



# Town of Cottesloe

I hereby certify that the minutes of the Audit Committee meeting  
held on

**Tuesday, 17 December 2019 (2:30PM)**

were confirmed as a true and accurate record by committee  
resolution.

Signed: *Bonny Maramba*

Presiding Member

Date: *4/03/20*

# TOWN OF COTTESLOE



## AUDIT COMMITTEE

# MINUTES

AUDIT COMMITTEE  
HELD IN THE  
Mayor's Parlour, Cottesloe Civic Centre  
109 Broome Street, Cottesloe  
2:30 PM Tuesday, 17 December 2019

**MAT HUMFREY**  
Chief Executive Officer

18 December 2019

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**1 DECLARATION OF MEETING OPENING/ANNOUNCEMENT OF VISITORS**

The Chief Executive Officer announced the meeting opened at 2:33pm.

**1.1 APPOINTMENT OF A PRESIDING MEMBER**

The CEO advised that he had received one written nomination from Cr Masarei.

The CEO called for further nominations.

There being no further nominations, the CEO declared Cr Masarei elected as Presiding Member (unopposed).

Cr Masarei assumed the Chair at 2:34pm.

**2 DISCLAIMER**

The Presiding Member drew attention to the Town’s Disclaimer.

**3 ANNOUNCEMENTS BY PRESIDING MEMBER WITHOUT DISCUSSION**

The Presiding Member announced that the meeting is being recorded, solely for the purpose of confirming the correctness of the Minutes.

**4 ATTENDANCE**

**Members**

Cr Craig Masarei	Elected Member
Cr Paul MacFarlane	Elected Member
Cr Kirsty Barrett	Elected Member

**Officers**

Mr Mat Humfrey	Chief Executive Officer
Mr Neil Hartley	Acting Deputy Chief Executive Officer
Ms Mary-Ann Winnett	Governance Coordinator

**Visitors**

Nil

**Apologies**

Nil

**5 DECLARATION OF INTERESTS**

Nil.

**6 CONFIRMATION OF MINUTES**

<b>Moved Cr Barrett</b>	<b>Seconded Cr MacFarlane</b>
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**That the Minutes of the Audit Committee Meeting held on Tuesday 30 July 2019 be confirmed as a true and accurate record.**

**Carried 3/0**

NOTE: The Audit Committee Meeting scheduled for 12 November did not occur due to a lack of a quorum. Confirmation of the rescheduled meeting minutes will occur at a future Audit Committee Meeting.

**7 PRESENTATIONS**

Nil

## 8 REPORTS

### 8.1 REPORTS OF OFFICERS

#### 8.1.1 POLICY DEVELOPMENT - DIVESTMENT OF FOSSIL FUELS

**File Ref:** SUB/2791  
**Attachments:** Nil  
**Responsible Officer:** Mat Humfrey, Chief Executive Officer  
**Author:** Neil Hartley, Acting Deputy Chief Executive Officer  
**Author Disclosure of Interest:** Nil

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#### SUMMARY

In November 2018, Council adopted an “in-principle position” on the environmental position of divestment of fossil fuels.

The Audit Committee subsequently asked that a further report be provided on the matter of credit risk, and how the risk profile could change under the proposed revised policy.

In order to undertake the research task comprehensively, consideration is required to be given to such aspects as environmental and fossil fuels understanding; risk assessment capacity; financial impact analysis; investment governance; and local government policy understanding. This report therefore proposes that a budget allocation be provided in order to locate an external consultancy with the capacity to appropriately advise Council on the subject.

#### BACKGROUND

At the November 2018 Ordinary Meeting, the following resolution was adopted by Council;

*That the administration prepares a report for the Mid-Year budget review on the implications for the Town of Cottesloe of divesting from fossil fuels. This is to include:*

- 1. The extent that it is possible for a WA Local Government to divest from fossil fuels.*
- 2. That Council commits to consultation with ratepayers to establish community support before taking any further steps towards implementing a divestment policy.*
- 3. The WALGA position on divestment from fossil fuels.*
- 4. Information on how many Local Governments in WA have already taken this step.*
- 5. Example(s) of divestment policy from a WA Local Government.*
- 6. Financial implications for the Town of Cottesloe.*
- 7. Realistic time frame in which any such policy may be introduced.*
- 8. Alignment with the Town’s Community Strategic Plan, Corporate Business Plan and existing policies.*

The 30 July 2019 Audit Committee considered one aspect of the Council position adopted (to do with the management of the Town's Investments Policy) and recommended.... *"that the matter be deferred to allow a report on the credit risk with particular reference to the Town's current risk profile and how the risk profile could change under the revised policy and whether that new risk profile is commensurate with the intentions of the Council"*.

Divestment by definition, is the opposite of an investment – it simply means getting rid of stocks, bonds, accounts or investment funds that are morally ambiguous. For the purposes of this paper, divestment will refer 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 essentially therefore aimed at companies who invest in coal, oil and natural gas projects.

### **STRATEGIC IMPLICATIONS**

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

Major Strategy 6.2: Continue to deliver high quality governance, administration, resource management and professional development.

### **POLICY IMPLICATIONS**

There is no existing overarching divestment in fossil fuels policy. It is anticipated that only changes to the existing Management of Investments Policy will be required, but there could be potential "flow-on" implications for changes to other existing policies.

### **STATUTORY ENVIRONMENT**

*Local Government Act 1995*

*Local Government (Financial Management Regulations) 1996*

### **FINANCIAL IMPLICATIONS**

There will be financial implications resultant from any change to existing fossil fuel usage. That change could in some instances be positive, whilst in others, it may be negative. For example, the Town generates approximately \$310,000 (or 3.0% of rates) in investment income each year with the existing Management of Investments Policy. A 10% change in result in this area alone would create a \$31,000(+/-) variation to the Town's current financial position.

Whilst no indication of pricing has been sought from potential consultants, depending on the depth and breadths of the terms of reference agreed on, the cost of producing a final draft of a policy could be in the order of up to \$5 - 10,000, with a similar sum possible for the community consultation component (although that will be very dependent on the extent of consultation, and the interest generated). Some form of ongoing advice would also be expected to be necessary, to ensure that future investments were appropriately placed.

**STAFFING IMPLICATIONS**

Staff will be required to develop the terms of reference, call for, assess, and report on the request for quotations/tender if Council supports retaining the services of a consultant to undertake the research required to advise Council on this matter.

There is likely to be at least a short term minor staffing implications impact following the adoption of any strategic fossil fuels policy. For example, new systems and procedures, and possibly new contracts for supply of investment services might be required to be put into place. Once these changes are implemented and stabilised, staffing would return to existing levels.

**ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS**

The divestment of fossil fuel related investments is intended to have a positive, long term environmental benefit. For example, by encouraging investment in alternative energy sources.

**CONSULTATION**

Elected Members' Briefing Forum April and May 2019.

Any eventual overarching (draft) Fossil Fuels Divestment Policy would (as the Council resolution requires) be advertised to highlight the divestment position taken by Council and to invite community input prior to final adoption consideration.

WALGA

**OFFICER COMMENT**

In regards to the questions raised in the November 2018 Resolution:

1. *The extent that it is possible for a WA Local Government to divest from fossil fuels.*

In regard to investments, the Town has a restrictive policy and only uses secure term deposits from suitable institutions that meet the Town's credit rating requirements. Other institutions do offer options that would allow the Town to divest from institutions that finance fossil fuel related industry.

