NOTICE OF MEETING

AUDIT AND RISK COMMITTEE

Members of the Audit and Risk Committee are advised that a meeting of the Committee will be held in Council Chambers, 83 Mandurah Terrace, Mandurah and via eMeeting on:

Tuesday 16 June 2020
at 5.30 pm

MARK R NEWMAN
Chief Executive Officer
10 June 2020

Committee Members:
Councillor P Jackson (Chairperson)
Mayor Williams
Councillor J Green
Councillor P Rogers
Councillor A Zilani
Mr W Ticehurst

Deputies:
Councillor D Lee (Deputy Member)
Councillor D Pember (Deputy Member)

AGENDA

1 OPENING OF MEETING

2 APOLOGIES

Leave of Absence
Councillor D Schumacher (non-Committee member)

3 IMPORTANT NOTE

Members of the public are advised that the decisions of this Committee are referred to Council Meetings for consideration and cannot be implemented until approval by Council. Therefore, members of the public should not rely on any decisions of this Committee until Council has formally considered the resolutions agreed at this meeting.

4 RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE

5 PUBLIC QUESTION TIME

Public Question Time provides an opportunity for members of the public to ask a question of Council. For more information regarding Public Question Time please visit the City's website www.mandurah.wa.gov.au or telephone 9550 3787.

6 PRESENTATIONS

City of Mandurah Standing Orders Local Law 2016 Modifications

7 DEPUTATIONS

Any person or group wishing to make a Deputation to the Committee meeting regarding a matter listed on this agenda for consideration must complete an application form. For more information regarding making a deputation please visit the City's website www.mandurah.wa.gov.au or telephone 9550 3787.

NB: Persons making a deputation to this Committee meeting will not be permitted to make a further deputation on the same matter at the successive Council meeting, unless it is demonstrated there is new, relevant material which may impact upon the Council's understanding of the facts of the matter.

8 CONFIRMATION OF MINUTES: 19 MAY 2020 (attached).

9 DECLARATIONS OF INTERESTS

10 QUESTIONS FROM COMMITTEE MEMBERS

10.1 Questions of Which Due Notice Has Been Given

10.2 Questions of Which Notice Has Not Been Given

11 BUSINESS LEFT OVER FROM PREVIOUS MEETING

12 REPORTS FROM OFFICERS:

13 LATE AND URGENT BUSINESS ITEMS

14 CLOSE OF MEETING

MINUTES OF AUDIT AND RISK COMMITTEE MEETING

Held on

Tuesday 19 May 2020
5.30 pm

at Council Chamber, 83 Mandurah Terrace and via eMeeting

PRESENT:

COUNCILLOR	P JACKSON [CHAIRMAN]	NORTH WARD
MAYOR	R WILLIAMS	
COUNCILLOR	J GREEN	COASTAL WARD
COUNCILLOR	A ZILANI	NORTH WARD
COUNCILLOR	P ROGERS	TOWN WARD
MR	W TICEHURST	INDEPENDENT MEMBER

ELECTED MEMBERS OBSERVING:

COUNCILLOR	C KNIGHT
COUNCILLOR	D PEMBER

OFFICERS

MR	M NEWMAN	CHIEF EXECUTIVE OFFICER
MR	G DAVIES	DEPUTY CHIEF EXECUTIVE OFFICER
MRS	C MIHOVILOVICH	DIRECTOR CORPORATE SERVICES
MR	A CLAYDON	DIRECTOR WORKS AND SERVICES
MRS	T JONES	MANAGER GOVERNANCE SERVICES
MRS	L SLAYFORD	MINUTE OFFICER

OPENING OF MEETING [AGENDA ITEM 1]

Prior to commencement of this electronic meeting Committee Member connections by electronic means were tested and confirmed.

The Chairman declared the meeting open at 5.30pm.

