates are dealt with under AASB 1058 *Income of Not-for-Profit Entities*.

AASB 15 specifically applies to licence revenue (other than licences subject to AASB 16 or AASB 1059 *Service Concession Arrangements: Grantors*) irrespective of whether the licences are contracts with customers. A local government as the licensor may elect not to apply the requirements under AASB 15 to licences that are:

- a) short-term licences; and
- b) licences where the transaction price is of low value.

Low value or short-term licences shall be recognised as revenue at the point of time they are issued or on a straight-line basis over the licence term regardless of whether those licences are material in aggregate (AASB 15 G.24).

2.0 General Guidance - AASB15 (Continued)

2.1 Background and Scope (Continued)

Typical examples of local government contracts held by the Town of East Fremantle for the provision of goods and services to customers requiring assessment as to whether they are under the scope of AASB 15 include, although are not limited to:

- certain operating and capital grants and contributions (financial assistance grants are excluded);
- maintenance contracts;
- membership fees;
- private works; and
- licences.

Currently, when the Town receives a grant, the general approach is for the asset, for example, cash, to be recognised in the accounts, at fair value, when received. The corresponding credit is recorded as revenue at the same time, irrespective of whether the performance obligations under the grant have been complied with. Under AASB 15 the timing of recognising the related revenue amount has the potential to change.

After 1st July 2019, if the Town enters into a contract with a customer resulting in the receipt of a specific purpose grant or contribution in advance, AASB 15 requires it to recognise the asset (cash) with the corresponding credit being a financial liability. The revenue is not recognised until the performance obligation(s) under the agreement are satisfied. Depending on the terms of the grant agreement, this may be a significant time in the future. It also has the potential to cross over financial years.

In accordance with AASB 15.9, the Town shall account for a contract with a customer where it falls within the scope of the Standard **only when all** the following criteria are met:

- a) the parties to the contract have approved the contract and are committed to perform their respective obligations;
- b) the Town can identify each party's rights regarding the goods or services to be transferred;
- c) the Town can identify the payment terms for the goods or services to be transferred;
- d) the contract has commercial substance; and
- e) it is probable the Town will collect the consideration it will be entitled to, in exchange for the goods or services to be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Town shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

AASB 15 applies if there is a **contract** with **commercial substance** and only if the other party to the contract is a **customer**. A customer is a party that has contracted with the Town to obtain goods or services that are an output of the Town's ordinary activities in exchange for consideration. Each of these terms are described further on the following page.

Where there is an exchange of goods or services with a customer, such as a contribution to build an asset owned and controlled by the Council, then the transaction is outside the scope of AASB 15, although may be within the scope of AASB 1058 *Income of Not-for-Profit Entities*.

2.0 General Guidance - AASB15 (Continued)

2.1 Background and Scope (Continued)

2.1.1 Contract

A contract is an agreement between two or more parties and creates enforceable rights and obligations. It can be written, oral or implied by the local government's customary business practices. An agreement is enforceable when a separate party can enforce it through legal or equivalent means. Equivalent means may be a mechanism outside the legal system that establishes an obligation to act in a way or be subject to a consequence. Enforcement mechanisms may arise from administrative arrangements or statutory provisions.

2.1.2 Commercial Substance

The contract must have commercial substance, that is the risk, timing or amount of the future cash flows is expected to change because of the contract. Commercial substance does not mean the contract must yield a profit, as commercial substance results from a change in the risk, timing or amount of future cash flows.

2.1.3 Customers

A customer is the party promising consideration in exchange for goods or services that are an output of the Town's ordinary activities. A customer might direct goods or services to be provided to the benefit of a third-party, including individuals or the community at large, on the customer's behalf. However, the customer remains the party that has contracted for those goods or services and promises consideration in exchange.

For example, a government department might provide funding to the Town for the specific purpose of providing a free community event to an identified group, or the community at large. The government department is the customer because it has contracted with the Town to provide the event and holding such events is part of the Town's ordinary activities. This conclusion is not affected by the fact the government department specifies the events are to be provided to members of the community and is not provided directly to the government department.

If there is no identifiable customer in receipt of benefit in exchange for consideration in the contract, then the Town will need to refer to paragraphs 15-17 of AASB 1058 to determine if the transfer is within the scope of AASB 1058.

2.1.4 Implementation Guidance for not-for-profit entities

Appendix F to AASB 15 (inserted via AASB 2016-8) offers clarification for not-for-profit entities around the meaning of "specific and enforceable".

Paragraph F12 provides guidance by indicating an agreement typically is enforceable if it is in writing and includes specific requirements of the party, in this instance the Town.

Enforceability needs to be considered in relation to both the particular terms of an agreement and any additional terms agreed by the parties as a result of further discussions / actions.

Paragraph F12 and F13 to F18 provide further guidance around this concept of enforceability.

If the grant only specifies the time period for the monies to be spent, then the income would be recognised when the local government controlled it, usually upon receipt of the cash.

Guidance is also provided in relation to an entity where it has the ability, through its own actions, to avoid the circumstances giving rise to a breach of conditions or requirements and would necessitate a return of funds. In such cases, a liability is only recognised when the breach has occurred or is expected to occur and is effectively the same treatment as currently applied to local governments in Western Australia.

2.0 General Guidance - AASB15 (Continued)

2.2 Process to Follow

If the transaction is within the scope of AASB 15, and all the criteria are met, the process to follow includes:

- Determine the performance obligations in the contract (AASB 15.22-30);
- Set the transaction price (AASB 15.46-72);
- Allocate the transaction price to the performance obligations (AASB 15.73-90); and
- Plan for the recognition of revenue (paragraphs AASB 15.31–45).



At the beginning of the contract, the Town needs to assess the goods or services promised in a contract and identify, as defined performance obligations, each promise to transfer to the customer either:

- A distinct good or service, or a bundle of goods or services; or
- A series of distinct goods or services that are substantial.

When allocating the transaction price, the Town is to price each performance obligation, or distinct good or service, as an amount depicting the amount of consideration it expects to be entitled to in exchange for transferring the promised goods or services to the customer.

Consideration is to be given to the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration the Town expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, for example GST or commissions. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both and can be at a point in time or over a period.

When, or as, a performance obligation is satisfied, the Town shall recognise as revenue the amount of the transaction price allocated to the performance obligation as a result of transferring the promised good or service to a customer. The transfer occurs when, or as, the customer obtains control, or benefits from, the goods or services.

When performance obligations are not met, the Town shall show the contract in the statement of financial position as a contract asset or contract liability, depending on the relationship between the Town's performance and the customer's payment.

Contract assets are the Town's right to consideration in exchange for goods or services the Town has transferred to a customer when that right is conditioned on something other than the passage of time, for example where the Town has undertaken works to be funded by a grant where an invoice has not been raised by the 30 June as not all requirements of the grant have been met.

Contract Liabilities are a Town's obligation to transfer goods or services to a customer where the Town has received consideration, or the amount is due, from the customer where the goods or services have not been supplied by the Town.

Any unconditional rights the Town has and are subject only to the passage of time before consideration is made are classified separately as a receivable.

2.0 General Guidance - AASB15 (Continued)

2.3 Transition Requirements

Transition for AASB 15 may occur by selecting one of the following two methods:

- Option 1 - retrospectively for each prior reporting period presented in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. See AASB 15.C5; or
- Option 2 - retrospectively with the cumulative effect of AASB 15 recognised at the date of initial application, 1 July 2019, as an adjustment to the balance of retained surplus.

In practical terms, Option 1 will require substantial resources as it requires an adjustment to retained surplus as at 1 July 2018 for the impact of the new standards and a restatement of comparative information held in the general ledger.

Under Option 2, a local government may elect to apply this Standard retrospectively only to contracts that are not completed at 1 July 2019. If a local government uses this transition option, it shall do so consistently to all contracts and make the necessary disclosure in AASB 15.C6-C8.

For example, an adjustment of the net impact to retained surplus at 1 July 2019, would see the value of any incomplete performance obligations, for example unspent grants and contributions, recognised as a current liability and potentially recognised again as revenue in the 2019-20 budget year.

2.4 2019-2020 Disclosures

The introduction of AASB 15 is accompanied by a substantial amount of additional disclosure requirements and will be applicable from the year ending 30 June 2020. These disclosures incorporate information on the balances of any contract assets and liabilities and also include a considerable amount of qualitative information concerning decision relating to the timing of recognition of revenue.

These new disclosure requirements are set out in the table on the following pages. During the 2019-20 financial year it will be necessary to plan and establish systems for the collection of the information to support these new disclosures.

2.0 General Guidance - AASB15 (Continued)

2.4.1 2019-20 Financial Statements Disclosures

Reference	Requirements
General AASB 15.110	<p>The objective of the disclosure requirements is for an entity to disclose enough information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all the following:</p> <ol style="list-style-type: none"> its contracts with customers (paragraphs 113–122); the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (paragraphs 123–126); and any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (paragraphs 127–128).
AASB 15.111	<p>Consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.</p>
AASB 15.112	<p>There is no need to disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.</p>
Contracts with customers AASB 15.113	<ol style="list-style-type: none"> revenue recognised from contracts with customers, where the entity shall disclose separately from its other sources of revenue; and any impairment losses recognised, in accordance with AASB 9, on any receivables or contract assets arising from an entity's contracts with customers and MUST be disclosed separately.
Disaggregation of revenue AASB 15.114	<p>An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.</p>
AASB 15.115	<p>In addition, an entity shall disclose enough information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue, in accordance with paragraph 114, and revenue information that is disclosed for each reportable segment, if the entity applies AASB 8 Operating Segments.</p>
Contract balances AASB 15.116	<p>An entity shall disclose all the following:</p> <ol style="list-style-type: none"> the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed; revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and revenue recognised in the reporting period from performance obligations satisfied or partially satisfied in previous periods, for example, changes in transaction price.

2.0 General Guidance - AASB15 (Continued)

Reference	Requirements
AASB 15.117	Explain how the timing of satisfaction of its performance obligations relates to the typical timing of payment and the effect those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.
AASB 15.118	<p>An explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information.</p> <p>Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:</p> <ul style="list-style-type: none"> a) changes due to business combinations; b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price, including any changes in the assessment of whether an estimate of variable consideration is constrained, or a contract modification; c) impairment of a contract asset; d) a change in the timeframe for a right to consideration to become unconditional, ie for a contract asset to be reclassified to a receivable; and e) a change in the timeframe for a performance obligation to be satisfied, ie for the recognition of revenue arising from a contract liability.
Performance obligations AASB 15.119	<p>An entity shall disclose information about its performance obligations in contracts with customers, including a description of all the following:</p> <ul style="list-style-type: none"> a) when the entity typically satisfies its performance obligations, for example upon shipment, upon delivery, as services are rendered or upon completion of service, including when performance obligations are satisfied in a bill-and-hold arrangement; b) the significant payment terms, for example when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58); c) the nature of the goods or services the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services, ie if the entity is acting as an agent; d) obligations for returns, refunds and other similar obligations; and e) types of warranties and related obligations.

2.0 General Guidance - AASB15 (Continued)

Reference	Requirements
AASB 15.120	<p>An entity shall disclose the following information about its remaining performance obligations:</p> <ul style="list-style-type: none"> a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, as of the end of the reporting period; and b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), and the entity shall disclose in either of the following ways: <ul style="list-style-type: none"> (i) on a quantitative basis using the time bands most appropriate for the duration of the remaining performance obligations; or (ii) by using qualitative information. <p>As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met:</p> <ul style="list-style-type: none"> a) the performance obligation is part of a contract that has an original expected duration of one year or less; or b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.
AASB 15.122	<p>Explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (paragraphs 56–58).</p>
Significant judgements AASB 15.123	<p>The judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. An entity shall explain the judgements, and changes in the judgements, used in determining both of the following:</p> <ul style="list-style-type: none"> a) the timing of satisfaction of performance obligations (paragraphs 124–125); and b) the transaction price and the amounts allocated to performance obligations (paragraph 126).
AASB 15.124	<p>For performance obligations that an entity satisfies over time, an entity shall disclose both of the following: (a) the methods used to recognise revenue, for example, a description of the output methods or input methods used and how those methods are applied; and (b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.</p>

2.0 General Guidance - AASB15 (Continued)

Reference	Requirements
AASB 15.125	For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.
AASB 15.126	An entity shall disclose information about the methods, inputs and assumptions used for all the following: <ol style="list-style-type: none"> determining the transaction price, including, although not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; assessing whether an estimate of variable consideration is constrained; allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract, if applicable; and measuring obligations for returns, refunds and other similar obligations.
Assets recognised from the costs to obtain or fulfil a contract AASB 15.127	An entity shall describe both of the following: <ol style="list-style-type: none"> the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer, in accordance with paragraph 91 or 95; and the method it uses to determine the amortisation for each reporting period.
AASB 15.128	An entity shall disclose all the following: <ol style="list-style-type: none"> the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer, in accordance with paragraph 91 or 95, by main category of asset, for example costs to obtain contracts with customers, pre-contract costs and setup costs; and the amount of amortisation and any impairment losses recognised in the reporting period.

3.0 General Guidance – AASB1058

3.1 Background

In December 2016, the AASB issued new income recognition requirements for not-for-profit (NFP) entities via:

- AASB 1058 - *Income of Not-for-Profit Entities*;
- AASB 2016-7 - Amendments to Australian Accounting Standards – *Deferral of AASB 15 for Not-for-Profit Entities*; and
- AASB 2016-8 - Amendments to Australian Accounting Standards – *Australian Implementation Guidance for Not-for-Profit Entities*.

These standards are effective for reporting periods beginning on or after 1 January 2019, with early application permitted.

The effective date for AASB 15 has also been deferred for NFP entities by one year from annual reporting periods beginning on or after 1 January 2018 to 1 January 2019.

With respect to local government in Western Australia, the first year of application will be the year ended 30 June 2020, unless applied earlier.