2. *That Council commits to consultation with ratepayers to establish community support before taking any further steps towards implementing a divestment policy.*

If the Town adopts a strategic policy position of divestment from fossil fuel, invitations for public comment will be undertaken. Any consequential policies of a consistent nature to the "head investment policy" (i.e. of a more administrative nature) would presumably not need to be advertised.

3. *The WALGA position on divestment from fossil fuels.*

Following endorsement by WALGA's Executive Council and State Council, as of 7 December 2016, WALGA's Investment Policy incorporates divestment from fossil fuels. The policy now states, 'WALGA acknowledges climate change and supports more environmentally responsible investing. It will seek to invest in financial institutions



*which do not fund fossil fuel, directly or indirectly; subject to minimum credit risk and portfolio exposure limits prescribed elsewhere in this policy.'*

In addition to the above specific comment, the WALGA Website includes a summary of its and the Local Government sectors positions on fossil fuel divestment. The page includes a WALGA prepared discussion paper (February 2017) that provides an overview of divestment.

*Information on how many Local Governments in WA have already taken this step.*

There has been some research undertaken in regard to the number of local governments in Western Australia, which currently have a policy to not invest with entities that finance fossil fuel related industries. Twelve local governments have divestment policies.

4. *Example(s) of divestment policy from a WA Local Government.*

Investment divestment policies were highlighted at the 30 July 2029 Audit Committee meeting. In particular, the City of Fremantle has a policy that includes the following statements -

- ) The City of Fremantle considers climate crisis a serious threat to current and future generations locally, nationally and internationally.*
- ) Most world governments have agreed through the 2009 Copenhagen Accord that any warming above a 2°C (3.6°F) rise would be unsafe, and that future carbon emissions release should be significantly limited.*
- ) The Carbon Tracker Initiative found that fossil fuel companies possess proven fossil fuel reserves that would release approximately 2,795 gigatons of CO<sub>2</sub> if they are burned, which is five times the amount that can be released without exceeding 2°C of warming.*
- ) The City of Fremantle has committed to carbon neutrality, and to this end seeks to ensure its financial investments consider the reduction of fossil fuels and our One Planet Fremantle Strategy.*

5. *Financial implications for the Town of Cottesloe.*

There will be financial implications resultant from any change to existing investment protocols. That change could in some instances be positive, whilst in others, it may be negative. For example, the Town generates approximately \$310,000 (or 3.0% of rates) in investment income each year with the existing Management of Investments Policy. A 10% change in result in this area alone would create a \$31,000(+/-) variation to the Town's current financial position.

6. *Realistic time frame in which any such policy may be introduced.*

If the Town was to adopt a policy position of divestment, it would likely take several months to implement such a decision depending on several factors including time of the year, the availability of internal and external professional support, and the actual position taken by Council.

7. *Alignment with the Town's Community Strategic Plan, Corporate Business Plan and existing policies.*

The adoption a divestment policy position would indirectly be in keeping with the Town's strategic objectives, by promoting a healthier environment and the long term protection of assets from the effects of climate change.

Officers are of the view that to undertake this fossil fuels divestment investigation, to draft a policy position paper and consult with the community on the subject, and to then finalise the development of such a policy, will require the support and assistance of a consultancy service with a broad reach of service capability (e.g. research capability, environmental understanding, risk assessment, financial impact analysis, investment governance, and policy development).

### **VOTING REQUIREMENT**

Simple Majority

### **OFFICER RECOMMENDATION**

That the Audit Committee recommends;

That Council;

1. ENDORSE the objective of researching the potential of developing a Divestment of Fossil Fuels Investment Policy, and the management of future investments;
2. CONFIRM that to enable comprehensive levels of research and associated benefits/impacts to be provided for Council's consideration, the use of an external consultancy with the appropriate level of capacity is required, including the potential of an ongoing advice service; and
3. RECOMMENDS that officers seek estimates of pricing for #2 above, for referral for consideration as part of the 2019/20 mid-year budget review.

### **OFFICER AND COMMITTEE RECOMMENDATION**

Moved Cr MacFarlane

Seconded Cr Barrett

**That this item be deferred and the Administration undertake a study on the cost of the research for the development of the policy, including indicative opportunity cost if such a Divestment of Fossil Fuels Investment Policy was implemented.**

**Carried 3/0**

Reason: Committee wished to understand likely costs (for study and ongoing) prior to deliberating on the question of whether to recommend a budget allocation.

**8.1.2 AUDITOR'S EXIT INTERVIEW**

**File Ref:** SUB/2791  
**Applicant(s) Proponents:**  
**Attachments:** 8.1.2(a) Audit Plan - Year Ending 30 June 2019 - Office of the Auditor General  
**Responsible Officer:** Mat Humfrey, Chief Executive Officer  
**Author:** Neil Hartley, Acting Deputy Chief Executive Officer  
**Author Disclosure of Interest:** Nil

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**SUMMARY**

The Town has an External Audit Plan (attached) for the year ending 30 June 2019, prepared by Ernst & Young in consultation with the Office of the Auditor General.

The Plan includes an "exit" meeting between the auditors and the Town's Audit Committee.

The purpose of this Audit Committee meeting is to facilitate that exit interview occurring, which will include discussion on the closing audit report and management letter.

**BACKGROUND**

The Audit Plan has been prepared acknowledging, and with consideration of, Cottesloe's current and emerging business risks and the resultant financial statement impacts. It is designed to be responsive to the unique needs of the Town of Cottesloe, to maximise audit effectiveness and to deliver the high-quality audit you expect. The Areas of Audit Focus were:

- ) Government contributions;
- ) Revenue recognition for rates, fees and charges;
- ) Valuation of property, plant and equipment, including infrastructure assets;
- ) Financial ratio compilation;
- ) Compliance with operational procurement control requirements;
- ) Litigation and claims;
- ) Accuracy of cash backed reserves and Trust Fund accounting;
- ) Adoption of AASB 9 Financial Instruments;
- ) Accuracy of employee benefits expense; and
- ) Accuracy of related party disclosures.

The Auditors have been conducting the Town's audit for the last several weeks and are now in a position where they can provide the exit meeting with the Audit Committee, which will include discussion on the closing audit report and management letter (neither were available at the time of finalisation of this agenda).

**STRATEGIC IMPLICATIONS**

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

Major Strategy 6.2: Continue to deliver high quality governance, administration, resource management and professional development.

**POLICY IMPLICATIONS**

There are no perceived policy implications arising from the officer's recommendation.

**STATUTORY ENVIRONMENT**

*Local Government Act 1995*

*Local Government (Audit) Regulations 1996*

The relevant sections of the *Local Government Act 1995* read as follows:

**6.4. Financial report**

- (1) *A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.*
- (2) *The financial report is to —*
  - (a) *be prepared and presented in the manner and form prescribed; and*
  - (b) *contain the prescribed information.*
- (3) *By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —*
  - (a) *the accounts of the local government, balanced up to the last day of the preceding financial year; and*
  - (b) *the annual financial report of the local government for the preceding financial year.*

**7.12AA. Application 29**

*This Division applies in relation to a local government that does not have an audit contract that is in force.*

**7.12AB. Conducting a financial audit**

*The auditor must audit the accounts and annual financial report of a local government at least once in respect of each financial year.*

**7.12AC. Dispensing with a financial audit**

- (1) *Despite section 7.12AB, the auditor may dispense with all or any part of a financial audit if the auditor considers that the dispensation is appropriate in the circumstances.*
- (2) *The auditor must consult the Minister before exercising the power conferred by subsection (1).*

- (3) If the auditor exercises the power conferred by subsection (1), the auditor must notify —
- (a) the Public Accounts Committee as defined in the Auditor General Act section 4(1); and
  - (b) the Estimates and Financial Operations Committee as defined in the Auditor General Act section 4(1).