APOLOGIES [AGENDA ITEM 2]

Leave of Absence	Apologies
Councillor Lee	

IMPORTANT NOTE [AGENDA ITEM 3]

The purpose of this Committee Meeting is to discuss and make recommendations to Council about items appearing on the agenda and other matters for which the Committee is responsible. The Committee has no power to make any decisions which are binding on the Council or the City of Mandurah unless specific delegation of authority has been granted by Council.

No person should rely on or act on the basis of any advice or information provided by a Member or Officer, or on the content of any discussion occurring, during the course of the meeting. The City of Mandurah 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 advice or information provided by a Member or Officer, or the content of any discussion occurring, during the course of the Committee meeting.

RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE [AGENDA ITEM 4]

Nil.

PUBLIC QUESTION TIME [AGENDA ITEM 5]

The Committee Chairperson advised of processes, information and advertising undertaken to permit the electronic submission of questions by members of the public. No public questions were submitted for the meeting.

PRESENTATIONS AND ANNOUNCEMENTS [AGENDA ITEM 6]

AR.1/5/20 SUSPENSION OF STANDING ORDERS

Councillor Jackson advised the meeting that the *City of Mandurah Standing Orders Local Law 2016* will be modified to ensure Committee Members and the public can participate in and follow the meeting as it progresses.

MOTION
Moved: Councillor Jackson
Seconded: Mayor Williams

That the Audit and Risk Committee:

1. **Suspend the operation of the following provisions of the *City of Mandurah Standing Orders Local Law 2016* for the duration of this meeting to ensure Council Members and the public can follow and participate in the meeting as it progresses:**

1.1. Standing Orders 3.3 Public Question Time pertaining to public participation in meetings continues via electronic means only with public submissions received to be read aloud by the Presiding Member at the relevant agenda item.

1.2. Standing Order 7.2 Members to occupy own seats whilst present in meeting room. Relevant only for Members comprising the Committee.

1.3. Agree under Standing Orders 8.1(1) and 12.2, that instead of requiring a show of hands, a vote will be conducted by exception with the Presiding Member calling for those Members against each motion. If no response is received the motion will be declared carried and minuted accordingly.

1.4. Reiterate the requirement as per Standing Order 7.3 for Members to advise the Presiding Member when leaving or entering the meeting at any time.

CARRIED: 6/0

AR.2/5/20 GOVERNANCE SERVICES: RISK MANAGEMENT FRAMEWORK

The City's Governance, Compliance and Risk Officer delivered a summary update of the new Risk Management Framework and informed on its purpose and value; alignment with Australian Standards ISO 31000:2018 Risk Management Guidelines; how the risk management framework will integrate within the organisation; roles and responsibilities and risk reporting. .

Mayor Williams left the Chamber at 6.00pm, returning at 6.02pm.

DEPUTATIONS [AGENDA ITEM 7]

The Chairperson advised of processes, information and advertising undertaken to permit the electronic submission of deputations by members of the public. No deputations were received for the meeting.

CONFIRMATION OF MINUTES [AGENDA ITEM 8]

AR.3/5/20 CONFIRMATION OF MINUTES TUESDAY 17 MARCH 2020

MOTION
Moved: Councillor Zilani
Seconded: Councillor Green

That the Minutes of the Audit and Risk Committee meeting of Tuesday 17 March 2020 be confirmed.

CARRIED: 6/0

DECLARATIONS OF INTERESTS [AGENDA ITEM 9]

Nil.

QUESTIONS FROM COMMITTEE MEMBERS [AGENDA ITEM 10]

Questions of Which Due Notice Has Been Given

Nil.

Questions of Which Notice Has Not Been Given

Nil.

BUSINESS LEFT OVER FROM PREVIOUS MEETING [AGENDA ITEM 11]

Nil.

6.07pm: At this juncture in the meeting the Presiding Member, Councillor Jackson, verified with the electronically connected attendee that the connection remained and he was in attendance at the electronic meeting for report discussion.