Also, for local government, some sections of AASB 1004 remain. These are specifically paragraphs 48 to 53, inclusive, dealing with contributions by owners and distributions to owners.

AASB 1058 significantly changes income/revenue recognition for local governments, including changes to accounting policies. The Town will need to consider how the following areas are likely to impact them:

1. Assets received below fair value;
2. Transfers received to acquire or construct non-financial assets;
3. Prepaid rates;
4. Leases entered into at below market rates; and
5. Volunteer services.

3.0 General Guidance – AASB1058 (continued)

3.2 Assets Received Below Fair Value

Much of the existing focus in accounting standards relates to assets received by the entity at zero or nominal value. AASB 1058.8 requires assets acquired at significantly below an asset's fair value to be measured initially in accordance with the relevant accounting standards such as:

- AASB 9 *Financial instruments* (eg. cash and receivables);
- AASB 16 *Leases*; and
- AASB 116 *Property, Plant and Equipment*.

An exemption exists for assets received as a result of Volunteer Services. These are only required to be recognised at fair value if they can be reliably measured and would have been purchased if they were not donated. This is discussed further later at Section 4.1.6.

When recognising the asset, AASB 1058.9 requires increases in liabilities, decreases in assets and revenue shall be recognised in accordance with the relevant accounting standard such as:

- Revenue or contract liability under AASB 15;
- Lease liability under AASB 16;
- Financial liability under AASB 9; and
- Provision in accordance with AASB 137.

Regardless of the applied standard this amount is referred to as the 'related amount'.

Any excess of the initially recognised asset value over the related amount is required to be recognised immediately as revenue by AASB 1058.10 except for transfers, to enable the Town to construct or acquire a recognisable non-financial asset to be controlled by the Town. These are discussed further in Section 4.1.3 below.

An example of an asset where this would apply is fire and emergency services vehicles supplied by the relevant State government agency.

3.0 General Guidance – AASB1058 (continued)

3.3 Transfers Received to Acquire or Construct Non-Financial Assets

Local governments often receive a grant to either buy or construct a non-financial asset, such as a building, for their own future use.

A recognisable non-financial asset that is to be controlled by the entity in accordance with AASB 1058.15 is one that:

- a. requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- b. does not require the entity to transfer the non-financial asset to the transferor or other parties; and
- c. occurs under an enforceable agreement.

Financial assets transferred to the Town to construct or acquire a recognisable non-financial asset to be controlled by the Town are recognised initially, in accordance with AASB 9 *Financial Instruments*, on receipt of the financial asset. Subsequently the non-financial asset is recognised in accordance with AASB 116 on construction or acquisition.

As with assets received below fair value, when recognising the asset AASB 1058.9 requires increases in liabilities, decreases in assets and revenue shall be recognised in accordance with the relevant accounting standard. However, unlike assets received below fair value the difference between the 'related amount' and the value of the non-financial asset recognised is required to be recognised as a liability by AASB 1058.16 until such time as the Town has satisfied its obligations under the initial transfer of the financial asset. When or as these obligations are satisfied the difference is recognised as income in profit or loss.

This is typical of current arrangements where there is no reciprocal obligation back to the grantor / funding body. Consequently, they are not within the scope of AASB 15 *Revenue from Contracts with Customers* due to the absence of a customer receiving goods or services in exchange for consideration.

3.4 Prepaid Rates

Rates received in advance are a financial liability and not recorded as revenue until the associated taxable event occurs. In a local government context, the taxable event occurs when Council determines land values are subject to taxation, when the rate in the dollar is struck. When the rates are struck, the prepaid rates liability will be reduced, and rate revenue recognised by the amount that relates to the budget year.

This differs to the previous treatment where, as per AASB 1004, prepaid rates were recorded as revenue when received.

3.0 General Guidance – AASB1058 (continued)

3.5 Leases Entered into at Below Market Rates

Leases with significantly below market terms, often referred to as peppercorn leases, are quite common in the local government sector.

Previously, the accounting treatment for such leases has been the application of AASB 117 *Leases*, recognising a finance lease asset and liability at the present value of the minimum lease payments, considered negligible in a peppercorn lease. This approach understates the lease asset and fails to recognise the donation component.

AASB 1058 contains an amendment to AASB 16, requiring the Town to measure a lease asset, ie. a “right-of-use asset” under AASB 16, under a peppercorn lease initially at fair value, with the lease liability measured at the present value of the minimum lease payments.

An option is provided by AASB2018-8 to recognise peppercorn leases at cost rather than fair value however, Financial Management Regulation 17A (2) overrides this option as it requires all assets to be recognised at fair value.

The difference between the lease asset and liability will be recorded as income in accordance with AASB 1058.

3.6 Volunteer Services

AASB 1058 has two different approaches with regard to volunteer services, depending on the type of the Not-for-Profit entity.

In the case of local government, they must recognise volunteer services where:

- the fair value of those services can be measured reliably; and
- they would have been purchased if they had not been donated.

The critical judgement in relation to this new requirement is the determination of whether a local government would have purchased the services if they had not been donated. This assessment needs to be made in relation to each activity where there is potentially a benefit from volunteer services.

If a local government does conclude that it would have paid for the service provided by the volunteer, then the benefit needs to be quantified with a calculation of imputed wages plus associated expenses. The result would be an amount recognised as a contribution of non-cash revenue, with the other side of the entry being either an asset or an expense, depending on the nature of the benefit received.

In addition, an option is available for a local government to elect to recognise volunteer services if the fair value can be measured reliably, regardless of whether they would have been purchased or not in accordance with AASB 1058.19.

They are also encouraged by the Standard to disclose information about their reliance on volunteer services, regardless of whether they are recognised or unrecognised.

3.0 General Guidance – AASB1058 (continued)

3.7 2019-20 Disclosures

The introduction of AASB 1058 is accompanied by additional disclosure requirements and will be applicable from the year ending 30 June 2020. These new disclosure requirements are set out in the table below. During the 2019-20 financial year it will be necessary to plan and establish systems for the collection of the information to support these new disclosures.

Reference	Requirements
General AASB 1058.23	The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the effects of volunteer services and other transactions where an entity acquires an asset for consideration that is significantly less than fair value principally to enable the entity to further its objectives on the financial position, financial performance and cash flows of the entity. Paragraphs 24–41 specify requirements relating to this objective.
AASB 1058.24	An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.
AASB 1058.25	An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.
AASB 1058.26	An entity shall disclose income recognised during the period, disaggregated into categories that reflect how the nature and amount of income, and the resultant cash flows, are affected by economic factors. An entity considers disclosing separately the following categories of income: <ul style="list-style-type: none"> (a) grants, bequests and donations of cash, other financial assets and goods; (b) recognised volunteer services; and (c) for government departments and other public sector entities, appropriation amounts recognised as income, by class of appropriation.
AASB 1058.27	To assist users to make informed judgements about the contribution of volunteer services and inventories to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such contributions for the achievement of its objectives in the future, an entity is encouraged to disclose qualitative information, by major class of transaction, about the nature of the entity's dependence arising from: <ul style="list-style-type: none"> (a) volunteer services it receives, including those not recognised; and (b) inventories held although not recognised as assets during the period.
Non-contractual income arising from statutory requirements AASB 1058.28	An entity shall disclose income arising from statutory requirements, such as taxes, rates and fines, recognised during the period, disaggregated into categories that reflect how the nature and amount of income, and the resultant cash flows, are affected by economic factors.

3.0 General Guidance AASB1058 (Continued)

Reference	Requirements
AASB 1058.29	<p>To meet the objective in paragraph 23, an entity shall consider disclosing information about assets and liabilities recognised at the reporting date in accordance with this Standard, including the amounts of:</p> <ul style="list-style-type: none"> (a) receivables that are not a financial asset as defined in AASB 132 Financial Instruments: Presentation, eg. income tax receivable from a taxpayer, and: <ul style="list-style-type: none"> (i) interest income in relation to such receivables during the period; and (ii) impairment losses in relation to such receivables during the period; and (b) financial liabilities relating to prepaid taxes or rates where the taxable event has yet to occur, and the future period(s) for those taxes or rates relate.
AASB 1058.30	<p>Other information that may be appropriate for an entity to disclose includes, for each class of taxation income that the entity cannot measure reliably during the period where the taxable event occurs (paragraphs B28–B31):</p> <ul style="list-style-type: none"> (a) information about the nature of the tax; (b) the reason(s) why that income cannot be measured reliably; and (c) when that uncertainty might be resolved.
Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity AASB 1058.31	<p>An entity shall disclose the opening and closing balances of financial assets arising from transfers to enable an entity to acquire or construct recognisable non-financial assets to be controlled by the entity and the associated liabilities arising from such transfers, if not otherwise separately presented or disclosed. An entity shall also disclose income recognised in the reporting period arising from the reduction of an associated liability.</p>
AASB 1058.32	<p>An entity shall disclose information about its obligations under such transfers, including a description of when the entity typically satisfies its obligations, for example, as the asset is constructed, upon completion of construction or when the asset is acquired.</p>
AASB 1058.33	<p>An entity shall disclose an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the reporting period. An entity may disclose this information in either of the following ways:</p> <ul style="list-style-type: none"> (a) on a quantitative basis using the time bands most appropriate for the duration of the remaining obligations; or (b) through qualitative information.

4.0 General Guidance - AASB 16

AASB 16 was issued in February 2016 and supersedes the Lease Standard AASB 117, with the introduction of a single lessee accounting model to the extent there is no longer a distinction between finance and operating leases.

Operative Date: reporting periods beginning on or after 1 January 2019, for local government in Western Australia effectively the year ended 30 June 2020.

4.1 Key Features

For lessees, there is:

- No longer a distinction between finance and operating leases;
- Lessees will now recognise a right-to-use asset and a lease liability onto the 'balance sheet' for all leases

This effectively means the vast majority of existing leases currently only impacting the statement of comprehensive income will need to be capitalised at the date of adoption, being 1 July 2019.

- The Standard contains an exemption for short term leases or leases where the underlying asset is of low value:
 - Short term – less than 12 months; and/or
 - Underlying asset is of low value – suggested threshold being the mandatory level of below \$5,000.
- AASB 16.23 - Right-to-use assets shall initially be measured at cost.
- AASB 16.24 - Cost shall comprise:
 - Amount of initial measurement of the lease liability;
 - Upfront lease payments less any lease incentives received;
 - Any initial direct costs incurred; and
 - Any "make-good" costs (best estimate).

For Lessors, there is:

- Virtually no change from previous treatment under AASB 117; and
- Leases are required to be classified as operating or finance leases. It is unlikely for a local government to enter into a finance lease as lessor.

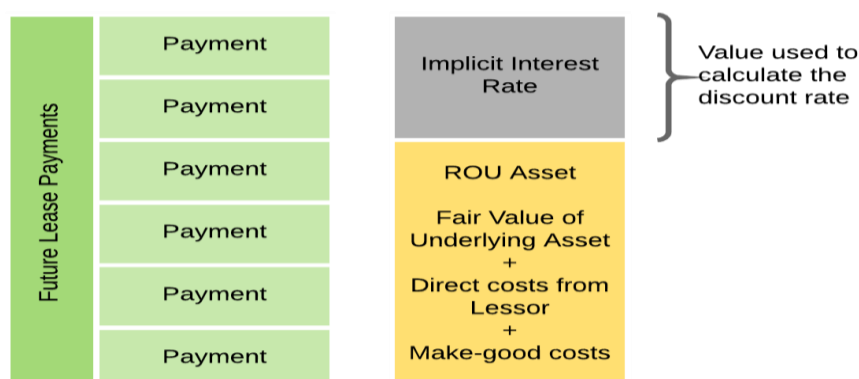
4.0 General Guidance - AASB 16 (Continued)

4.2 Initial Measurement of Lease Liability

AASB 16.26 - At the lease commencement date, the lessee shall measure the lease liability at the present value of the future lease payments using a discount rate implicit within the lease agreement.

The implicit interest rate is the rate that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor, plus any make good costs.

To simplify we have provided a representation in the diagram below:



If, for some reason, it is not possible to determine the implicit interest rate, then the Standard permits the use of the incremental borrowing rate, ie. the rate of interest a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Once the discount rate has been established, the lease liability can be calculated as per the following example;

Start Date	1 July 2019	Lease Asset Life	10 Years
Annual lease payment in arrears	\$200,000	Discount Rate	3.5%
Lease Term	5 Years		

	Date Due	Amount	Amount (PV)
Year 1	30-Jun-20	200,000	193,237
Year 2	30-Jun-21	200,000	186,702
Year 3	30-Jun-22	200,000	180,388
Year 4	30-Jun-23	200,000	174,288
Year 5	30-Jun-24	200,000	168,396
	Totals	1,000,000	903,010

In this example, the PV of the lease liability is used as the value of the right of use asset as follows:

Dr Right of Use Asset	\$903,010	
Cr Lease Liability – Current		\$193,237
Cr Lease Liability – Non-Current		\$709,773

If the value of the right of use asset contains a component for 'make-good' or rehabilitation / reinstatement costs, then the asset value would increase, and the corresponding credit would be posted to a non-current provision for future reinstatement account.

4.0 General Guidance - AASB 16 (Continued)

4.3 Subsequent Measurement

After initial recognition of the right of use asset and the lease liability, the subsequent entries will be as follows:

*Right of Use Asset - Subsequent Measurement**

	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	30-Jun-24	Total
Dr Depreciation of ROU Asset	180,602	180,602	180,602	180,602	180,602	903,010
Cr Accumulated Deprecation	180,602	180,602	180,602	180,602	180,602	903,010

* Based on a straight-line depreciation of the ROU asset over the term of the lease (5 years) reducing the value of the asset in PPE to zero.