**7.12AD. Reporting on a financial audit**

- (1) The auditor must prepare and sign a report on a financial audit.
- (2) The auditor must give the report to —
- (a) the mayor, president or chairperson of the local government; and
  - (b) the CEO of the local government; and
  - (c) the Minister.

The relevant sections of the *Local Government (Administration) Regulations 1996* read as follows:

**16. Functions of audit committee**

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
  - (i) its functions under Part 6 of the Act; and
  - (ii) its functions relating to other audits and other matters related to financial management;
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
  - (i) report to the council the results of that review; and
  - (ii) give a copy of the CEO's report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
  - (i) regulation 17(1); and
  - (ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government —
  - (i) is required to take by section 7.12A(3); and

- (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
- (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
- (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.*

**FINANCIAL IMPLICATIONS**

There are no perceived financial implications arising from the officer's recommendation.

**STAFFING IMPLICATIONS**

There are no perceived staffing implications arising from the officer's recommendation.

**ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS**

There are no perceived environmental sustainability implications arising from the officer's recommendation.

**CONSULTATION**

Senior Staff

Ernst & Young, Australia.

**OFFICER COMMENT**

The exit meeting provides the Audit Committee with the opportunity to meet with Ernst & Young representatives; to read the closing audit report; to hear of the activities of the audit; and to ask questions/seek clarifications. The Town's final Audit Report will be presented to the Audit Committee upon its conclusion, following which the Annual Report will be completed and the Electors' General Meeting will be scheduled.

**VOTING REQUIREMENT**

Simple Majority

The Committee discussed the IT Upgrade and the electronic purchasing system to be followed up

The Committee requested that an action be added to the outstanding items list for the electronic purchasing system to be added to the action list

The Committee discussed the recommendations from the mid-year audit. There were six or seven recommendations made. Mr Hartley advised that these actions were recorded in the Council Resolution Database and most of these were completed, with the last one or two in progress.

The CEO advised that Councillors would be provided with an updated version of this database at the February Briefing Forum meeting.

The Committee agreed to copy the mid-year audit recommendations from the Council Resolution Database to the outstanding items list.

**OFFICER AND COMMITTEE RECOMMENDATION****Moved Cr MacFarlane****Seconded Cr Barrett****That the Audit Committee recommends;****That Council NOTES that the Auditor's Exit Interview was conducted on 15 November 2019.****Carried 3/0**

**8.2 ITEMS FOR DISCUSSION**

Nil

**9 GENERAL BUSINESS**

**9.1 COMMITTEE MEMBERS**

**9.2 OFFICERS**

**10 MEETING CLOSED TO PUBLIC**

**10.1 MATTERS FOR WHICH THE MEETING MAY BE CLOSED**

**11 NEXT MEETING**

To be advised.

**12 MEETING CLOSURE**

The Presiding Member announced the closure of the meeting at 3:13pm.



# **TOWN OF COTTESLOE**



# **ATTACHMENTS**

**AUDIT COMMITTEE – 17 DECEMBER 2019, 2:30PM**

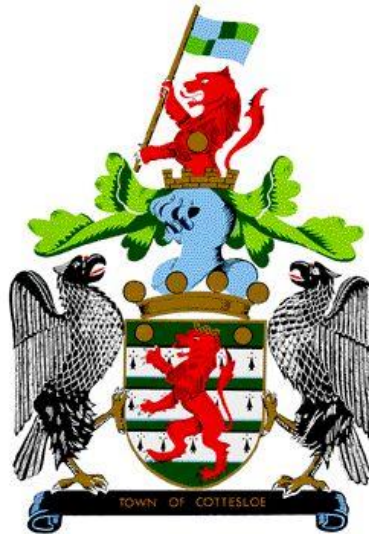
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# TOWN OF COTTESLOE



## AUDIT COMMITTEE

# ATTACHMENT

**ITEM 8.1.2A:  
AUDIT PLAN - YEAR ENDING 30 JUNE 2019 -  
OFFICE OF THE AUDITOR GENERAL**



# Town of Cottesloe

Audit Plan for the year ending 30 June 2019



# Town of Cottesloe

For the year ending 30 June 2019

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## Welcome

### Dear Audit Committee members

We are pleased to present our External Audit Plan (Audit Plan) for the Town of Cottesloe (“the Town”) for the year ending 30 June 2019.

Our meeting with you on 7 May 2019 is a forum to discuss our Audit Plan, the scope of our work, your current expectations and to ensure that our efforts are aligned with your expectations.

Our Audit Plan has been prepared acknowledging, and with consideration of, your current and emerging business risks and the resultant financial statement impacts. It is designed to be responsive to the unique needs of the Town of Cottesloe, to maximise audit effectiveness and to deliver the high-quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact me. We look forward to discussing our Audit Plan with you at the Audit Committee meeting on 7 May 2019.



**Go to Executive summary**



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AREAS OF AUDIT FOCUS

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The Areas of Audit Focus and the level of complexity or management judgement to be applied are:

- ▶ Government contributions
- ▶ Revenue recognition for rates, fees and charges
- ▶ Valuation of property, plant and equipment, including infrastructure assets
- ▶ Financial ratio compilation
- ▶ Compliance with operational procurement control requirements
- ▶ Litigation and claims
- ▶ Accuracy of cash backed reserves
- ▶ Adoption of AASB 9 *Financial Instruments*
- ▶ Accuracy of employee benefits expense
- ▶ Accuracy of related party disclosures

PLANNING MATERIALITY

We apply a percentage of operating expenses as our quantitative materiality level of the Town of Cottesloe. Our audit procedures will be designed to assist in identifying errors or misstatements, which cumulatively exceed our materiality level. Any individual errors greater than our adjustment listing scope, which come to our attention, will be reported to management and the Audit Committee.

OUR AUDIT APPROACH

We seek to take a control based approach for the following processes:

- ▶ Rates
- ▶ Fees and charges
- ▶ Capital expenditure management
- ▶ Payroll to cash disbursements
- ▶ Procurement to payables.

A substantive approach will be adopted for areas of significant management judgement, which includes the valuation of property, plant and equipment and infrastructure assets at fair value.

DIGITAL AUDIT



We have included in this Audit Plan our planned digital audit approach for certain components of the 2019 audit.

INDEPENDENCE



We will confirm our independence throughout the audit and remain in compliance with APES 110 Code of Ethics for Professional Accountants independence requirements.

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## Areas of Audit Focus

Set out below are the areas of significant audit focus and a description of our planned approach.