REPORTS FROM OFFICERS [AGENDA ITEM 12]

AR.4/5/20 OFFICE OF THE AUDITOR GENERAL PURCHASING CARDS (REPORT 1)

<u>Summary</u>

The Office of the Auditor General (OAG) has released a report on Controls Over Purchasing Cards that was tabled on 27 March 2020. The OAG selected a sample of nine state government entities to conduct the audit. These entities had a number of purchasing cards ranging from 8 to 1,022. The City currently holds 116 active cards.

<u>Comment</u>

The City officers have commented on the City's current practice to the following audit findings:

- *All entities had up to date and approved policies and procedures for the use of purchasing cards, however some aspects were not included*
    - o *In five entities, there was no policy or clarification regarding the return of cards while on extended leave*
      City officer comments - This does not exist at the City. The cardholder is responsible for notifying Finance of their extended leave. The Finance team will also be implementing a procedure when an officer is on extended leave.

  - *Four entities did not have a policy regarding the use of Paypal.*
    City officer comments - The City does not currently refer to payment gateways in its current CEO Purchasing Card Policy. A section will be added to the CEO policy for purchasing cards outlining the requirements of using payment gateways such as Paypal.

  - *Four entities needed clearer policy around hospitality and entertainment expenses*
    City officer comments - The City adopted a CEO policy on the use of purchasing cards and petty cash for entertainment expenses that is very clear on acceptable use and limits for these types of expenditure.

- *Most entities need to apply better controls over the use of cards:*
  - *Two entities had instances of rewards cards being used. Public sector guidelines on gifts, benefits and hospitality require that purchasing cards should not be used to gain private advantage through the transaction.*

    City officer comments - The City does not allow the use of personal rewards/use of personal loyalty cards when the expenditure relates to public purposes. Finance conduct a monthly audit on receipts through purchasing cards and there has been no evidence in the last 12 months that City officers have used their own personal rewards to gain private advantage.

  - *Sharing a card. The risk of sharing a card is that an entity cannot hold a cardholder accountable for all of the transactions paid for using that card.*

    City officer comments - The City does not allow City officers to share a card and this is included in the terms and conditions the City officer signs when receiving the purchasing card.

  - *Splitting of payments. The risk of splitting a payment is that the cardholder is making a purchase at a value that they are not delegated to make.*

    City officer comments - The City does not allow City officers to split payments unless approved by the Manager Finance (exceptional circumstances). All transactions are reviewed by finance staff.

  - *Personal use on purchasing cards*

    City officer comments - All City purchasing card transactions are reviewed by finance and the relevant Manager.

- *Purchases not acquitted and approved in a timely manner:*
  - *155 out of 600 transactions tested were not acquitted and approved in a timely manner.*

    City officer comments - The City's terms and conditions on the use of credit cards state a transaction must be coded and approved five days after the end of the monthly billing statement cycle.

  - *Transaction limits not applied to purchasing cards in 7 of the 9 entities sampled.*

    City officer comments - The City has transaction limits on all purchasing cards.

- *None of the entities sampled had a formal review process to identify any shortcomings:*
  - *Most of the entity's samples stated they performed a formal review but had no formal evidence.*

City officer comments - The City reviews cards and card limits on a quarterly basis and presents to the CEO for approval. The finance team should undertake a review of the under use and inactivity and present to the CEO for cancellation.

There are two actions the City needs to take as a result of this report.

1. Update the CEO Purchasing Card policy to include the process and timeframes during leave periods as well as including the City's requirements for payment gateways such as Paypal transactions.

2. Introduce a formal three monthly review of monthly spend on cards and identify areas of under use and inactivity for recommendation to the CEO for cancellation.

Officer Recommendation

That the Audit and Risk Committee note the City officers' responses in the Comment section of this report in relation to the Office of the Auditor General's report on Controls Over Purchasing Cards.