Lease Liability - Subsequent Measurement

	Date Due	Amount	Liability B/F	Interest	Reduction
Year 1	30-Jun-20	200,000	903,011	31,605	168,395
Year 2	30-Jun-21	200,000	734,615	25,712	174,288
Year 3	30-Jun-22	200,000	560,327	19,611	180,389
Year 4	30-Jun-23	200,000	379,939	13,298	186,702
Year 5	30-Jun-24	200,000	193,237	6,763	193,237
Totals		1,000,000	-	96,990	903,010

The journals generated as the lease payments are made are set out below:

Payment of Lease	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	30-Jun-24	Total
Dr Interest Expense	31,605	25,712	19,611	13,298	6,763	96,990
Dr Lease Liability	168,395	174,288	180,389	186,702	193,237	903,010
Cr Cash	200,000	200,000	200,000	200,000	200,000	1,000,000

Adjustment journals will be required to keep the current and non-current portions of the liability relevant to the period.

The above example is based on a simple lease without any events that would result in a reassessment of the lease liability or ROU asset such as variable lease payments, asset impairments, changes in interest rate, lease options or other lease modifications. If any of these types of events occur during the lease term or are present in the lease agreement, please refer to the Standard for further guidance.

4.0 General Guidance - AASB 16 (Continued)

4.4 Application to Local Government

Generally, local governments in Western Australia have leases that are currently defined as operating leases.

This is where the biggest change occurs. The most common examples include, although are not limited to:

- Vehicles (usually cars);
- Photocopiers;
- Computers;
- Staff Housing; and
- Phones.

AASB 16.B6 very specifically indicates cars do not qualify as low-value assets.

AASB 16.B8 very specifically indicates tablet and personal computers, small items of office furniture and telephones **qualify** as low-value assets.

The implementation guidance is silent with regards to photocopiers.

At this stage, and subject to further guidance, we believe corporate photocopiers would **not qualify** as they are not considered **small items of office furniture**. To automatically qualify, they would have been specifically mentioned but will rather need to be assessed based on their materiality to the local governments' financial statements. Precedence would dictate only those items specifically mentioned automatically qualify.

4.5 Transitional Requirements

AASB 16 provides two options for transitioning existing operating leases:

Option 1 - Full retrospective application – will require amendments to prior years and comparatives.

Option 2 - Partial retrospective application as at the date of initial application, 1 July 2019. Under this method, the right-to-use asset and lease liability may be recorded at the present value of remaining lease payments using the incremental borrowing cost as the discount rate. Under this option there would be no adjustments to prior year comparatives. Retained surplus would be adjusted to reflect the additional asset and liability values.

We would suggest most local governments will choose the second transition option and make an adjustment to the retained surplus account as at 1 July 2019.

The new Standard will require the Town to ensure it has systems in place to:

- identify the terms and conditions of existing leases;
- undertake the transition journals on 1 July; and

When new leases commence across the organisation:

- to capture the source documentation; and
- ensure all new lease arrangements are accounted for in the correct manner.

4.0 General Guidance - AASB 16 (Continued)

4.6 2019-20 Disclosures

The introduction of AASB 16 is accompanied by additional disclosure requirements applicable from the year ending 30 June 2020. These disclosure requirements are set out in the table below. During the 2019-20 financial year it will be necessary to plan and establish systems for the collection of the information to support these new disclosures.

Reference	Requirements
General AASB 16.89	The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.
AASB 16.90	A lessor shall disclose the following amounts for the reporting period: <ul style="list-style-type: none"> (a) for finance leases: <ul style="list-style-type: none"> (i) selling profit or loss; (ii) finance income on the net investment in the lease; and (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease. (b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.
AASB 16.91	A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.
AASB 16.92	A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, although is not limited to, information that helps users of financial statements to assess: <ul style="list-style-type: none"> (a) the nature of the lessor's leasing activities; and (b) how the lessor manages the risk associated with any rights it retains in underlying assets. A lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means where the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.
Finance leases AASB 16.93	A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.
AASB 16.94	A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

4.0 General Guidance - AASB 16 (Continued)

Reference	Requirements
Operating leases AASB 16.95	For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of AASB 116. In applying the disclosure requirements in AASB 116, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by AASB 116 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.
AASB 16.96	A lessor shall apply the disclosure requirements in AASB 136, AASB 138, AASB 140 and AASB 141 for assets subject to operating leases
AASB 16.97	A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

5.0 Specific Guidance – AASB 15 and AASB 1058

A number of revenue items were identified as potentially impacted by the application of AASB 15 and AASB 1058 each of these is discussed in detail in this section. The term ‘grant’ has been used in this report for ease of reading and relates equally to contributions. No assurance is provided to confirm all impacted transactions have been identified.

5.1 Grants and Contributions

5.1.1 Operating

All operating grants and contributions remaining unspent at 30 June must be examined to determine if they were received to benefit a third-party (including individuals or the community at large) on the grantor’s behalf. The Town has confirmed there were no unspent operating grants at 30 June 2019.

Examples of operating grants meeting the criteria under AASB 15 are grants and contributions to:

- co-fund officers such as community officers or health officers;
- funding for community events; or
- funding where the money is to be repaid should a condition not be met.

Annual Financial Assistance Grants (general and road component) received from the Grants Commission do not meet the recognition requirements of AASB 15 and are discussed further in Section 5.1.3. Grants not recognised under AASB 15 or AASB 1058 are recognised when received.

Care should be taken to understand the performance obligations of each operating grant or contribution in order to determine the basis under which the obligations are met as these determine the timing of the recognition of revenue.

5.1.2 Non-Operating Grants and Contributions

Non-operating Grants and Contributions are grants received for the acquisition or construction of non-financial assets and are within the Scope of AASB 1058. Determination of the performance obligation for a non-financial grant is usually simpler than for an operating grant however it remains the key determinant of the timing of the recognition of revenue. The Town has confirmed there were no unspent non-operating grants at 30 June 2019.

5.1.3 Financial Assistance Grants

The Financial Assistance Grants program established under arrangements between the Commonwealth and State governments are **not** considered to meet the requirements of AASB 15 of a contract with a customer as there is no performance obligation on the Town as detailed in paragraphs 22-30 of AASB 15. The grant does not meet the requirements of AASB 1058 either as it is not consideration to acquire an asset or receipt of a volunteer service.

Both the general and road component of the Financial Assistance Grants are recognised immediately they are received through profit and loss under AASB 120.20 as they provide immediate financial support for the Town with no future related costs.

No changes are required from current recognition requirements and the grants are to be credited to revenue on receipt. Where a portion of the following annual grant allocation is received early this is still recognised when received rather than in the year of the grant allocation. Care should be taken to ensure the early paid component remains in the Surplus / (Deficit) at the end of the year and the subsequent budget years revenue is adjusted for any early paid component.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.2 Assets Received Below Fair Value

There are many instances where a local government may receive an asset at no cost or at substantially lower amount than the fair value of the asset.

Financial Management Regulation 17A (2) requires all assets to be recognised at fair value. Provided the fair value of the asset exceeds \$5,000 the asset is recognised at fair value and any difference between the fair value and the amount paid recognised as revenue under AASB 1058.

5.2.1 Regional Road Group funding

These grants are for the construction or acquisition of a non-financial asset and are within the scope of AASB 1058.

5.3 Grant Scenarios and Associated Journals

A number of different timing circumstances may exist in relation to grants and contributions for goods or services received to benefit of a third-party (including individuals or the community at large) on the grantor's behalf or to acquire or construct non-financial assets are detailed in the table below.

Scenario	Current Year	As at 30 June	Subsequent Year	Following years.
1 Grant in advance	Grant invoiced and received. Grant conditions are met although not acquitted.	No unspent Grant	Grant acquitted.	No movement
2 Grant in advance	Grant invoiced and received	Portion of grant unspent	Remainder of grant spent or refunded. Grant acquitted.	No movement
3 Grant in advance	Grant invoiced and received	Portion of grant unspent	Portion of grant spent	Remaining portion of grant spent or refunded. Grant acquitted.
4 Grant in arrears	Expenditure incurred and goods or service provided. Grant conditions fully met.	Invoice raised for grant or contribution.	Grant received	No movement
5 Grant in arrears	Portion of expenditure incurred, and goods or service provided. Grant conditions not fully met.	No invoice raised as grant conditions not met.	Balance of expenditure incurred, and grant received	No movement

Each scenario above will result in different journals having to be raised, these are detailed within the next section. Financial Assistance Grants are excluded from the Scenarios above and the associated Journals as they must be recognised when received.

Whilst the Town has stated it has no unspent grants at 30 June 2019 transition options are provided should an unspent grant be identified and also for information purposes.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

1.1.1 Transition Option 1 - Represent Prior Period (Continued)

Scenario 3- Grant in advance received partially spent or unspent during the year.

Current Year

Dr Cash at Bank

Cr Grants and Contributions Liability – Current

Cr Grants and Contributions Liability – Non- Current

At the end of each month

Dr Grants and Contributions Liability – Current

Cr Grants and Contributions Revenue

At the end of each Financial Year

Dr Grants and Contributions Liability – Non- Current

Cr Grants and Contributions Liability –Current

The transfer of the grant revenue through a liability account is considered preferable as it will result in more appropriate monthly financial statements and assists in the management of unspent grants. Classification of current, non-current components requires an understanding of the timing of the provision of the services

Scenario 4- Grant in arrears - where grant conditions are met by 30 June and the grantor has an obligation to make payment under the contract at 30 June, payment is received in the subsequent year.

Current Year

Dr Receivables

Cr Grants and Contributions Revenue

Where the conditions of the grant are met by 30 June associated revenue is required to be recognised and an invoice should be raised. Where any other factor other than the passage of time exists, which prevents the raising of an invoice prior at 30 June scenario 5 would apply.

Scenario 5- Grant in arrears – expenditure has occurred and where at 30 June grant conditions are **not** met to the extent the grantor is required by the contract to make payment.

Current Year

Dr Contract Assets

Cr Grants and Contributions Revenue

Where the conditions of the grant are met by 30 June associated revenue is required to be recognised and an invoice should be raised. Where any other factor other than the passage of time exists, which prevents the raising of an invoice prior at 30 June scenario 5 would apply.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.3.2 Transition Option 2 -Adjust Retained Surplus (Continued)

The transfer of the grant revenue through a liability account is considered preferable as it will result in more appropriate monthly financial statements and assist in the management of unspent grants. Classification of current, non-current components will require an understanding of the timing of the provision of the services.

Scenario 4- Grant in arrears - where grant conditions are met by 30 June and the grantor has an obligation to make payment under the contract at 30 June, payment is received in the subsequent year.

Current Year

Dr Receivables

Cr Grants and Contributions Revenue

Where the conditions of the grant are met by 30 June associated revenue is required to be recognised and an invoice should be raised. Where any other factor other than the passage of time exists, which prevents the raising of an invoice prior at 30 June scenario 5 would apply.

Scenario 5- Grant in arrears – expenditure has occurred and where at 1 July 2019 or 30 June of any subsequent year, grant conditions are not met to the extent the grantor is required by the contract to make payment.

Current Year

Dr Contract Assets

Cr Grants and Contributions Revenue

Where the conditions of the grant are met by 30 June associated revenue is required to be recognised and an invoice should be raised. Where any other factor other than the passage of time exists, which prevents the raising of an invoice prior at 30 June scenario 5 would apply.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.4 Revenue from Maintenance Contracts, Private Works and User Fees and Charges

At the inception of contracts such as maintenance contracts, private works contracts and raising of fees and charges for use of a service or provision of goods the Town must determine whether it satisfies the performance obligations of the contract over time or at a point in time as these contracts fall within the scope of AASB 15. Maintenance contracts and private works are considered with fees and charges as they are raised as fees and charges regardless of the contractual agreements attached to them.

Completion of the performance obligations of these types of contracts may vary and is important as it impacts the timing of the recognition of the associate revenue.

Revenue recognised at a point in time

Where performance obligations are satisfied at a point in time revenue should be recognised at the point of time the obligations are met. Determination of the point in time is based on when the customer obtains control of a promised good or service (and, therefore, the performance obligation is satisfied), the indicators of the transfer of control should be considered. These include, although are not limited to:

- The Town has a present right to payment for the good or service;
- The customer has legal title to the good or service;
- The Town has transferred physical possession of the good or service;
- The customer has the significant risk and rewards of ownership of the good or service; and
- The customer has accepted the good or service, as performed.

An important point to note includes the impact of legislation on the Accounting Standard. These may include contract terms influencing:

- Customer acceptance;
- Consignment arrangements;
- Bill-and-hold arrangements; and
- Shipping terms.

It is not enough to only consider when control of an asset has been transferred to a customer as the time for revenue recognition. Consideration should also be given to the impact of legislation and other contract terms and conditions.

Revenue recognised over a period of time

The following are examples of where, the Town is transferring control of a good or service over time and, consequently, should recognise revenue over time as the performance obligations are met:

- The customer receives or consumes the benefits over time, for example annual access to the swimming pool;
- The performance of the Town creates or enhances an asset over time the customer controls the asset as the asset is created or enhanced, for example private works grading of a private road; or
- The Town has an enforceable right to payment for performance completed to date.
- Customer simultaneously receiving and consuming the benefits

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.5 Revenue from Maintenance Contracts, Private Works and User Fees and Charges (Continued)

Measuring progress when making goods or services available

For each performance obligation satisfied over time, revenue is recognised over time by measuring the progress towards complete satisfaction of the total performance obligation. The objective is to depict the performance in transferring control of goods or services promised to a customer.

A single method of measuring progress for each performance obligation satisfied over time is applied and should be applied consistently to similar performance obligations and in similar circumstances. At the end of each reporting period (30 June, or monthly where appropriate), progress towards complete satisfaction of a performance obligation satisfied over time should be remeasured.

An example, and common throughout local government, is annual access to facilities, such as gyms or swimming pools. Assume a customer purchases an annual subscription for \$120 for access to the local indoor swimming pool. The Town would determine the performance obligation as being to provide the indoor swimming pool facilities all year long (or as close to, considering any identified closure times at contract inception). This is because the extent to which the customer uses the facilities does not impact the amount of the remaining goods or services to which the customer is entitled. The customer simultaneously receives and consumes the benefits of the Town's performance as it performs by making the swimming pool facility available. The Town's performance obligation is satisfied over time.