### Grant contributions

Guidance: [AASB 1004 Contributions \("AASB 1004"\)](#)



#### Background

- ▶ For the year ended 30 June 2018, the Town recognised contributions of \$0.444 million which are accounted for under AASB 1004 Contributions ("AASB 1004")
- ▶ AASB 1004 requires contributions to be recognised as income in the period across which control of the contribution is obtained, rather than across the period to match against the associated costs for which the grant was intended to compensate
- ▶ Pursuant to the terms of a grant contract, the funder may request a refund for (a) unspent grants or (b) in the situation where monies were expended for reasons other than the stated objective of the grant
- ▶ The Town carries an unspent grants reserve in equity to recognise the carry forward of available funding for incomplete grants in ensuing financial years.

#### Planned audit approach

- ▶ We will enquire of management and perform a walkthrough of grants, contributions and subsidies process to identify key controls for testing
- ▶ We will inspect the terms and conditions of material contracts to better understand the obligation, if any, to refund unspent monies
- ▶ We will obtain and review all new grant contracts and variations entered into for the year ended 30 June 2019
- ▶ We will test the receipt of material grants to supporting documentation, such as bank statements and contracts
- ▶ We will test the utilisation of the unspent grants reserve for the year ended 30 June 2019 to source documentation, such as vendor invoices and employee time writing
- ▶ We will evaluate the completeness and accuracy of disclosures related to contributions in accordance with the requirements of AASB 1004.

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## Revenue recognition for rates and fees and charges



Guidance: [AASB 118 Revenue \("AASB 118"\)](#)

### Background

- ▶ For the year ended 30 June 2018, the Town recognised revenue attributed to rates and fees and charges of \$10.006 million and \$2.205 million, respectively
- ▶ Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Town and the revenue may be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duties
- ▶ Revenue from the provision of services is recognised on the date of delivery of those services to the recipient.

### Planned audit approach

- ▶ We will enquire of management and perform a walkthrough of each material revenue stream to identify and test key controls
- ▶ We will evaluate whether revenue was recognised in accordance with the accounting policies of the Town and AASB 118
- ▶ We will perform tests of revenue cut-off about balance date
- ▶ With the assistance of EY GLASS, our digital journal entry selection tool, we will assess the reasonability of manual journal entries posted to revenue accounts
- ▶ We will perform substantive analytical procedures by comparing revenue streams against the prior period and budget to identify any unusual or unexpected trends
- ▶ We will perform substantive analytical procedures by recalculating rates revenue, benchmarked to gross rental valuations and unimproved valuations from Landgate and the budgeted rates approved by the Council
- ▶ We will test a representative sample of revenue transactions to source documentation; for example, rates notices, land valuation reports published by Landgate and bank statements.



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**Valuation of property, plant and equipment, including infrastructure assets**



Guidance: [AASB 116 Property, Plant and Equipment \("AASB 116"\)](#)

**Background**

- ▶ At 30 June 2018, the Town carried property, plant and equipment and infrastructure assets of \$84.795 million and \$36.434 million, respectively, on its balance sheet
- ▶ The net revaluation decrement recognised to other comprehensive income for the year ended 30 June 2018 was \$5.457 million
- ▶ Management measures property, plant and equipment and infrastructure assets at fair value, less accumulated depreciation and impairment losses, recognised after the date of revaluation
- ▶ A revaluation surplus or deficit is recorded to other comprehensive income and credited to the asset revaluation reserve in equity
- ▶ The fair value of property, plant and equipment is determined with reference to a valuation performed by an accredited external valuer
- ▶ The fair value of infrastructure assets is determined with reference to a valuation performed by an accredited internal valuer
- ▶ For the year ended 30 June 2019, no classes of property, plant and equipment or infrastructure assets are scheduled for revaluation as follows:

Asset class	Latest revaluation	Planned revaluation
Furniture and equipment	30 June 2016	30 June 2020
Land and buildings	30 June 2017	30 June 2021
Infrastructure assets	30 June 2018	30 June 2022

**Planned audit approach**

- ▶ We will enquire of management and perform a walkthrough of the capitalisation of capital expenditure to work in progress and the transfer of work in progress to the appropriate asset class to identify key controls for testing
- ▶ We will consider the existence of internal and external indicators of impairment which may trigger an impairment assessment
- ▶ We will attend physical stock counts of property, plant and equipment and infrastructure assets
- ▶ We will evaluate the reasonability of the useful lives of depreciable assets against the accounting policies of the Town
- ▶ For a representative sample of depreciable assets, we will re-calculate the depreciation expense for the accounting period
- ▶ We will test a representative sample of additions and disposals to property, plant and equipment to supporting documentation; for example, quote, vendor invoices and bank statements.

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## Financial ratio compilation



Guidance: [Local Government \(Financial Management\) Regulations 1996](#) ("FMR")

### Background

- ▶ Regulation 50 of the FMR requires the disclosure of the following financial ratios in the financial statements:
  - ▶ The current ratio
  - ▶ The asset consumption ratio
  - ▶ The asset renewal ratio
  - ▶ The asset sustainability ratio
  - ▶ The debt service cover ratio
  - ▶ The operating surplus ratio
  - ▶ The own source revenue coverage ratio
- ▶ Regulation 10 of the *Local Government (Audit) Regulations 1996* requires the auditors to assess whether the asset consumption and asset renewal ratios are supported by verifiable information and reasonable assumptions
- ▶ Regulation 10 of the *Local Government (Audit) Regulations 1996* requires the auditor to assess whether there are any significant adverse trends in the financial position of the Town of Cottesloe, benchmarked to the Department of Local Government, Sport and Cultural Industries ("DLGSCI") standard.

### Planned audit approach

- ▶ We will inspect the financial ratio calculations from management and test its clerical and computational accuracy
- ▶ We will cross-check key inputs within the financial ratio calculations to supporting documentation
- ▶ We will evaluate whether the calculation methodology complies with the requirements set out in the FMR
- ▶ We will evaluate the reasonability of the assumptions adopted as part of the calculation of the asset consumption and asset renewal funding ratios
- ▶ We will cross-check the financial ratios of the Town of Cottesloe to the DLGSCI standard to identify adverse trends, if any
- ▶ We will perform a substantive analytical review by comparing financial ratios against the prior period to identify any unusual or unexpected trends.

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## Compliance with operational procurement control requirements

Guidance: [Local Government \(Financial Management\) Regulations 1996 \("the FMR"\)](#) and [Local Government \(Functions and General\) Regulation 1996 \("the FGR"\)](#)



### Background

- ▶ Purchases of goods and services are subject to the operational procurement controls codified under regulation 11A of the FGR as follows:
  - ▶ A local government must implement a purchasing policy in relation to contracts for the supply goods or services where the consideration under the contract is \$150,000
  - ▶ A purchasing policy must make provision in respect of (a) the forms of quotations acceptable and (b) the retention of all written information in respect of quotations received and purchases made
- ▶ Payments for goods and services are subject to the operational procurement controls codified under regulation 11 and 12 of the FMG as follows:
  - ▶ A local government must implement a procedure for the authorisation and payment of outstanding accounts
  - ▶ A local government must develop procedures for the approval of accounts to ensure that before settlement, a determination is made that the related debt was incurred by a person with the appropriate delegated authority.