Committee Recommendation

MOTION
Moved: Mayor Williams
Seconded: Councillor Zilani

That the Audit and Risk Committee note the City officers' responses in the Comment section of this report in relation to the Office of the Auditor General's report on Controls Over Purchasing Cards.

CARRIED UNANIMOUSLY: 6/0

AR.5/5/20 OFFICE OF THE AUDITOR GENERAL FINANCIAL CONTROL MATTERS (REPORT 2)

Summary

The Office of the Auditor General (OAG) has released a COVID-19 Financial Control Matters circular to local governments with the view of conducting a self-assessment on the internal controls in place throughout the COVID-19 pandemic. In these uncertain times, there is an increased risk of an entity taking advantage and good controls over finances and key decisions during this period will help to mitigate that risk.

Comment

Assets – Risk of misappropriation, unauthorised purchases or disposals

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
    - City Officer comments - Communication has been provided to staff that even with COVID-19, the procurement process must be followed. Any requests that are not in accordance with the Procurement Council Policy, must go to Council for approval. There have been no such instances to date.

- asset acquisitions are approved in line with the delegation of authority
    - City Officer comments – Asset acquisitions remain in line with the delegation of authority and this is part of the purchase order controls settings that are in place.
- asset reconciliations between the register and the general ledger are prepared and reviewed on a timely basis
    - City Officer comments – Currently asset reconciliations are prepared on a yearly basis due to the complexities of the corporate business system. This has also been noted in the year end audit report. The reconciliations are due to go monthly with the implementation of the new corporate business system (often referred to as the ERP).
- asset disposals/write-offs are appropriately authorised
    - City Officer comments – Asset disposals are in line with the delegated authority that is in place.
- loans of assets to other entities are properly recorded and authorised
    - City Officer comments – The City has a register however this has not occurred yet and if the City approves an organisation to use an asset, it would enter into an agreement to do so to ensure the City is protected from any liability claims while the third party is using the asset.
- where necessary, key responsibilities continue to be segregated in relation to asset acquisition, recording, custody, disposal and reconciliation
    - City Officer comments – There are no changes to the segregation of duties. All Officers are undertaking their normal duties and therefore the City has sufficient segregation of duties controls in place.
- appropriate records of portable and attractive assets are maintained, particularly those that staff may take home to use when working from home.
    - City Officer comments – The City has recorded the portable assets that have been taken home by City officers during this time.

<u>Cash – Risk of misappropriation</u>
Entities should ensure:

- regular bank reconciliations are prepared and reviewed, reconciling items are investigated and resolved
    - City Officer comments – Daily bank reconciliations remain as a daily task as well as the monthly bank reconciliation. Any issues are investigated and resolved.
- all bank accounts have at least 2 signatories
    - City Officer comments – The current controls of two signatories to make payments from the bank are still required and there will be no changes to this significant control that is in place.
- online purchasing policies are reviewed to reflect the current period
    - City Officer comments – City officers have not seen any increase in online purchasing. This is reviewed and any irregular purchases would be investigated.
- increases in purchasing card limits are appropriately approved
    - City Officer comments – There has been no increases in purchasing card limits. It has been timely that some City officers have recognised their limited use and as a result their purchasing cards have been cancelled.
- there are appropriate and timely reviews of credit card usage.
    - City Officer comments – Managers review City officer statements monthly. The financial team also review transactions and present a list of City officers to the CEO for approval on a quarterly basis to ensure there is a regular review of the City Officers who require a purchasing card.

<u>Expenditure – Risk of unauthorised or invalid payments, incorrect or invalid suppliers, and increased risk of fraudulent payments</u>
Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry

- City Officer comments – As stated above in the assets section, communication has been provided to staff that even with COVID-19, the procurement process must be followed. Any requests that are not in accordance with the Procurement Council Policy, must go to Council for approval. There have been no such instances to date.