The customer benefits from the Town making the facilities available evenly (or substantively evenly) throughout the year. Consequently, the Town would use a time-based measure to recognise revenue on a straight-line basis throughout the year at \$10 per month.

This is a simplistic consideration of measuring progress when making goods or services available over time. Other factors for consideration, include:

- The legal right for local governments to enforce a fee or charge spanning more than one Annual Budget;
- Recognition of revenue over time when no reasonable measure of progress is available;
- Partial satisfaction of a performance obligation prior to contract identification; and
- Other appropriate methods of measuring progress where either output methods or input methods are used to measure progress.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.5 Fees and Charges Scenarios and Associated Journals

Scenario	Current Year	As at 30 June	Subsequent Year	Following years.
1 Fees and charges in advance	Fees and charges invoiced and received. Performance obligations are met.	No outstanding performance obligations.	No movement	No movement
2 Fees and charges in advance	Fees and charges invoiced and received. Performance obligations are not met or partially met.	Portion of performance obligations met.	Remainder of performance obligations met.	No movement
3 Fees and charges in advance	Fees and charges invoiced and received. Performance obligations are not met.	Portion of performance obligations met.	Portion of performance obligations met.	Remainder of performance obligations met.
4 Fees and charges in arrears	Expenditure incurred and performance obligations are fully met.	Invoice raised for grant or contribution.	Fees and charges are invoiced	No movement
5 Fees and charges in arrears	Expenditure incurred and performance obligations are not met.	No invoice raised as performance obligations are not met.	Balance of expenditure incurred, and fees and charges are invoiced	No movement

Each scenario above will result in different journals having to be raised, these are detailed within the next section.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.6.1 Transition Option 1 and subsequent years- Represent Prior Period

Scenario 3- Fees and charges invoiced and received. Performance obligations are partially met or not met during the year and only met over multiple years.

Current Year

Dr Cash at Bank
 Cr Fees and charges Liability – Current
 Cr Fees and charges Liability – Non- Current

At the end of each month

Dr Fees and charges Liability – Current
 Cr Fees and charges Revenue

At the end of each Financial Year

Dr Fees and charges Liability – Non- Current
 Cr Fees and charges Liability –Current

The transfer of the fees and charges through a liability account is considered preferable as it will result in more appropriate monthly financial statements and assists in the management of unspent fees and charges where these are material. Classification of current, non-current components requires an understanding of the timing of the expected meeting of performance obligations.

Scenario 4- Fees and charges in arrears - where performance obligations are met by 30 June and the customer has an obligation to make payment under the contract at 30 June, payment is received in the subsequent year.

Current Year

Dr Receivables
 Cr Fees and charges Revenue

Where the performance obligations of the fee or charge is met by 30 June associated revenue is required to be recognised and an invoice should be raised. Where any other factor other than the passage of time exists, which prevents the raising of an invoice prior at 30 June scenario 5 would apply.

Scenario 5- Fees and charges in arrears - where performance obligations are **not** met by 30 June to the extent the customer is required by the contract to make payment.

Current Year

Dr Contract Assets
 Cr Fees and charges Revenue

Subsequent Year

Dr Cash at Bank
 Dr Contract Assets

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.6.2 Transition Option 2 - Adjust Retained Surplus (Continued)

Scenario 5- Fees and charges in arrears - where performance obligations are **not** met by 30 June to the extent the customer is required by the contract to make payment.

Current Year

Dr Contract Assets
 Cr Fees and charges Revenue

Subsequent Year

Dr Cash at Bank
 Dr Contract Assets

Where the conditions of the grant are met by 30 June associated revenue is required to be recognised and an invoice should be raised. Where any other factor other than the passage of time exists, which prevents the raising of an invoice prior at 30 June scenario 5 would apply.

5.0 Specific Guidance AASB 15 and AASB 1058 (Continued)

5.7 Licences

AASB 15 Aus 8.1 allows the Town to elect not to apply the requirements of AASB 15 paragraphs 9-90 to short term licences and licences for which the transaction price is of low value.

Review of the 2018-2019 and 2019-2020 Schedules of fees and charges reflected all licence charges raised by the Town are of low value (less than \$1,000) and are short term in nature as they only apply to the current year. The election available under AASB 15 Aus 8.1 is available to recognise the revenue associated with the licences at the point of time the licence is issued as provided by AASB 15 Aus 8.3. We recommend this election be taken with no change to current accounting treatment or reporting for licences.

5.8 Volunteer Services

AASB 1058 has two different approaches regarding volunteer services depending on the type of the not-for-profit entity.

The approach identified for the Town (and other local governments) requires recognition of volunteer services where:

- they would have been purchased if they had not been donated; and
- the fair value of those services can be measured reliably.

The Town may elect to recognise volunteer services if their fair value can be measured reliably. This option is available irrespective of whether the services would have been purchased if they had not been donated.

The local government sector is encouraged by the standard to disclose information about the reliance on volunteer services whether they are recognised or unrecognised.

We are not currently aware of any volunteers the Town has who meet this requirement however a review should be undertaken of all volunteers to confirm this to be the position.

6.0 Specific Guidance - AASB 16

6.1 Application to the Town of East Fremantle – Leases

The Town has advised it does not currently have any assets which it leases from third parties.

A spreadsheet of leases which exist with the Town as Lessor was forwarded to us. The majority of the leases are for community infrastructure. Assets underlying the leases are already recognised within the Town's financial statements and revenue is recognised when it is due to the Town. No change in accounting practices for these leases are currently required.

7.0 Disclosures

7.1 2018-2019 Annual Financial Statements

The 2018-2019 Annual Financial Statements are required to contain disclosures regarding accounting standards which have been issued although are not yet effective. Importantly AASB 108.30 requires known or reasonably estimable information of the possible impact of apply the standards will have on the financial statements on initial application

AASB 108.31 suggests the following disclosures be made:

- (a) the title of the new Australian Accounting Standard;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the Australian Accounting Standard is required;
- (d) the date as at which it plans to apply the Australian Accounting Standard initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the Australian Accounting Standard is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

In order to meet these reporting requirements a determination needs to be made prior to preparation of the Financial Statements as to the transition option to be utilised and the standard applicable to each revenue source impacted by the new standard.

Example disclosures are contained within the Moore Stephens 2018-2019 City/Town/Shire of Somewhere model Annual Financial Statements.

We have provided a 'commenced' version of the required disclosure statements, using the information we are aware of, at Appendix A.

7.2 2019-2020 Budget

Annual Statutory Budgets are required to be prepared in accordance with the Australian Accounting Standards. This means the 2019-2020 Statutory Budget should have been prepared based on all transition journals being undertaken on 1 July 2019 and estimates of the timing of the recognition of the revenue in accordance with the new standards being undertaken for the 2019-2020 year.

Where for any reason this has not occurred or has been inaccurately determined a budget amendment should be put to the Council for adoption as it impacts the variance reporting within the Monthly Statement of Financial Activity.

Adjustments on transition impact on the budgeted opening surplus / (deficit) position on 1 July 2019 and these impacts should be detailed within the explanation of net current assets within the budget by reflecting the current asset and liability balances on the 30 June 2019 in one column and the adjusted balances in a separate column.

Example disclosures are contained within the Moore Stephens 2019-2020 City/Town/Shire of Somewhere model Statutory Budget.

Given the Town has no unspent grants or leases (as lessee) no change is expected to the 2019-20 Budget.

7.0 Disclosures (Continued)

7.3 2019-2020 Monthly Statements of Financial Activity

Monthly are required to be prepared in accordance with the Australian Accounting Standards. Adjustments on transition impact on the budgeted opening surplus / (deficit) position on 1 July 2019 and these impacts should be detailed within the explanation of net current assets within the statements by reflecting the current asset and liability balances on the 30 June 2019 in one column and the adjusted balances in a separate column.

Ideally where grants are received in advance they should be first credited to a liability account and then revenue recognised during the year as performance obligations are met however having the systems and controls in place to accurately gather, validate and report this information in order for related journals to be passed may be challenging. We would recommend this however occur at least prior to any budget review as a minimum or preferably at least quarterly to enable performance monitoring throughout the year.

Example disclosures are contained within the Moore Stephens 2019-2020 City/Town/Shire of Somewhere model Monthly Financial Activity Statement.

Other Matters

Disclaimer

The services provided in terms of this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standard Board and, consequently no opinions or conclusions are intended to convey assurance either expressed or implied.

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Document Date

Version: 1.2

Status: Final

Date: 12 September 2019

Appendix A – New Accounting Standards

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS FOR APPLICATION IN FUTURE YEARS

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Town.

This note explains management's assessment of the new and amended pronouncements that are relevant to the Town, the impact of the adoption of AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases* and AASB 1058 *Income for Not-for-Profit Entities*. These standards are applicable to future reporting periods and have not yet been adopted.

AASB 15 Revenue from Contracts with Customers

The Town will adopt AASB 15 *Revenue from Contracts with Customers* (issued December 2014) on 1 July 2019 resulting in changes in accounting policies. In accordance with the transition provisions of AASB 15, the Town will adopt the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019.

The standard impacts the timing of revenue recognition as it requires a local government to recognise revenue aligned to the transfer of promised goods or services to customers for an amount that reflects the consideration the local government is entitled for those goods or services. Given the uncertain nature of revenue of this type, the impact is not quantifiable.

AASB 16 Leases

The Town adopted AASB 16 retrospectively from 1 July 2019, resulting in changes in accounting policies. In accordance with the transition provisions of AASB 16, the Town has applied this Standard to its leases retrospectively, with the cumulative effect of initially applying AASB16 recognised on 1 July 2019. In applying the AASB 16 under the specific transition provisions chosen, the Town will not restate comparatives for prior reporting periods.

On adoption of AASB 16, the Town will recognise lease liabilities and in relation to leases which had previously been classified as an 'operating lease' applying AASB 117. These lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate after 1 July 2019.

On adoption of AASB 16, the Town will recognise a right-of-use asset in relation to a lease which had previously been classified as an 'operating lease' applying AASB 117. This right-of-use asset is to be measured as if AASB 16 had been applied since its commencement date by the carrying amount and discounted using the lessee's incremental borrowing rate.

At the 30 June 2019 the Town had no leases required to be recognised.

AASB 1058 Income for Not-For-Profit Entities

The Town will adopt AASB 1058 *Income for Not-for-Profit Entities* (issued December 2016) on 1 July 2019, resulting in changes in accounting policies. In accordance with the transition provisions of AASB 1058, the Town will adopt the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised at 1 July 2019. Comparative information for prior reporting periods shall not be restated in accordance with AASB 1058 transition requirements.

In applying AASB 1058 retrospectively with the cumulative effect of initially applying the Standard on 1 July 2019 no changes will occur to the balances at 30 June 2019. The standard will change future revenue recognition timing for the Town, by aligning revenue recognition with the meeting of performance obligations.

Prepaid rates are, until the taxable event for the rates has occurred, refundable at the request of the ratepayer. Therefore, rates received in advance give rise to a financial liability within the scope of AASB 9. On 1 July 2019 prepaid rates will be recognised as a financial asset and a related amount recognised as a financial liability and no income recognised by the Town. When the taxable event occurs, the financial liability will be extinguished, and the Town will recognise income for the prepaid rates that have not been refunded. Prepaid rates are not currently expected to be material.

Assets acquired for consideration and were significantly less than fair value principally to enable the Town to further its objectives, may have been measured on initial recognition under other Australian Accounting Standards at a cost significantly less than fair value. Such assets are not required to be remeasured at fair value.

Volunteer Services, in relation to all the Town's Volunteer Services, will be recognised in budgeted revenue and expenditure as the fair value of the services can be reliably estimated, and the services would have been purchased if they had not been donated.

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10.2 Procurement Review – Requisitions/Purchase Orders over \$5k

File ref	F/AUD1
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date:	29 June 2020
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	<ol style="list-style-type: none"> 1. Procurement Review (Confidential Attachment) 2. Independent Auditors Report 13 December 2019 3. Minutes Special Council Meeting 4 February 2020

Purpose

The Audit Committee is requested to receive the assessment of all supplier purchases greater than \$5k for the period 1 July 2019 to 22 May 2020, for compliance against Council's Purchasing Policy.

Executive Summary

Between the period 1 July 2019 and 22 May 2020, the Town released 111 purchase orders over \$5k. Full information is provided as confidential attachment 1, and is summarised as follows:

Amount	Purchasing Requirement	No. Purchase Orders	No. Compliant with Purchasing Policy or Exempt i.e. Sole Supplier	% Compliant
Over \$5,001 and up to \$20,000	Attempt to obtain 2 written quotes	73	63	86%
Over \$20,001 and up to \$50,000	Attempt to obtain 3 written quotes	28	24	86%
Over \$50,001 and up to \$150,000	Attempt obtain 3 written quotes under a Request for Quotation	7	7	100%
Over \$150,000	Request for Tender unless exempt	3	3	100%
Total		111	97	

Background

The Independent Auditors Report dated 13 December 2019 (attachment 2) included the following significant audit finding:

For 75% of purchases we sampled below the tender threshold, there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market, and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement. This could also result in favouring certain suppliers, although our audit did not identify any instances.

In response to the above finding, management provided the following comment, extracted from the minutes of the Special Council Meeting dated 4 February 2020 (attachment 3):

The Town's purchasing policy states that where the value of a purchase is between \$5,001 and \$20,000, efforts should be made to obtain at least two written quotes.

During the Auditor's procurement testing, 6 purchases were identified in this range, out of a sample of 8, where there was insufficient documentation to indicate that the requisite number of quotations had been obtained.

Extended security permissions, including a purchasing requisition system, were implemented in June 2019. Staff are now required to upload evidence of quotations for purchases in excess of \$5,000 against a requisition request, which is converted into a purchase order only after it has been reviewed and approved by a Manager.