### Planned audit approach

- ▶ We will enquire of management and perform a walkthrough of the procurement to payables process to identify key controls for testing. The scope of our walkthrough will capture tendering and quotation, authorisation of purchases and payments and vendor masterfile maintenance
- ▶ We will evaluate the adequacy of key controls implemented by the Town in addressing the operational procurement control requirements under the FGR and FMR
- ▶ We will communicate control deficiencies or process improvement opportunities to the Audit Committee
- ▶ We will inspect the trade and other payables reconciliations and test material reconciling items, if any
- ▶ We will test a representative sample of trade payables to supporting documentation, such as vendor invoices, progress certificates and subsequent payments
- ▶ We will perform tests of unrecorded liabilities for payments after balance date
- ▶ We will perform substantive analytical review procedures by comparing significant trade payables at 30 June 2019 against the prior period and preparing a monthly fluctuation analysis on materials and contracts expenses to identify any anomalies or outliers.

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Litigation and claims



Guidance: [AASB 137 Provisions, Contingent Liabilities and Contingent Assets \("AASB 137"\)](#)

**Background**

- ▶ Management are aware of a potential dispute to be escalated to Fair Work Australia in respect of a terminated employee alleging unfair dismissal
- ▶ Under AASB 137, a provision should be recognised when an entity:
  - ▶ Has a present or constructive obligation as a result of a past event
  - ▶ It is probable that an outflow of resources embodying economic benefits will be required to settle an obligation
  - ▶ A reliable estimate may be made of the obligation
- ▶ A provision for disputes will be raised where the likelihood that the claim against the Town would be successful in a court of law is assessed as more probable than not
- ▶ A contingent liability will be disclosed where the likelihood that the claim against the Town would be successful is more than remote, but less than more probable than not
- ▶ Management will continue to monitor the progress of this claim and assess whether there is a requirement to recognise a provision or contingent liability in the financial statements.

**Planned audit approach**

- ▶ We will seek an external confirmation from the insurer for litigious matters where a claim was lodged against the Town to confirm whether the Town is indemnified under its professional indemnification insurance policy
- ▶ We will inspect formal correspondence between the Town and external legal counsel to confirm the nature and status of the dispute
- ▶ We will enquire of external legal counsel as to their judgement as to the likelihood that the claim against the Town will be successful
- ▶ We will enquire of external legal counsel as to their judgement as to the quantum of damages payable, if any
- ▶ We will evaluate the completeness and accuracy of the disclosure of the dispute in the 2019 financial statements in accordance with the requirements of AASB 137.

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## Accuracy of cash backed reserves



Guidance: [Local Government \(Financial Management\) Regulations 1996](#) (“the FMR”)

### Background

- ▶ At 30 June 2018, the Town carried cash backed reserves accounts in equity of \$10.774 million. All reserve accounts were supported by cash held in financial institutions
- ▶ Regulation 38.1 of the FMR defines the reserves disclosures to be included in the financial statement as follows:
  - ▶ The purpose for which the monies were set aside
  - ▶ The amounts set aside and expended for the reporting period
  - ▶ The opening and closing balances of the reserves at balance date
  - ▶ When the Council anticipates that the monies held in reserve will be expended
  - ▶ If monies held with a financial institution were insufficient to match the corresponding restricted cash asset carried on the balance sheet:
    - ▶ The extent of the deficiency
    - ▶ The reason for the deficiency
    - ▶ When the Council anticipates that the deficiency will be remedied
  - ▶ If the purpose of the reserves were changed or the monies set aside were used for another purpose:
    - ▶ The purpose for which the monies were used
    - ▶ The amount changed or used
    - ▶ The objects of, and the reasons for, the change or use.

### Planned audit approach

- ▶ We will test material movements in cash backed reserves accounts to supporting documentation, such as vendor invoices and employee time-writing
- ▶ We will evaluate the appropriateness of amounts expended against reserve accounts in consideration of the stated objectives authorised by the Council
- ▶ We will test whether the cash backed reserve accounts are supported by restricted cash held with financial institutions and evaluate the extent of any insufficiency, if applicable
- ▶ We will evaluate the completeness and accuracy of the disclosures related to reserve accounts in consideration of regulation 38.1 of the FMR.

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**Adoption of AASB 9 *Financial Instruments***



Guidance: [AASB 9 \*Financial Instruments\*](#) ("AASB 9")

**Background**

- ▶ AASB 9 is effective for the Town beginning on 1 July 2018. The Town will apply AASB 9 for the first time in its 2019 financial statements. AASB 9 supersedes AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139")
- ▶ Under AASB 139, impairment losses on financial assets were measured in accordance with an "incurred" loss model wherein the recognition of credit loss allowances was triggered by loss events after initial recognition
- ▶ Under AASB 9, impairment losses on financial assets are now calculated as follows:
  - ▶ **Stage 1** - If the credit risk did not significantly increase, the impairment allowance is equal to the 12-month expected credit loss
  - ▶ **Stage 2 and 3** - If the credit risk increased significantly or the loan is credit impaired, the impairment allowance is equal to the lifetime expected loss
- ▶ However, AASB 9 provides for a practical expedient in measuring the impairment losses on trade receivables which do not contain a significant financing component
- ▶ The loss allowance is measured at initial recognition and throughout the life of the trade receivable at an amount equal to the lifetime credit loss
- ▶ The loss allowance should reflect a probability weighted outcome which reflects the time value of money and the best available forward-looking information
- ▶ A provision matrix may be used to estimate the lifetime expected loss for such financial assets.

**Planned audit approach**

- ▶ We will obtain and assess the reasonableness of management assessment of the impact on implementation AASB 9 on 1 July 2018
- ▶ We will perform substantive analytical review procedures by comparing significant trade debtors at 30 June 2019 against the prior period to identify any anomalies or outliers
- ▶ We will test the ageing of a representative sample of customer invoices listed in the aged debtors listing
- ▶ We will test the recoverability of significantly aged trades debtors, including rates, fines and penalties, to subsequent cash receipts or executed payment plans
- ▶ We will assess historical trends of the probability of default and the quantum of bad debts written-off for the five years ended 30 June 2019
- ▶ We will consider current economic and credit conditions as to whether actual losses are likely to be greater or lesser than suggested by historical trends
- ▶ We will evaluate the completeness and accuracy of the disclosures relating to the initial adoption of AASB 9, the transitional approach utilised and the revised accounting policies for financial instruments to assess compliance with the reduced disclosure requirements.

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Accuracy of employee benefits expense



Guidance: [AASB 119 Employee Benefits \("AASB 119"\)](#)

**Background**

- ▶ At 30 June 2018, the Town carried a provision for annual leave and long service leave of \$0.563 million and \$0.463 million, respectively, on its balance sheet. The employee benefit expense for the year ended 30 June 2018 was \$4.182 million.

**Provision for long service leave**

- ▶ Long service leave entitlements are recognised as a liability based on the present value of the benefit obligation using the projected unit credit valuation method
- ▶ AASB 119 prescribes discount rates to be utilised in measuring long-term employee benefit obligations
- ▶ The discount rate should be determined with reference to government bond rates at balance date, consistent with the currency and term of the employment benefit.

**Annual leave entitlements**

- ▶ The definition of short-term employee benefits set out in AASB 119 was revised in a prior period
- ▶ The revised definition states that only benefits that are expected to be wholly settled within 12 months after balance are classified as a short-term employee benefit
- ▶ Should there be evidence to suggest that employees will not use their accrued annual leave within 12 months of balance date, the annual leave liability should be measured as a long-term benefit and measured using the projected unit credit valuation method
- ▶ Short-term benefits are recognised at the undiscounted amount of the benefit expected to be paid in exchange for services rendered.

**Planned audit approach**

- ▶ We will perform test of controls across the payroll to cash disbursements process to test the accuracy of employee benefits expense for the year
- ▶ We will perform substantive analytical procedures, such as an analysis of employee benefits expense disaggregated by month, to identify unusual trends or outliers
- ▶ We will evaluate the retention probabilities used in calculating the provision for long-service leave with reference to historical terminations
- ▶ We will confirm the discount rates used in discounting benefit obligations to present value to publicly available government bond rates
- ▶ We will re-calculate the calculation of gross employee entitlements with reference to source documents on a sample basis; for example, authorised leave request forms and employment contracts
- ▶ We will evaluate whether the impact of discounting annual leave entitlements which are not expected to be settled within 12-months of balance date to present value is material
- ▶ We will cross-check the workers compensation accrual to the estimate provided by the Local Government Insurance Scheme in accordance with run-off insurance arrangements
- ▶ We will communicate control deficiencies or process improvement opportunities to the Audit Committee.

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Accuracy of related party transactions

Guidance: [AASB 124 Related Party Disclosures](#) ("AASB 124")



**Background**

- ▶ At 30 June 2018, the Town identify related party relationships with key management personnel and joint arrangements, including the Western Metropolitan Regional Council and Library Services
- ▶ Under AASB 124, if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements
- ▶ At a minimum, disclosures shall include:
  - ▶ the amount of the transactions
  - ▶ the amount of outstanding balances, including commitments
    - ▶ their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
    - ▶ details of any guarantees given or received
- ▶ provisions for doubtful debts related to the amount of outstanding balances, and
- ▶ the expense recognised during the period in respect of bad or doubtful debts due from related parties

**Planned audit approach**

- ▶ We will enquire of management as to the process to identify, appropriately account for and disclose related party relationships and transactions including necessary confirmations with key management personnel. We will identify key controls, if any, over related party relationships and transactions, including how they are authorised and approved
- ▶ We will enquire of management as to the nature of relationships between the Town and identified related parties to understand their underlying business rationale and whether any transactions with related parties were outside of the ordinary course of business
- ▶ We will inspect bank confirmations, solicitor representation letters, the agenda and minutes to Council meetings and material contracts to evaluate the completeness of related party relationships disclosed by management.



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## Digital audit

Each of the components of the EY Digital Audit work together to deliver a quality audit

### The Client Portal

The Client Portal connects us directly to you. It enables you to securely provide supporting audit evidence, automated uploading the information to EY Canvas and gives you reporting of the status of the audit progress. This streamlines our communications with you and saves you time.

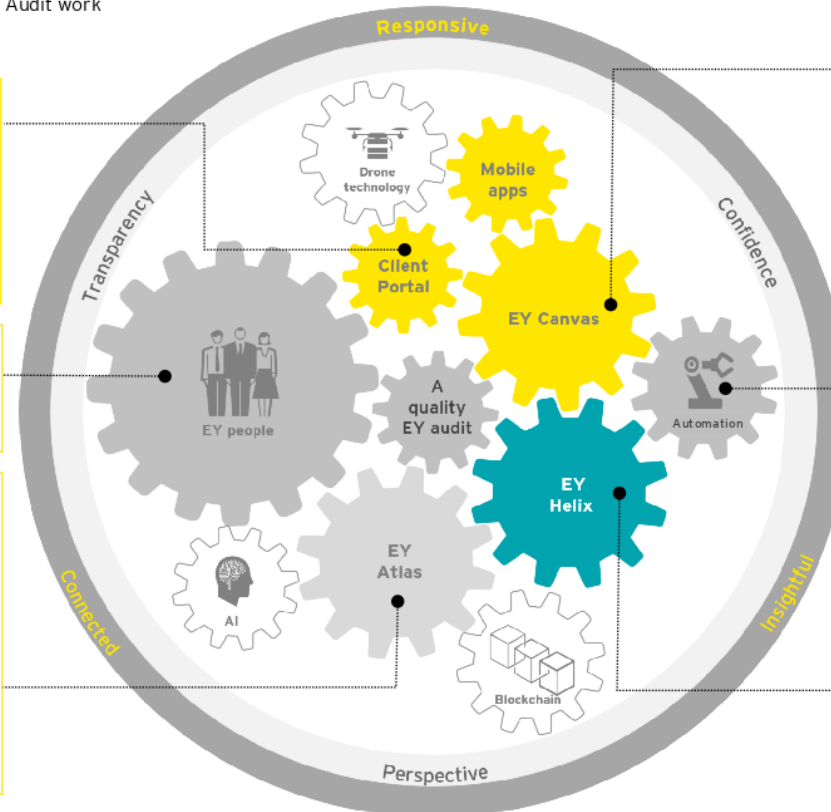
### EY People

The EY engagement team is uniquely placed to appropriately execute a digital audit strategy.

### EY Atlas

Our global accounting and financial reporting research platform, keeps our audit team up-to-date with the most relevant accounting, auditing and industry information globally. This enables us to share accounting precedents efficiently and deliver a more relevant audit.

EY Atlas Client Edition is the client version of EY Atlas allowing clients to keep up to date on accounting and reporting requirement.



### EY Canvas

Our state-of-the-art global online audit platform is the engine that drives the EY Digital Audit. It enables teams to drive an integrated and consistent audit, allows us to better identify and respond to audit risks and leverage our industry experience to customise our audit approach.

### Automation

Automation strives to optimise the audit of manual and repeatable business processes to increase coverage and reduce errors. At EY we are currently utilising Automation to perform a variety of audit procedures (for example bank confirmations) and to streamline our procedures. This provides higher quality audit evidence.

### EY Helix

Our library of globally consistent Analyzers provide better, more relevant audit evidence and a deeper understanding of your business. EY Helix is fully integrated with our audit approach and enables us to focus on the risks and issues that matter so we can provide feedback and actionable business insights.

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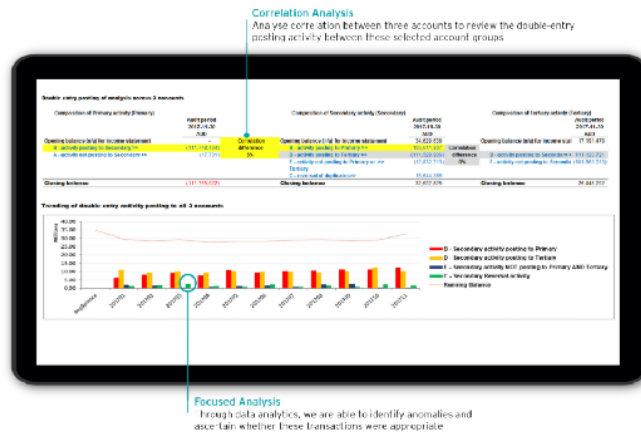
# EY Helix

## General Ledger Analyzer

General Ledger Analyzer uses general ledger data to assist in all phases of the audit.