The Internal Audit Work Plan for 2020 also proposes that an internal audit of all requisitions over \$5,000 be completed, and presented to the Audit Committee in July 2020. This will ensure a complete sample and identify all instances of non-compliance. Findings will then inform areas for improvement, education, and if deemed appropriate, removal of financial delegation.

Consultation

Finance team

Statutory Environment

Section 5.41 of the *Local Government Act 1995* details the functions of the CEO.

Regulation of the *Local Government (Financial Management) Regulations 1996* details the CEOs duties as to the financial management of the local government.

Regulation 11A of the *Local Government (Functions and General) Regulations 1996* requires local governments to prepare and adopt a Purchasing Policy.

Policy Implications

Council's Purchasing Policy applies.

The following requirements apply for purchases over \$5,001:

Amount (ex GST)	Purchasing Requirement
Over \$5,001 and up to \$20,000	Attempt to obtain 2 written quotes
Over \$20,001 and up to \$50,000	Attempt to obtain 3 written quotes
Over \$50,001 and up to \$250,000 (previously \$150,000)	Attempt obtain 3 written quotes under a Request for Quotation
Over \$250,000	Request for Tender unless exempt

Financial Implications

There are no financial implications relevant to this item.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Theme	Risk	Risk Action Plan (Controls or Treatment proposed)

Non-compliance with Purchasing Policy, giving rise to risk of not receiving value for money or favouring certain suppliers.	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance/ Financial	Treat through regular review/audit
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Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
	Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
	Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
	Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
	Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	9
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

Strategic Implications

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

Comment

An internal audit of all purchases greater than \$5k has been completed. Of 111 purchase orders, 97 or 87% demonstrated compliance with Council's Purchasing Policy by having a copy of the requisite number of quotes uploaded into the financial system or a proper explanation as per the table below.

Of the 14 purchase orders that did not demonstrate compliance with the requisite number of quotes, 10 required 2 quotes and 4 required 3 quotes.

No Purchase Orders	Explanation
64	Compliant
2	Inter-government transaction (i.e. Regional Council)
7	Sole Supplier Exemption

22	Supplier listed on WALGA preferred supplier panel or State Supply Commission Common User Agreement
1	Supplier is sole local provider registered in the Town of East Fremantle
1	Donation/Funding Agreement
14	Non-compliant
111	Total

In order to address the non-compliance, staff education and constructive reinforcement of purchasing requirements will be implemented. The Purchasing Policy may also need to be reviewed to provide greater flexibility to take into account the aforementioned explanations.

10.2 OFFICER RECOMMENDATION

That the Audit Committee receive the procurement review of all purchases over \$5k, as detailed in the confidential attachment, for assessment of compliance against Councils Purchasing Policy.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Town of East Fremantle

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Town of East Fremantle which comprises the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Town of East Fremantle:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Town in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 to the annual financial report, which describes the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Town's annual financial reporting responsibilities under the Act. Regulation 16 of the *Local Government (Financial Management) Regulations 1996*, does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Town is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of an annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual financial report, the CEO is responsible for assessing the Town's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of the Town.

The Council is responsible for overseeing the Town's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Town's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the annual financial report, including the disclosures, and whether the annual financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Council and the CEO regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Town:
 - a. The Operating Surplus Ratio has been below the Department of Local Government, Sports and Cultural Industries basic standard for the past 3 years. The financial ratios are reported in Note 33 of the annual financial report.
- (ii) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:

- a. For 75% of purchases we sampled below the tender threshold, there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market, and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement. This could also result in favouring certain suppliers, although our audit did not identify any instances.
 - b. No evidence was retained to demonstrate whether changes to supplier and employee master files, including bank account details, were being authorised by an officer other than the person making the amendment. This increases the risk that unauthorised changes may be made, resulting in errors or funds being inappropriately transferred. Our audit did not identify any instances of unauthorised changes.
 - c. Controls over changes to the Town's key systems were inadequate for ensuring that only approved changes are implemented. This could affect the availability or integrity of systems or information, however our audit testing did not identify any related adverse effects.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Other Matter

The annual financial report of the Town for the year ended 30 June 2018 was audited by another auditor who expressed an unmodified opinion on that annual financial report. The financial ratios for 2017 and 2018 in Note 33 of the audited annual financial report were included in the supplementary information and/or audited annual financial report for those years.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Town of East Fremantle for the year ended 30 June 2019 included on the Town's website. The Town's management is responsible for the integrity of the Town's website. This audit does not provide assurance on the integrity of the Town's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.



CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
13 December 2019

TOWN OF
EAST FREMANTLE



MINUTES

Special Council Meeting

Tuesday, 4 February 2020 at 6.05pm

Disclaimer

Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a member or officer, or on the content of any discussion occurring, during the course of the meeting.

Persons should be aware that the provisions of the Local Government Act 1995 (section 5.25 I) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person.

The Town of East Fremantle expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any resolution of Council, or any advice or information provided by a member or officer, or the content of any discussion occurring, during the course of the Council meeting.

Copyright

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MINUTES OF A SPECIAL MEETING OF COUNCIL HELD IN THE COUNCIL CHAMBER, 135 CANNING HIGHWAY EAST FREMANTLE ON TUESDAY 4 FEBRUARY 2020.**1. OFFICIAL OPENING**

The Presiding Member opened the meeting at 6.05pm

2. ACKNOWLEDGEMENT OF COUNTRY

“On behalf of the Council I would like to acknowledge the Whadjuk people of the Nyoongar nation as the traditional custodians of the land on which this meeting is taking place and pay my respects to Elders past, present and emerging.

3. RECORD OF ATTENDANCE**3.1 Attendance**

The following members were in attendance:

Mayor J O’Neill	Presiding Member
Cr C Collinson	
Cr K Donovan	
Cr A McPhail	
Cr A Natale	
Cr D Nardi	
Cr J Harrington	
Cr A Watkins	

The following staff were in attendance:

Mr G Tuffin	Chief Executive Officer
Mr A Malone	Executive Manager Regulatory Services
Mr P Kocian	Executive Manager Corporate Services
Ms J May	Minute Secretary

There were two members of the public in attendance.

3.2 Apologies

Cr M McPhail

3.3 Approved

Nil.

4. DISCLOSURES OF INTEREST**4.1 Financial**

Nil.

4.2 Proximity

Nil.

4.3 Impartiality

Nil.

5. PUBLIC QUESTION TIME**5.1 Public Question Time**

Nil.

6. BUSINESS**6.1 Annual Report & Annual Financial Report 2018/19**

Applicant	Town of East Fremantle
File ref	C/ELM1
Prepared by	Janine May, EA to Chief Executive Officer
Supervised by	Gary Tuffin, Chief Executive Officer
Date of Meeting	4 February 2020
Voting requirements	Absolute Majority
Documents tabled	Nil
Attachments	1. Annual Report 2018/19 including Audited Annual Financial Report 2. Annual Financial Audit Exit Brief (Confidential Separate Attachment)

Purpose

The purpose of this report is to:

- present the Annual Report and Annual Financial Report (Audited) for the year ended 30 June 2019
- set a date for the Annual Electors' Meeting
- consider significant matters raised in the Financial Audit Exit Brief

Executive Summary

The 2018/19 Annual Report reflects the achievements of the Town of the previous financial year. Acceptance of this Report allows the setting of the date of the Annual Electors' Meeting.

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report for the preceding financial year. The financial report is to be prepared and presented in the manner and form prescribed in the *Local Government (Financial Management) Regulations 1996*. Local Governments are required to submit the annual financial report to its auditor by the 30 September.

Background

The 2018/19 Financial Statements were considered and accepted by the Audit Committee on 29 January 2020. At this meeting, a number of significant matters, raised in the Independent Auditor's report, were considered by the Committee.

The Audit Committee recommended as follows:

That Council

1. *receive the Annual Financial Report for the Year Ended 30 June 2019, inclusive of the Independent Auditor's Report.*
2. *request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor's Report.*

3. *note the 'significant' matters raised in the Independent Auditor's Report, and the Management Comment, as discussed in the body of this agenda report.*
4. *request that the Chief Executive Officer submit a copy of this agenda report and minutes to the Minister, within 3 months from the date of the Independent Auditor's Report (i.e. 3 months from 13 December 2019).*
5. *request that a copy of this agenda report and minutes be published on the Town of East Fremantle website, within 14 days of the report being provided to the Minister.*

The Annual Report provides general information about the Town's activities and highlights during the year under review and reports on the progress of activity and priorities as determined in the 2017-2027 Strategic Community Plan.

Statutory Environment

Annual Financial Statements

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* applies to audit in local government.

After the annual financial report has been audited, the CEO is to sign and append to the report a declaration. A copy of the annual financial report is then to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

Annual Report

Under s5.54 of the *Local Government Act 1995*, the annual report for a financial year is to be accepted by the local government no later than 31 December after that financial year. If the auditor's report is not available in time for the annual report to be accepted by this date, the annual report is to be accepted no later than two months after the auditor's report becomes available.

Under s5.27(2), an electors' general meeting is to be held on a day selected by the local government but no more than 56 days after the local government accepts the annual report for the previous financial year.

Local Governments are required to publish the annual report, including audit reports, on their website within 14 days after the report has been adopted by Council.

Annual Electors' Meeting

Under s5.29 of the *Local Government Act 1995*, a local government must give at least 14 days' local public notice of the date, time, place and purpose of the meeting

Policy Implications

There are no policy implications.

Financial Implications

There are no financial implications.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Town receives a qualified audit report	Possible (3)	Moderate (3)	Moderate (5-9)	Reputation/Compliance	Control through robust internal controls and staff development

Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
	Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
	Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
	Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
	Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	9
Does this item need to be added to the Town’s Risk Register	No
Is a Risk Treatment Plan Required	No

Strategic Implications

Strategic Priority 5: Leadership and Governance

“A proactive, approachable Council which values community consultation, transparency and accountability.”

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

Site Inspection

N/A

Comment

The Independent Auditor’s Report is appended to the Annual Financial Report. The Auditor has provided the opinion that the financial report of the Town of East Fremantle:

-
- (i) Is based on proper accounts and records; and
 - (ii) Fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The Auditor has however raised a number of 'significant' matters that meet the review and reporting requirements of section 7.12A (3)(4) of the *Local Government Act 1995*. These matters are listed below, along with management comment. This agenda report is to be provided to the Minister, and will be published on the Town's website as per requirements.

Significant Finding 1

The following material matter indicates a significant adverse trend in the financial position of the Town:

- a. The Operating Surplus Ratio has been below the Department of Local Government, Sports and Cultural Industries basic standard for the past 3 years. The financial ratios are reported in Note 33 of the annual financial report.

Management Comment

Council adopted a 15-year Strategic Resource Plan (combined asset management and long term financial plan) at its ordinary meeting of May 2019. Section 5.11 of this document discusses the forecast operating ratios from 2019-2034. The Operating Surplus Ratio is not projected to meet the Department's standard of 1.00% until the 2028-29 financial year. Council is aware of this, with the following comment provided in the agenda report of May 2019:

Council has a legislative requirement to comply with the principles of sound financial management, of which a key component is the preparation of a Long Term Financial Plan. The Office of Auditor General is also required to undertake a performance audit of adverse financial trends in the financial position or the financial management practices of the local government. This will be limited a high level assessment of whether the 7 financial ratios reported in the notes to the financial report achieved the standards set by the Department of Local Government, Sport and Cultural Industries. Council therefore needs to be cognizant of the ratio analysis included in the Forecast Financial Statements as 3 of the ratios are below benchmark.

A number of assumptions underpin the Strategic Resource Plan, including a 3% annual rate increase. Every endeavour will be made to ensure operating revenue grows at a faster rate than operating expenditure in order to achieve an improved Operating Surplus Ratio. A review of depreciation expense (and underlying valuation methodology) in 2019/20 may also result in a favourable improvement to this ratio.

The following are material matters identified by the Auditor indicating non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law.

Significant Finding 2

For 75% of purchases we sampled below the tender threshold, there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market, and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement. This could also result in favouring certain suppliers, although our audit did not identify any instances.

Management Comment

The Town's purchasing policy states that where the value of a purchase is between \$5,001 and \$20,000, efforts should be made to obtain at least two written quotes.

During the Auditor's procurement testing, 6 purchases were identified in this range, out of a sample of 8, where there was insufficient documentation to indicate that the requisite number of quotations had been obtained.

Extended security permissions, including a purchasing requisition system, were implemented in June 2019. Staff are now required to upload evidence of quotations for purchases in excess of \$5,000 against a requisition request, which is converted into a purchase order only after it has been reviewed and approved by a Manager.

The Internal Audit Work Plan for 2020 also proposes that an internal audit of all requisitions over \$5,000 be completed, and presented to the Audit Committee in July 2020. This will ensure a complete sample and identify all instances of non-compliance. Findings will then inform areas for improvement, education, and if deemed appropriate, removal of financial delegation.

Significant Finding 3

No evidence was retained to demonstrate whether changes to supplier and employee master files, including bank account details, were being authorised by an officer other than the person making the amendment. This increases the risk that unauthorised changes may be made, resulting in errors or funds being inappropriately transferred. Our audit did not identify and instances of unauthorised changes.

Management Comment

These findings were included in the Interim Audit Management Letter from June 2019. Management Comment is repeated as follows:

Changes to Supplier Master File:

The Town has implemented a "New / Update Creditor Details" form which is completed by the supplier, entered into the Supplier Master File by the Finance Officer, then reviewed by the Manager Finance and Administration, and approved by the Executive Manager Corporate Service. Adherence to the completion of this form will demonstrate evidence that changes to a Supplier Master File are properly authorised.

The Finance Officer also checks the Supplier Details to the ABN Lookup website to ensure a correct ABN has been provided.

A telephone number is also obtained from an independent source such as a website, and that the creditor then be contacted to verify the information.