This Analyzer (in conjunction with our journal entry sample selection tool - EY GLASS) enables us to deliver you a high-quality audit by:

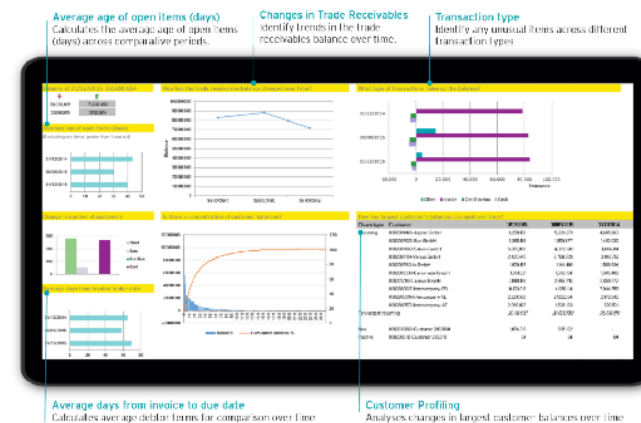
- ▶ Identifying business insights, hidden patterns, correlations and trends in 100 per cent of your general ledger data and direct our investigative effort in the right areas
- ▶ Allowing us a deeper understanding of your business by analysing larger populations of audit relevant data, to present a fuller picture of what happened and identify the risks that matter.



## Property, Plant and Equipment Analyzer

The Property Plant and Equipment Analyzer assists with organising and presenting subledger data when performing audit procedures over property, plant and equipment.

The Analyzer uses subledger data, including the fixed asset register to assist in assessing the opening and closing position along with additions, disposals, transfers and depreciation during the period.



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## Assessment of internal control environment

The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

We obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control to you.

Our assessment of internal controls covers:

- ▶ The control environment including entity level controls
- ▶ Your internal risk assessment procedures
- ▶ The design and operating effectiveness of internal controls (including IT general controls)
- ▶ Monitoring of controls (including internal audit and self-assessment).

We provide management with an internal control letter during the audit process, outlining our findings and our recommendations on where improvements in internal controls can be made. Where significant deficiencies come to our attention, we will communicate these to the Audit Committee.

### Internal audit

We consider where we can place reliance on internal audit during our audit procedures to minimise duplication and to rely on their work wherever possible.

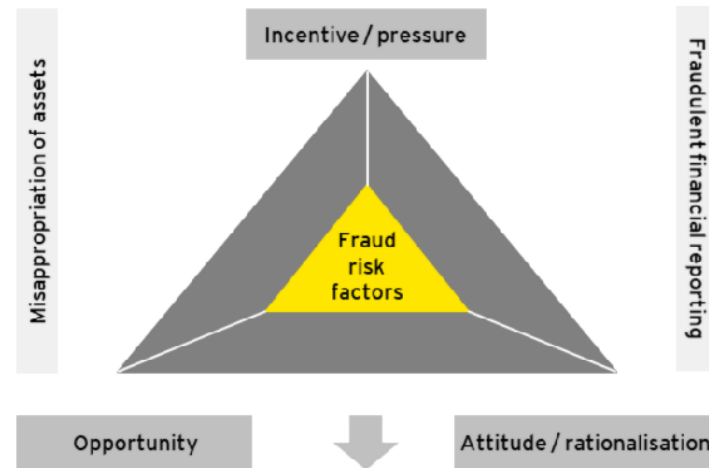
Where we rely on internal audit work, we will:

- ▶ Understand significant processes and perform walkthrough of a transaction through the entire process
- ▶ Retest a sample of the controls tested by internal audit
- ▶ Adjust substantive audit procedures at year end based upon the results of the testing.

### The risk of fraud

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

When developing our Audit Plan, we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e. incentive/pressure, opportunity and attitude/rationalisation).



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## Controls reliance

We intend to place reliance on IT dependent manual and manual controls which operate across the financially significant processes of the Town. Set out below is the level of controls reliance we expect to achieve over the key financial statement processes.

Process	Internal controls	Inherent risk assessment
Revenue - Rates		Lower
Revenue - Fees and charges		Lower
Other income		Higher
Grant contributions and subsidies		Higher
CAPEX		Higher
Payroll to cash disbursements		Lower
Procurement to payables		Lower
Financial statement close		Higher
Compliance		Higher

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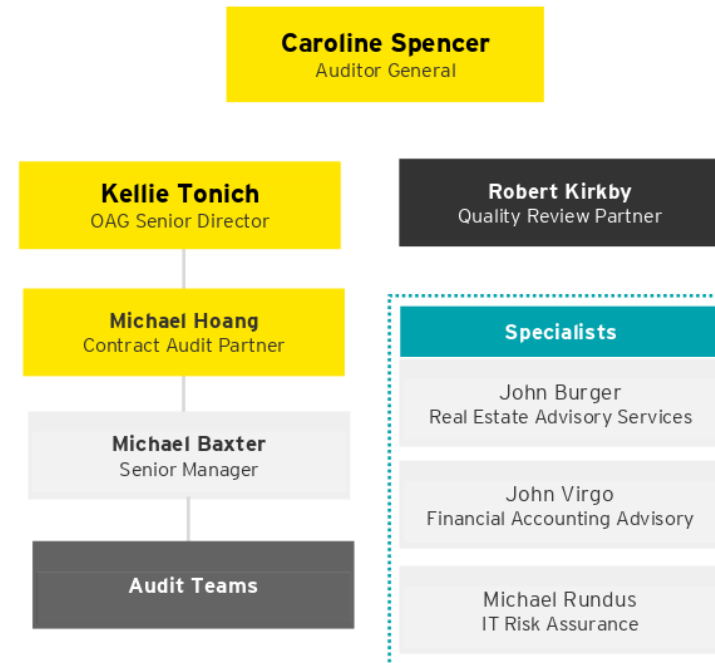
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## Your team

We understand that our team is the most important element of your relationship with us.

A team aligned to your business was selected by Michael and is comprised of individuals who have successfully worked together before. Your team are experienced auditors in government sector entities and bring their collective experiences from their current clients.

Furthermore, we incorporated our embedded specialists from our other services lines to support our planned audit procedures.