The Town has also created a "Bank Audit Update Report" for suppliers. This report is automatically generated on a fortnightly basis on the week suppliers are paid. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration and going forward kept with the "New / Update Creditor Details" forms file. The creation of this report demonstrates that The Town is vigilant in ensuring that the possibility of fraud is minimised.

When reviewing a supplier payment batch, both the Finance Officer and the Manager Finance and Administration check the bank account details on the invoice to the Creditor Batch Report before

posting to the general ledger. The Manager Finance and Administration also checks the supplier's bank account number to the ABA/EFT file uploaded into CommBiz. The Town considers these two checks imperative in ensuring the minimisation of fraud and this has been our standard practice.

The Town will also engage IT Vision, the service provider of the Town's finance system, SynergySoft, to review user access to the Supplier Master File so that members of the Finance Team can only make changes.

Changes to Employee Master File:

The appointment of a new employee is created through the human resources process. Once appointed the relevant documentation for data entry into the Payroll System is provided by the Human Resources Coordinator to the Finance Officer. The Finance Officer then creates the new employee in the Payroll System. The documentation is then given to the Manager Finance and Administration for review. This is standard practice.

To show evidence in support of our standard practice a "New / Update Employee Details" form has been created, which will be prepared by the Finance Officer and Reviewed by the Manager Finance and Administration. The implementation of this form will provide evidence that changes to the Employee Master File are properly authorised. The form will be filed in the employee's personnel file.

A "Bank Audit Update Report" has also been created for Payroll. This report is automatically generated on a fortnightly basis on payroll week. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration when reviewing payroll. Going forward we will implement the process of keeping this report with the fortnightly payroll file.

Significant Finding 4

Controls over changes to the Town's key systems were inadequate for ensuring that only approved changes are implemented. This could affect the availability or integrity of systems or information; however our audit testing did not identify any related adverse trends.

Management Comment

The Town's IT Service Provider is in the process of implementing an ICT Change Management system within the current service desk platform to ensure Service tickets can be escalated or associated with Change Management Tickets. Changes will be reported to Management during the Quarterly IT Management meeting.

The Town will also review the Change Management Resources available on the Public Sector Commissioner website, and determine whether any of these would be appropriate for customisation and adoption:

- Template: Change Management Plan
- Template: Change Management Group Terms of Reference
- Template: Human Resources Plan
- Template: Change Management Questionnaire

Taking into account the 14 day local public notice, it is proposed to hold the Electors' Meeting on Tuesday, 25 February 2020.

6.1 OFFICER RECOMMENDATION/COUNCIL RESOLUTION 010220

Moved Cr Natale, seconded Cr A McPhail

That Council:-

1. receive the Annual Report and Annual Financial Report for the Year ended 30 June 2019, inclusive of the Independent Auditor’s Report.
2. request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor’s Report.
3. note the ‘significant’ matters raised in the Independent Auditor’s Report, and the Management Comment, as discussed in the body of this agenda report.
4. request that the Chief Executive Officer submit a copy of this agenda report and minutes to the Minister, within 3 months from the date of the Independent Auditor’s Report (i.e. 3 months from 13 December 2019).
5. request that the Annual Report including Annual Financial Statements for the year ending 30 June 2019 and a copy of this agenda report and minutes be published on the Town of East Fremantle website, within 14 days of the report being provided to the Minister.
6. hold the Annual Electors’ Meeting on Tuesday, 25 February 2020.

(CARRIED UNANIMOUSLY)
(ABSOLUTE MAJORITY)

7. CLOSURE

There being no further business, the Presiding Member declared the meeting closed at 6.10pm.

*I hereby certify that the Minutes of the special meeting of the **Council** of the Town of East Fremantle, held on **4 February 2020**, Minute Book reference **1. to 7.** were confirmed at the meeting of the Council on*

.....

Presiding Member

10.3 Recurrent Status Report – Risk Management, Internal Controls and Legislative Compliance

File ref	F/AUD1
Prepared by	Peter Kocian, Executive Manager Corporate Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date:	29 June 2020
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	1. Status Report

Purpose

It is recommended that the Audit Committee receive a status report on all outstanding matters raised in external audit reports, financial management reviews, performance audits, internal audit reports and any other review relevant to the Audit Committee's Terms of Reference.

Executive Summary

A status report has been prepared reporting against identified issues with respect to audit, risk management, internal controls, procurement matters and legislative compliance. The status report is not an exhaustive listing and will become a living document and updated as issues are identified. It is presented to the Audit Committee to assist in their role to report to Council and provide advice and recommendations on matters relevant to its terms of reference.

Background

The Department of Local Government has published an Operational Guideline on Audit in Local Government. Appendix 3 of this Guideline lists a number of matters that should be presented to an Audit Committee for review and monitoring:

Risk Management:

- Reviewing whether the local government has an effective risk management system;
- Reviewing whether the local government has a current and effective business continuity plan;
- Reviewing areas of potential non-compliance with legislation, regulations and standards and local governments policies;
- Reviewing the following; litigation and claims, misconduct, and significant business risks;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local governments internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.

Internal Control Systems:

- Separation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;

- Limit of direct physical access to assets and records;
- Control of computer applications and information system standards;
- Regular maintenance and review of financial control accounts and trial balances;
- Comparison and analysis of financial results with budgeted amounts;
- Report, review and approval of financial payments and reconciliations;
- Comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review managements plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Considering the internal auditors role in assessing compliance and ethics risks in their plan;
- Monitoring the local government’s compliance frameworks dealing with relevant external legislation and regulatory requirements.

Consultation

Chief Executive Officer
Manager Finance and Administration

Statutory Environment

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

Policy Implications

There are no Council Policies relevant to this item.

Financial Implications

There are no financial implications relevant to this item.

Risk Implications

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)

That key findings are not actioned	Possible (3)	Moderate (3)	Moderate (5-9)	Compliance	Control through oversight by the Audit Committee and ensuring adequate budget allocation for resourcing
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Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Extreme	
		1	2	3	4	5	
Likelihood	Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
	Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
	Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
	Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
	Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

Risk Rating	4
Does this item need to be added to the Town's Risk Register	No
Is a Risk Treatment Plan Required	No

Strategic Implications

Strategic Priority 5 – Leadership and Governance
5.1 Strengthen organisational accountability and transparency
5.3 Strive for excellence in leadership and governance

Comment

The status sheet has been updated accordingly.

The following summary of completion is provided:

Risk Category	No. Issues	Completed	Underway	Not Commenced
High	21	11	9	1
Medium	38	10	26	2
Low	11	6	4	1
	70	27	39	4

10.3 OFFICER RECOMMENDATION

That the Audit Committee receives the status report on items relevant to its Terms of Reference.

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Risk Issue and Failure Modes					
A Business Continuity Plan was developed in 2017 and updated in May 2019, with an initial test of the plan scheduled to occur shortly after our review.	Failure to adequately manage a business disruption event.	High	Ensure results from the testing of the Business Continuity Plan are documented and reported to consider key business continuity risks along with the treatments, to reduce the risk to an acceptable level.	Office of CEO	Business Continuity Plan has been tested in a workshop facilitated by LGIS. BCP has been updated with recommendations from this workshop. Completed.
Process for amending or changing procedures are not formalised. This creates opportunities for unilateral undocumented changes to procedures and a breakdown in key controls.	Failure to identify risks or adequately treat identified risks.	High	Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, throughout the organisation to assist with managing changes to procedures.	Corporate Services	Not commenced.
Workflow diagrams have not been compiled for undocumented procedures.	Breakdown of internal controls. Controls reliant on the capability and honesty of staff.	Medium	In conjunction with, or as an alternative to, the development of documented procedures and checklists, update and development of workflow process diagrams may assist in clearly identifying controls and processes to be followed where procedures or checklists do not exist.	Whole Entity	Process mapping has commenced using a 30 day trial of Pro-Mapps. A permanent software solution is to be implemented.
Checklists of key functions are maintained for selected functions. Checklists were not maintained and evidenced for all standard routine functions such as end of month reconciliations and reporting across the organisation. It was noted some staff have commenced with the creation of checklists and procedures.	Compliance breach.	High	Creation and maintenance of standard checklists may assist in evidencing key points of control and serve as a reminder. Checklists assist in ensuring compliance with repetitive legislative compliance tasks. Staff are encouraged to continue with the development of checklists and procedures for routine functions, including evidencing independent review.	Corporate Services	An end of month checklist for all financial processes has been implemented. The end of month audit file is prepared by the Manager Finance and Administration and signed off by the Executive Manager Corporate Services. A statutory corporate calendar has also been prepared indicating key compliance dates.
We noted limited controls in relation to the access to IT systems including physical access to hardware. Some levels of permissions have been established to network access to software and data, however the level of documentation to support these restrictions is varied across the organisation.	Loss of IT System. Internal control.	High	Undertake a comprehensive IT security review, articulate current practices and implement findings of the review.	Corporate Services	See GCC Audit Findings. An ISO Gap Analysis and Capability Maturity Assessment was undertaken by the Office of Auditor General.
The Trust Fund currently includes several bonds and contributions.	Lack of probity. Internal control or compliance breach.	High	Remove all funds which are not required by law to be held in the Trust Fund, and transfer to the Municipal Fund, in line with the Office of the Auditor General (OAG) position paper on Accounting for Work Bonds, Building Bonds and Hire Bonds released in July 2019.	Corporate Services	A review of all trust payees has occurred. A bulk trust refund is being arranged. Working bonds and deposits will be transferred to the balance sheet as discussed and agreed with OAG during the 2019 end of year audit process. Relevant accounting entries will be finalised by the end of June 2020. Receipting and banking procedures are to be reviewed and training provided to customer service staff.
Deposits recorded through the Trust Fund are deposited through the municipal bank account and transferred electronically the day after the funds appear in the municipal bank account. Regulations 8 & 10 of the Local Government (Financial Management) Regulations 1996 requires money received to be deposited into the established account where it is required to be held.	Lack of probity. Internal control or compliance breach.	Medium	Deposit funds required to be held in the Trust Fund directly into the Trust bank account established to account those funds.	Corporate Services	Daily receipting and bank deposit procedure to be reviewed. It is not practical to receipt occasional bonds to the trust fund. Periodic transfers are completed to transfer receipts between the municipal fund and the trust fund.

Risk Assessment Category Risk Issue and Failure Modes	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Through limited testing of payments, an instance was noted where a purchase order did not pre-date the invoice.	Lack of probity. Fraud risk	High	All procurement of goods or services should be undertaken in accordance with legislative requirements and the Purchasing Policy. Any instances where a purchase pre-dates a purchase order should be documented, reviewed and authorised to demonstrate controls have been developed to comply and ensure the purchasing policy has been adhered to.	Corporate Services	A payment requisition form has been implemented to authorise payments in instances where a purchase order has not been released. .
Documented procedures are not in place to require declarations of interest and confidentiality to be signed prior to assessments being undertaken for tenders.	Lack of probity. Fraud risk. Internal control or compliance breach.	High	To help ensure probity and fairness when assessing tenders, procedures for the process to be undertaken in assessing tenders should be followed and documented with at least three persons assessing the tender independently of each other. Persons assessing any significant procurement should be required to declare any matters which may impact or be perceived to impact on their independence.	Office of CEO	Completed. A Declaration of Interest form has been implemented by the Office of CEO. A tender evaluation report is completed for all tenders and provided to the CEO for approval.
Documented procedures are not in place to require declarations of interest and confidentiality to be signed prior to assessments being undertaken for high value purchases.	Lack of probity. Fraud risk	High	Procedures for the declaration of interests prior to procurement assessments being undertaken should also be documented for high value purchases and tenders.	Office of CEO	Completed. A Declaration of Interest form has been implemented by the Office of CEO.
Creditors invoices are processed and entered only at the time where a routine creditors payment run is scheduled resulting in month end creditor balances being nil in certain months.	Lack of probity. Fraud risk. Internal control or compliance breach. Financial loss.	High	Supplier invoices should be processed in a timely fashion and entered through the Town's ERP system as soon as practicable after receipt to provide a more accurate representation of the Town's liabilities at any given time.	Corporate Services	Invoices are filed according to their payment date being 7 days, 14 days, 28 days or greater. This process is currently under review.
Petty cash is kept in a locked box, which is stored in an unlocked cupboard throughout the day when the administration office is open to the public.	Lack of probity. Fraud risk. Breakdown of internal control. Financial loss.	High	Ensure petty cash is stored in a secure location, such as the strong room or safe.	Corporate Services	Petty cash tin to be relocated to the safe.
End of month processes exist in the form of a month end audit file, and from staff representations are routinely performed, however we noted for the months July 2019 to October 2019, evidence of the review of supporting reconciliations by an authorised officer independent of their preparation was not available.	Compliance breach.	High	Review of reports prepared each month is a useful mechanism to detect and rectify errors or anomalies which may exist. It also provides an opportunity to ensure staff are performing and reporting duties as required. Management are strongly encouraged to adhere to documented checklists and procedures to demonstrate appropriate controls and reviews are in place with monthly reporting and procedures.	Corporate Services	Completed. Preparation and review completed of all end of month audit files.
We noted an explanation of material variances was not included in the documents supporting the statement of financial activity as required by regulation 34(2)(b) of the Local Government (Financial Management) Regulations 1996. This occurred for the monthly statement of financial activity for the periods ended 31 July 2018, 31 August 2018, 30 September 2018 and 30 June 2019. We observed the monthly statement of financial activity for the period ended 30 June 2019 presented to Council was not in the same format as other monthly statements and did not contain the following items required by regulation 34 (1) & (2) of the Local Government (Financial Management) Regulations 1996: <ul style="list-style-type: none"> • YTD budget column; • Note explaining the composition of net current assets; and • explanation of material variances. 	Compliance breach.	High	Ensure the monthly statement of financial activity contains all items required by legislation.	Corporate Services	Completed. Material variances are being reported at Program Level. Variances will also be reported at nature and type level.