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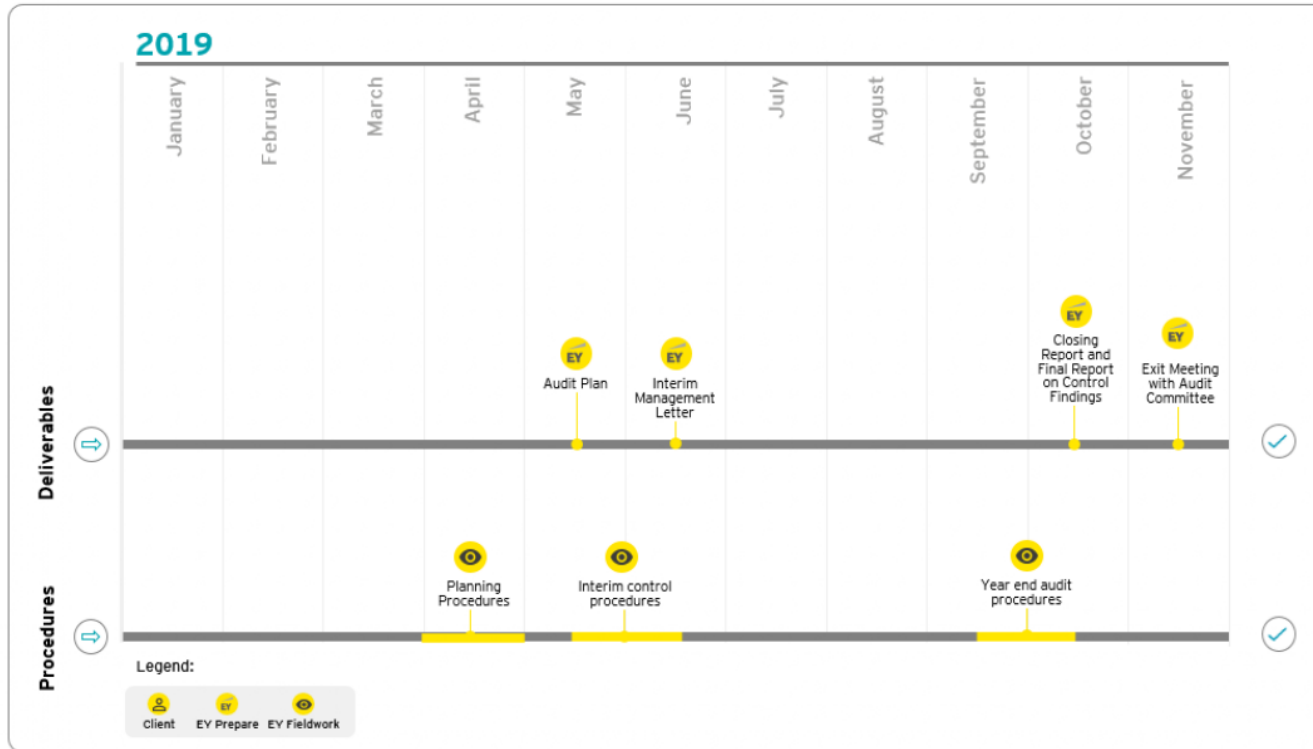
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## Engagement execution



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### Independence

How we are meeting your independence requirements.



### Data security and privacy

Our digital audit is supported by a well-articulated data privacy and information security strategy.



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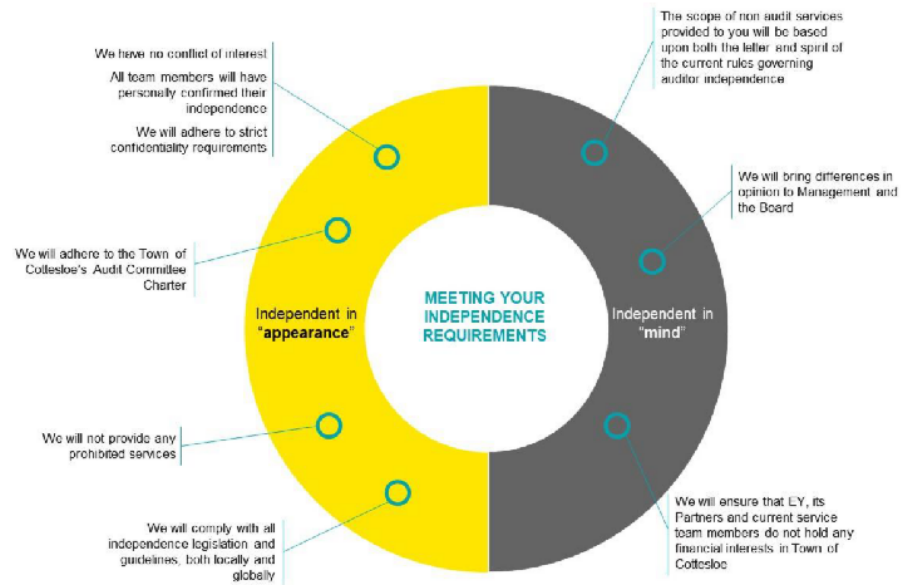
## Independence

Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the Town's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence, including those outlined in APES 110 *Code of Ethics for Professional Accountants*.

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.





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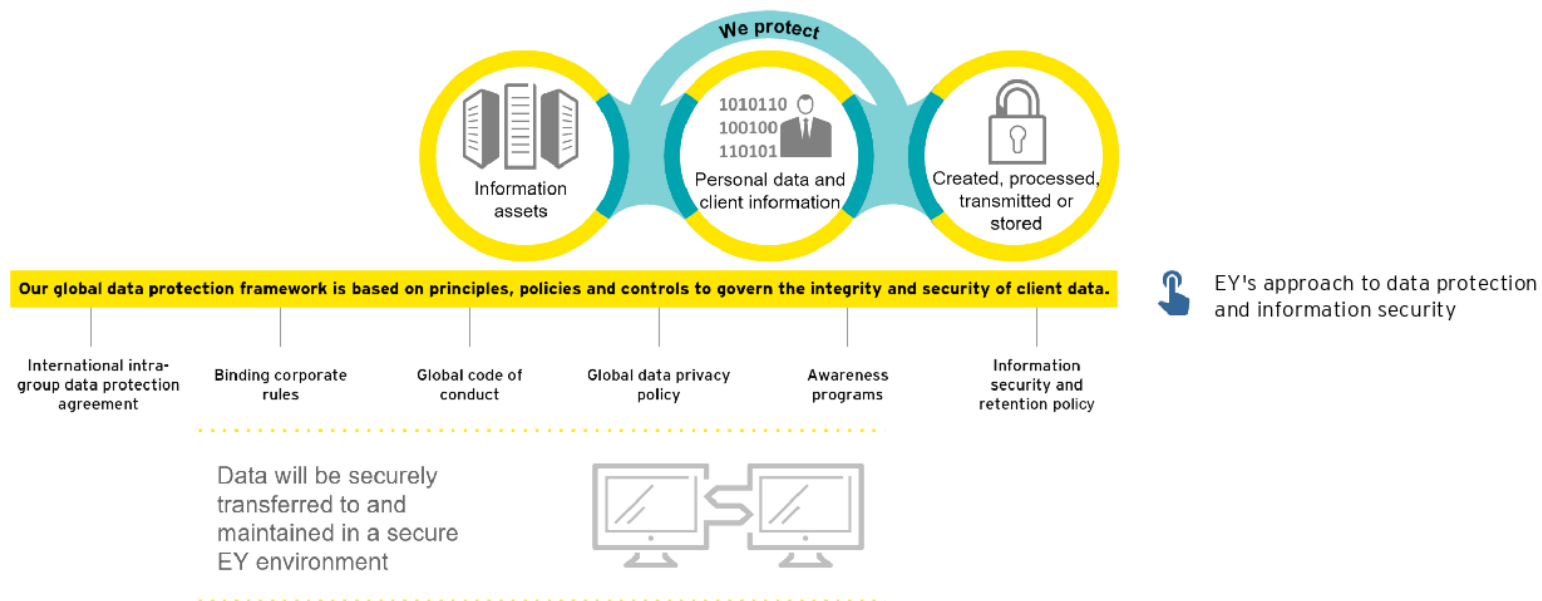
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## Data security and privacy

Our ability to provide seamless, consistent, high-quality client service worldwide is supported by a well-articulated data privacy and information security strategy.

For the audit of the Town of Cottesloe, the following applies:

- ▶ Access to EY Canvas is restricted to members of the engagement team only
- ▶ Audit relevant information is transferred to EY securely via the EY Canvas Client Portal.





EY | Assurance | Tax | Transactions | Advisory

#### About EY

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#### ED None

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