Risk Assessment Category Risk Issue and Failure Modes	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
We did not observe any formal procedures relating to the routine monitoring of and clearance of outstanding purchase orders. Reports are produced during end of month processing, however the reports are for noting only. We observed at one month end, purchase orders to the value of approximately \$1.3m remained outstanding (some of which had been issued nearly twelve months earlier) with limited information available to document their status.	Lack of probity. Fraud risk	High	Update procedures to include review of the status of outstanding purchase orders as part of end of month processes. Ensure any controls developed are routinely and consistently applied.	Corporate Services	An open purchase report is auto generated and emailed to Responsible Officer's (Ros) monthly. The Senior Finance Officer schedules monthly meetings with RO's to review these reports and close any completed purchase orders.
Changes to existing employee bank account details and entry of new employee bank details are not routinely verified against the ABA file to ensure bank account details have not been altered or manipulated without prior verification and authorisation.	Lack of probity. Fraud risk. Internal control or compliance breach. Financial loss.	High	Formal procedures to minimise the risk of employee banking details being fraudulently manipulated should be documented and communicated to staff involved in payroll processes. Controls should exist to include the assessment of requests for changes to employee banking details for genuineness and legitimacy, restricting the ability to make changes to employee details to appropriate staff, and to detect and prevent any unauthorised changes being made.	Corporate Services	Information has been sourced from the Commonwealth Bank to fully integrate the ERP with CommBiz for the creation of payment files.
Limited review of changes made to employee details and parameters is currently undertaken when each payroll is processed.	Lack of probity. Internal control or compliance breach. Financial loss.	High	Procedures to minimise risk of unauthorised changes to employee details should be implemented. Regular reviews of software audit trails is one form of control and should be undertaken as a minimum. Where possible, segregation of duties should exist where employees responsible for processing payroll transactions are unable to make changes to employee banking details.	Corporate Services	<p>The appointment of a new employee is created through the human resources process. Once appointed the relevant documentation for data entry into the Payroll System is provided by the Human Resources Coordinator to the Finance Officer. The Finance Officer then creates the new employee in the Payroll System. The documentation is then given to the Manager Finance and Administration for review. This is standard practice.</p> <p>To show evidence in support of our standard practice a "New / Update Employee Details" form has been created, which will be prepared by the Finance Officer and Reviewed by the Manager Finance and Administration. The implementation of this form will provide evidence that changes to the Employee Master File are properly authorised. The form will be filed in the employee's personnel file.</p>
					A "Bank Audit Update Report" has also been created for Payroll. This report is automatically generated on a fortnightly basis on payroll week. The report is automatically emailed to the Finance Officer, the Manager Finance and Administration, and the Executive Manager Corporate Service. This report is reviewed by the Manager Finance and Administration when reviewing payroll. Going forward we will implement the process of keeping this report with the fortnightly payroll file.

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Risk Issue and Failure Modes					
The officers responsible for processing and reviewing payroll are tasked with review and capture of employee entitlements, allowances, deductions, etc. This is performed through a variance report comparing the payroll being processed to the previous payroll reports with no verification to employee master records. Staff have advised more formal documentation / checklists are intended to be created to assist with payroll processing, review and authorisation.	Lack of probity. Internal control or compliance breach. Financial loss.	High	A full review of procedures and controls is required to determine practical procedures, documentation and controls for the accurate processing of payroll each fortnight. Details for each employee should be reviewed against individual employment contracts to capture allowances, deductions, entitlements etc, into a master list, with appropriate review and authorisation for accuracy. Payroll exception reporting and review of audit trails should be undertaken to capture anomalies or unauthorised changes.	Corporate Services	The Senior Finance Officer verifies all time sheet details against an employee master list. A payroll exception report is completed as part of a payroll process and is reviewed by the Executive Manager Corporate Services. The employee master list is to be updated to ensure that it captures all allowances and deductions.
Contractors' insurances are not always assessed prior to award of contracts in all cases. Reliance is placed on contract managers to ensure copies of insurances are provided.	Lack of probity. Financial loss. Breakdown in internal controls.	High	To help ensure all contractors have the relevant licences and have adequate insurance cover for the works they undertake for the Town, procedures should be developed, and records maintained to ensure copies of contractor's insurances are held on file.	Operations	A Register of Contractor Insurance is to be developed.
Review and Implement Disaster Recovery Plan		High	The 2016 Disaster Recovery Plan has been updated and was provided to the Audit Committee July 2019.	Corporate Services	Completed. OAG have completed a Capability Maturity Assessment and the Town's business continuity and disaster recovery plan achieved the benchmark rating of 3 (being defined).
Develop Contract Register and Contract Management System		High	A review of vital records has commenced.	Corporate Services	A contract register has been developed in line with the Treasury's instructions. The Town is required to formalise a performance based ICT contract with Focus Networks and IT Vision.
Quotations - minimum number not obtained		High	We acknowledged that in the procurement testing, evidence of quotations were not able to be located. In order to improve our compliance with our purchasing policy a new purchasing requisition system has been implemented which will allow staff members to attach evidence of quotes. The officer authorising a purchase requisition will need to ensure that evidence of quotations are attached.	Corporate Services	The approved Audit Work Plan includes an audit of all requisitions over \$5k to assess compliance with the minimum number of quotations. This project is currently underway and will be presented to the June Audit Committee meeting.
Changes to Supplier Master File		High	"New/update creditor details form" to be completed by the supplier and entered into the Supplier Master File by the Finance Officer, which is then reviewed by the Manager Finance & Administration, then approved by Exec Manager Corporate & Community Services. Finance Officer also checks the Supplier Details to the ABN lookup to ensure correct ABN provided. Creation of a "Bank Audit Update Report" for suppliers. Automatic report generated fortnightly to verify suppliers who have been paid and their details.	Corporate Services	Ongoing. New/update creditors form has been implemented for all changes to the supplier master file. An ABN and ASIC search is undertaken on all new suppliers.
No formal process exists to monitor fuel stock allocated to portable gardening equipment. Fuel is recorded as it is allocated and reviewed for reasonableness by management each month.	Internal control or compliance breach.	Low	Develop and implement procedures for the monitoring of fuel stock on hand in an effort to improve opportunities to detect any issues or potential misuse with fuel allocations.	Corporate Services	This item is considered immaterial given the negligible expenditure on fuel for sundry plant. No further action deemed necessary.
We noted the practice of credit card transactions and acquittals being reviewed by an independent officer, however the policy does not require this practice to occur.	Internal control or compliance breach.	Low	Update the policy to require independent review and authorisation of credit card transactions and acquittals, as well as acknowledging transactions as having been made and authorised by the CEO. The practice of separately highlighting transactions made on the CEO's credit card for presentation to Council should continue.	Corporate Services	Credit Card Policy to be updated. The credit card conditions of use is also being reviewed to ensure that no direct debits are entered into for repeat subscriptions.
One corporate credit card is held in the Petty Cash Box and utilised by multiple staff. Whilst authorisation is required from the card holder prior to use of credit cards, they should only be held by the person named on the card.	Internal control or compliance breach.	Low	Credit cards should physically be maintained by the person in whose name they are issued, and credit card details should not be shared with other staff.	Corporate Services	The Credit Card has been returned to the Executive Manager Corporate Services.

Risk Assessment Category Risk Issue and Failure Modes	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Through our limited testing of credit card transactions against documented procedures and controls, we noted an instance where the monthly credit card acquittal form had not been signed by the cardholder.	Internal control or compliance breach.	Low	Ensure processes exist to maintain adherence to and detect any deviation from established documented procedures and controls.	Corporate Services	All statements are signed by the cardholder and witnessed either by the EMCS or MFAS. Completed
Review the Municipal Heritage Inventory		Low	Scheduled in the Corporate Business Plan for 2020/21.	Regulatory Services	Not Commenced. Project is scheduled in the Corporate Business Plan for 2020/21. Due to Budgetary constraints a full review cannot be undertaken in the 20/21 financial year, however the MHI will be updated as part of any ongoing development assessments. Note the Town in 19/20 also implemented the Heritage Area Precinct for George Street.
Update Lease Register		Low	A number of leases remain outstanding. Draft leases have been provided to the Soccer club, Sea Scouts & Rowing Club.	Corporate Services	The master Lease Register has been updated. Certificates of Title and Management Orders have been placed on file. Deeds of variation to leases have been prepared for Lease Fee waivers and are to be presented to the June Council Meeting.
Archives Records Management		Low	A proposal has been received for the archiving of basement records, and a tender prepared for the digitisation of planning/building records.	Corporate Services	All records located in the Town Hall Basement and Old Police Station have been relocated off-site to Grace. An on demand scanning service has been implemented for the digitisation of planning and building records.
That Council take necessary actions to improve its financial ratios, namely the Operating Surplus Ratio and Asset Sustainability Ratio		Low	The Long Term Financial Plan includes ratio projections over 15 years. Depreciation expense will reduce significantly in 19/20 leading to an improvement in ratios.	Corporate Services	Council adopted a 15-year Strategic Resource Plan (combined asset management and long term financial plan) at its ordinary meeting of May 2019. Section 5.11 of this document discusses the forecast operating ratios from 2019-2034. The Operating Surplus Ratio is not projected to meet the Department's standard of 1.00% until the 2028-29 financial year. Council is aware of this, with the following comment provided in the agenda report of May 2019:
					Council has a legislative requirement to comply with the principles of sound financial management, of which a key component is the preparation of a Long Term Financial Plan. The Office of Auditor General is also required to undertake a performance audit of adverse financial trends in the financial position or the financial management practices of the local government. This will be limited a high level assessment of whether the 7 financial ratios reported in the notes to the financial report achieved the standards set by the Department of Local Government, Sport and Cultural Industries. Council therefore needs to be cognizant of the ratio analysis included in the Forecast Financial Statements as 3 of the ratios are below benchmark.

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Risk Issue and Failure Modes					A number of assumptions underpin the Strategic Resource Plan, including a 3% annual rate increase. Every endeavour will be made to ensure operating revenue grows at a faster rate than operating expenditure in order to achieve an improved Operating Surplus Ratio. A review of depreciation expense (and underlying valuation methodology) in 2019/20 may also result in a favourable improvement to this ratio.
Cash count - lack of segregation of duties		Low	One of the Customer Service Officers will do an initial cash count at end of day and then a member of the Finance team will re-count the cash takings for the day. Two officers to sign the "Daily Receiving Bank Deposit Listing" and the "Daily Settlement Checklist" reports, one of which will be a member of the Finance team.	Corporate Services	Completed
Verification of manual signatures		Low	Implement a register of signatures of all employees, showing their position, name and purchasing authority (if applicable.) - Y:\Corporate and Community\Employee Signature Register	Corporate Services	Completed
Absence of a risk-based internal audit plan		Low	We will raise the absence of a risk-based internal audit plan with the Audit Committee and plan to recommend the appointment of Risk Management/Internal Audit Consultant to ensure that there is a risk-based internal audit plan implemented.	Office of CEO	An internal audit charter has been adopted by the Audit Committee. An annual work plan is endorsed by the Audit Committee at the beginning of each calendar year. This register is in fact a risk based internal audit plan.
Section 2 Conflicts and Disclosure of Interest and 3.4 Gifts of the current Code of Conduct do not reflect all disclosure requirements under of the Local Government Act 1995 and the Local Government (Administration) Regulations 1996. In its current form, the Code of Conduct could confuse elected members and employees as to their disclosure obligations.	Failure to identify risks or adequately treat identified risks.	Medium	Review the section of the Code of Conduct relating to disclosure requirements for gifts to highlight these need to be made in accordance with legislation. Suggest the Code of Conduct does not restate legislative requirements. Where legislative requirements are unclear or there is a desire for greater requirements, suggest this be covered by relevant policies, given the complexities involved in re-working the Code of Conduct to maintain currency when changes are made to legislation.	Office of CEO	An attendance at events policy has been adopted by council which refers to gift disclosure requirements. The annual review of Council's Policy Register is scheduled for September 2020. The Code of Conduct will be reviewed prior to that time.
Contractors and volunteers are not bound by the Code of Conduct when performing functions on behalf of the Town.	Failure to identify risks or adequately treat identified risks.	Medium	Expand the scope of the Code of Conduct to include actions by volunteers and contractors. Alternatively, a separate Code of Conduct be developed for volunteers and contractors.	Office of CEO	This finding has been noted and this requirement will be incorporated into the next review of the Code of Conduct (prior to September 2020)
Elected members, committees, contractors and volunteers are not required to sign the Code of Conduct acknowledging they have read and understand the requirements within.	Failure to identify risks or adequately treat identified risks.	Medium	Update the Code of Conduct as well as induction procedures to ensure elected members, committees, staff, contractors and volunteers sign their acknowledgement that they understand the content of the document.	Office of CEO	This finding has been noted and this requirement will be incorporated into the next review of the Code of Conduct (prior to September 2020)
The Policy provides limited direction in relation to contract variations and extensions of contracts awarded or against a written specification not awarded by tender. Extension of contracts and associated price changes are also not covered by the Policy. For contracts awarded by tender, legislation provides minimum requirements.	Failure to identify risks or adequately treat identified risks.	Medium	Amend the Policy to provide the following: - Prohibit price variations to existing contracts awarded by tender other than those provided within the original contract, as required by Local Government (Functions and General) Regulations 1996 Regulation 11(2) (j) (iv). - Purchasing requirements for the issuing of contract variations and extensions for contracts not awarded by public tender. Consideration should be given to circumstances where the contract value increase over a policy threshold level, due to the variation or extension.	Office of CEO	The purchasing policy was updated and approved by Council at the May 2020 Council meeting. A delegation was also provided to the CEO and Executive Managers to approve price variations provided that they are within delegation limits, and that the price variation is required to enable goods and services to be provided without changing the scope of the original project.

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Risk Issue and Failure Modes					
Purchasing requirements for procurement of goods or services in accordance with the exemptions under Local Government (Functions and General) Regulations 1996 Regulation 11(2), above \$150,000 are not included within the Policy. The CEO is required to ensure controls exist for all purchases including those made using these exemptions. It is noted the practice of testing the market through sourcing multiple quotations when using the exemptions is sometimes occurring, and the policy should be updated to reflect the expectation and requirement.	Failure to identify risks or adequately treat identified risks.	Medium	Insert purchasing requirements for procurement of goods or services made under the exemptions under Local Government (Functions and General) Regulations 1996 Regulation 11(2).	Office of CEO	Completed. Purchasing Policy has been updated.
The current Policy is based on a superseded Risk Management Standard.	Lack of strategic direction for risk management procedures.	Medium	When next undertaking a review of the Policy, update the Policy to align to the current Risk Management Standard ISO 31000:2018.	Corporate Services	A draft policy has been prepared and will be presented to the July Council Meeting.
The current policy refers to a superseded Risk Management Standard.	Internal and compliance risks not identified.	Medium	When next undertaking a review of the Policy, update the Policy to refer to and align to the updated Risk Management Policy.	Corporate Services	A draft policy has been prepared and will be presented to the July Council Meeting.
Currently, no policy on internal legislative compliance has been adopted by Council.	Lack of strategic direction for strategic compliance.	Medium	Development and adoption of an internal legislative compliance policy may help formalise Council's commitment to legislative compliance.	Office of CEO	Not commenced.
Risk management activities currently undertaken are not consistently documented, with existing procedures based on a superseded risk management standard.	Lack of strategic direction for risk management procedures.	Medium	Risk management procedures be updated, and a process developed in accordance with any update to the risk management policy.	Corporate Services	Risks are categorised as either operational risk, project risk or strategic risks. The Town has implemented a project plan template which considers project risk. The Town has prepared a Strategic Risk Register which is presented to the Audit Committee on a periodic basis. The Town has adopted a risk assessment tool which is incorporated into all council and committee agenda items.
Planned staff training needs for employees are currently identified and recorded in a training matrix. Further value from this initiative can be added through refining the current matrix toward a more formal required staff training structure, applied throughout the organisation.	Internal control or compliance breach.	Medium	Refine the current staff training matrix to identify staff training needs relevant to their role, ensuring it is co-ordinated across the organisation and monitors currency of required licences and qualifications.	Office of CEO	Each business unit is developing a training and development plan which is linked to the staff performance development framework.
Through our limited testing, we noted several instances where evidence of correspondence on employee files to support the current rate of pay applied through the payroll varied from the information recorded on employee files.	Failure to identify risks or adequately treat identified risks.	Medium	Undertake a review of all personnel to reconcile documentation relating to conditions of employment, remuneration, roles and responsibilities.	Office of CEO	The HR Coordinator is to undertake a review of all personnel records to ensure completeness. It appears to be a historical issue. New employee information will be verified by the HR Co-ordinator
Identified risks are appropriately included within agenda items for elected member consideration but not recorded in an appropriate risk register.	Failure to identify risks or adequately treat identified risks.	Medium	As well as communicating identified risks relating to a Council decision within the agenda item (to enable elected members to be fully informed of the identified risks when making decisions), risks should also be appropriately recorded in a risk register.	Office of CEO	Operational risk register created. This register will be consolidated with the Strategic Risk Register.

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Risk Issue and Failure Modes					
A risk register to reflect identified risks, and if they have been adequately treated exists, however the register is not widely available to staff and has not been regularly updated.	Breakdown of internal controls.	Medium	Maintaining risk registers for all identified risks is important to help ensure appropriate recording and communication of high rated risks, along with providing a record to enable the verification of whether treatment plans have appropriately reduced the risk. Routine (at least quarterly) review of the risk register is required to assist in ensuring identified risks are adequately treated. Presented to July 2019 Audit Committee Meeting	Office of CEO	Completed. The Operational Risk Register is to be presented to the Executive Group on a quarterly basis for review.
Inspection of the register noted it was not compliant with some requirements of the Local Government (Functions and General) Regulations 1996. The value of the consideration being sought by tenderers is recorded within the register, contrary to Regulation 16(3)(c) of the Local Government (Functions and General) Regulations 1996.	Internal control or compliance breach.	Medium	Ensure the tender register complies with Regulation 16 & 17 of the Local Government (Functions and General) Regulations 1996 for future tenders called.	Office of CEO	There is no requirement to record the tender prices in the Tender Register at the time of opening. The Tender register has been updated accordingly
A register of health inspections undertaken is not routinely maintained.	Breakdown of internal control. Compliance breach.	Medium	Maintain a register to record details a central record of health inspections undertaken, registered premises within the district, and to ensure inspections are undertaken within required timeframes.	Regulatory Services	Co-ordinator Reg Services discussed with PEHO and determined that a more accurate register for record keeping of health inspections, incorporating Synergy will be developed.
Several delegations within the register include a delegation to the Principal/Building Surveyor. The individual currently performing these duties is a contractor, and not an employee of Council, therefore cannot be delegated authority under the Building Act 2011.	Internal control or compliance breach.	Medium	Review and amend delegations relating to the Building Act 2011 to remove sub delegation to contract Principal/Building Surveyor, ensuring delegation remains with appropriately authorised officer of Council.	Regulatory Services	Procedure altered to ensure that Executive Manager of Regulatory Services authorises all approvals under Building Act 2011.
We noted the register of gifts contains record of disclosures made under the former provision of the Local Government Act 1995 (sections 5.82 & 5.83) and are published on the Town's website as required. We did not observe a register of gifts in the prescribed form as required.	Lack of probity. Internal control or compliance breach.	Medium	Establish a register of gifts in the prescribed form and publish on the Town's official website as required.	Office of CEO	Register of Gifts in prescribed form as required now on website.
A notifiable gifts register was not available for our inspection or published on the Town's website as required by regulation 34B(5) of the Local Government (Administration) Regulations 1996.	Breakdown of internal control. Compliance breach.	Medium	Maintain a register to record details of notifications given in relation to gifts as required by regulation 34B(5) of the Local Government (Administration) Regulations 1996, and publish on the Town's official website as required.	Office of CEO	Notifiable Gifts Register as required by regulation 34B(5) now on website
The current register of financial interests contains returns for an individual who has ceased to be a relevant person. These returns are required to be removed and retained in a register of non-current returns for a period of five years as required section 5.88(4) of the Local Government Act 1995.	Breakdown of internal control. Compliance breach.	Medium	Review filing of returns and disclosures from individuals who have ceased to be relevant persons of the organisation, to ensure records are maintained as required under the provisions of the Local Government Act 1995.	Office of CEO	A process has been put in place to ensure returns for relevant staff who have ceased employment with the Town are removed promptly and placed in a register of non-current returns for a period of five years.
Currently, no internal auditors have been appointed, and limited internal audit functions have been undertaken in accordance with policy 2.2.5 Internal Audit Charter.	Internal and compliance risks not identified.	Medium	We suggest as the level of documented procedures increases, an expanded internal audit function to confirm adherence to documented policies and procedures may be required as recommended by the OAG in their report to parliament on the Audit of Local Government.	Corporate Services	The Town does not have available budget to appoint an internal auditor. An annual audit work plan is determined by the Audit Committee and implemented by staff. Council has approved an indicative budget of \$25,000 for internal audit work in the 2020/21 financial year.

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Risk Issue and Failure Modes					
Develop Annual Playground Inspection Program		Medium	Playground Inspection Audit undertaken 8th May 2019, resulting in a 10 year replacement/maintenance program has been developed and incorporated in the long term financial plan	Operations	Completed. The 10 year replacement program has been incorporated into the long-term financial plan.
Develop Project Management Framework		Medium	A Project Plan template has been implemented.	Office of CEO	A project governance framework and project approval workflow is to be developed.
That staff leave accruals be managed to reduce liability		Medium	Monthly leave accrual reports are being distributed to Managers. Leave management plans are being developed for staff with excessive leave balances.	Corporate Services	Managers are liaising with those staff that have excessive leave liabilities to schedule leave in the next 12 months. However, as the Town has a relatively small staff profile additional budget is required to fund relief cover.
Supplier Master File - redundant records		Medium	Engage IT Vision to review the Supplier Master File and categorise all inactive creditors	Corporate Services	Completed. All suppliers with no trading history over the last two years have been flagged as inactive.
Policy and procedure manual not reviewed		Medium	We acknowledge that the review of the Policy and Procedures Manual was not completed by 30th June 2019.	Office of CEO	Completed - Business units are consolidating all procedures into a central location (EFFIE)
HR Security	Risk that inappropriate individuals may be appointed to privileged and trusted positions	Medium	All Human Resource Policies and Procedures will be reviewed by early 2020, including pre employment checks as part of the Recruitment procedure. The Town will develop a formal employment exit procedure, which will include IT off boarding.	Office of CEO	Completed
Information Risk	Register to track and record information risk does not exist	Medium	The Town will create an Information Risk Management Register, which will be presented to the Audit Committee as a standing item. The 12 key findings in the GCC Management Letter will form the basis of this Register, which will be continually updated based on management assessment as well as the key findings from future internal/external audit work.	Corporate Services	All findings from the general computer control audit have been incorporated into this Status Report. The Town does have an integrated electronic document records management system and staff training is soon to commence to ensure compliance with information recording requirements.
Access Management	Increased risk of inappropriate or unauthorised access to the Town's IT systems and information	Medium	The scope of the existing New User Account form will be expanded to include several new areas: - Account expiry date to allow for automatic account disablement - Date of Birth for account verification during password resets etc - Remove the option to copy existing account details Password controls will be reviewed and audited to ensure the limited use of "Password Never Expires" is reduced to a minimum. The account creation procedure will be modified to ensure generic passwords are not provided during initial logon. In addition, new users will be required to call support in order to set their initial password and login details.	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Privileged Access Rights	Increased risk of unauthorised access to, or modification of the Town's IT systems and information	Medium	The IT Service Provider will no longer utilise a single generic Domain Administrator account and implement individual named accounts. A scheduled call will be created to change the Domain Administrator accounts. Similar options will be explored with IT Vision and the maintenance and administration of SynergySoft.	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Logging and Monitoring	Increased risk that the Town will not be able to detect any unauthorised access or malicious activity	Medium	The off premise retention of Active Director Security Logs has initially been expanded to 30 days whilst a conversation is had with the vendor to determine the impact of long term retention. The option of creating dedicated log volumes on domain controllers to provide additional long term logging based on a specific size will also be reviewed. A task will be created to perform a regular review of relevant Task Categories and event ID's with AD Security Logs.	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway

Risk Assessment Category	Risk Identified	Risk Category	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
Change Management	Increased risk that IT system changes will not be appropriately controlled and managed. The availability and integrity of IT systems could be compromised if a change negatively affects the system.	Medium	The IT Service Provider will implement an ICT Changes Management system within the current service desk platform to ensure service tickets can be escalated or associated with Change Management Tickets. Changes will be reported within the Quarterly IT Management Meeting. The Town will also review the Change Management Resources available on the Public Sector Commissioner website, and determine whether any of these would be appropriate for customisation and adoption	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Management of Removable Media	Increased risk to the Town's information and IT systems. Information copied to removable media devices may be lost, stolen or inappropriately disclosed.	Medium	The existing anti-virus platform will be configured to restrict USB mass storage devices to approved devices only. Existing drives currently in use will be removed from use and marked for destruction. New USB mass storage drives which support hardware based encryption will be implemented. Windows Group Policy will be configured to file and folder auditing on HR, Finance and Executive drives. The Town will implement a register of authorised USB devices which can be either permanently assigned to specific users or signed out on an ad-hoc basis	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Unauthorised Network Devices	Without appropriate controls in place to restrict the use of unauthorised devices on the network, there is an increased risk that they could be used to attack internal systems.	Medium	The recently implement 802.1X / RADIUS authentication for wireless networks at all sites, will be extended to wired / network switches at all sites. Non-Windows devices that do not support this function will be locked down to MAC addresses.	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Management of Technical Vulnerabilities	Without an effective process for identifying, assessing and addressing relevant 'known' vulnerabilities within a timely manner, there is an increased risk that IT systems are not adequately protected against potential threats	Medium	Additional reporting from the current Remote Monitoring and Management (RMM) tool will be utilised to more effectively review missing and out of date patches / feature releases and vulnerabilities. Period scans using a third party dedicated auditing tool will be run on a six monthly basis.	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Network Device Management	Risk that: - Individuals will not be accountable for any unauthorised or unintentional modifications to the system - Unauthorised access to the system could occur - Malicious traffic may not be detected and prevented - Suitable evidence to support any forensic or internal investigations may not be available User credentials may be intercepted and used to gain access to the Town's IT systems and information	Medium	The current remote management port will be locked down to only allow access to two specified static addresses for improved security. The current use of Telnet and HTTP to manage network switches will be removed and only HTTPS and SSH will be enabled by default. In addition, network switches will be configured with port security to identify and restrict the use of non-managed switches. Firewall reporting data retention (Syslog data) will be increased initially to 90 days to increase the ability to investigate and respond to security incidents. The manufacturer (SonicWALL) will be consulted for best practice on additional log retention. A scheduled call will be created to perform six monthly firewall rules audit with particular attention taken to incoming and outgoing NAT policies and port forwards. A Qualys scan will be performed for each HTTPS port forward as part of	Corporate Services	Received Gantt chart for OAG compliance items from Focus Networks. Project divided into 3 phases: 1) Misc Compliance items - underway, 2) Unauthorised Network Device Access - not scheduled yet, 3) USB Lock Down Policy - underway
Maintenance of Smoke Alarms	Without adequate servicing and testing of the smoke alarms, there is an increased risk that they may not function appropriately. This may represent a health and safety risk	Medium	An electrical contractor will be engaged to include this on an annual maintenance schedule along with Emergency Exit lighting and RCD testing	Operations	This has been incorporated into the Annual Town Hall Maintenance Building Program

- 11. MATTERS BEHIND CLOSED DOORS**
- 12. CLOSURE OF MEETING**