- changes to vendor master files are documented and approved (for better practice guidance see our March 2019 report Management of Supplier Master Files)
    - City Officer comments – The finance team do not document that the changes have been checked by a supervisor. There is an informal check of the changes. The new ERP has been configured so that it will document the approvals.
- there is separation between the vendor creation and payment approval functions
    - City Officer comments – This is in place
- a 3-way match is performed of invoices, receipt of goods and purchase orders
    - City Officer comments – This is in place
- payment authorisation is made in line with the delegation of authority and requires 2 to sign. Signatories should pay *particular attention* to the delivery addresses of goods received
    - City Officer comments – This is in place
- purchase orders are prepared and appropriately authorised
    - City Officer comments – This is in place. Where a purchase order has not been raised requisitioners are required to raise one before the invoice is paid.
- appropriate security and checks are in place over EFT payment data
    - City Officer comments – This is in place

Officer Recommendation

That the Audit and Risk Committee note the City officer responses in the Comment section of this report to the Office of the Auditor General's COVID-19 Financial Control Matters.

Committee Recommendation

MOTION
Moved: Mr Ticehurst
Seconded: Councillor Peter Rogers

That the Audit and Risk Committee note the City officer responses in the Comment section of this report to the Office of the Auditor General's COVID-19 Financial Control Matters.

CARRIED UNANIMOUSLY: 6/0

AR.6/5/20 OFFICE OF THE AUDITOR GENERAL 2019 AUDIT (REPORT 3)

Summary

The Office of the Auditor General (OAG) responsibility for the audits of local governments began in the 2017/18 financial year with a four-year transition. For the 2018/19 year, the OAG audited 112 of 148 WA local governments. Accordingly, they have released their report on the audits for the 2018/19 year to State Parliament. As the OAG now audits the majority of local governments, their report includes finding and recommendations that are relevant for the City to consider. OAG will undertake the City's financial audits with the OAG in the 2020/21 year.

It is recommended that the Audit and Risk Committee note the City officer's comments to the OAG recommendations.

Comment

City officers have provided comments to the recommendations made by the OAG in the report:

Recommendation One

Local government entities should ensure they maintain the integrity of their financial control environment by:

a. *periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures, and communicating these to staff*
b. *conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments*
c. *regularly monitoring compliance with relevant legislation*
d. *promptly addressing control weaknesses brought to their attention by our audits, and other audit and review mechanisms*.

Officer Comment - The City is undertaking a review of all treatment of financial transactions, policies and procedures to ensure compliance with legislation. The financial team implemented a new staffing structure in October 2019 to gain efficiencies and ensure a greater knowledge of the business is shared by all. The Audit and Risk Committee has been presented with the City's internal audit strategy for endorsement, which will periodically review and identify weaknesses in internal controls and compliance. When reports such as this OAG report are received, the City intends to review the report and implement any recommendations that are necessary to ensure there is continuous improvement.

Recommendation Two

Entities should ensure that reports from their valuers clearly explain key aspects of the valuations, and that management has a comprehensive understanding of the reports.

Officer Comment - The City's revaluation of assets occurs every three to five years. Valuation reports are reviewed by City officers and management for correctness and any issues are raised with the valuer prior to the final report being issued.

Recommendation Three

Management should annually review the estimated useful lives of assets used for calculating depreciation, if necessary in consultation with their valuers or other experts. In addition, for greater consistency across entities, the Department of Local Government, Sport and Cultural Industries (DLGSC) should review its guidance regarding potential ranges for useful lives of assets, and entities should consider the guidance when doing their annual reviews.

Officer Comment - City Officers are preparing an Asset Depreciation and Capitalisation Council Policy that will outline the useful lives of assets. The City also supports the OAG's view that the Department should review its guidance for local government.

Recommendation Four

Entities who have not yet done so, should implement the recommendations of our local government position paper number 1 'Accounting for work bonds, building bonds and hire bonds'.

Officer Comment - The City is currently implementing the recommendations in this position paper for the 2020 year.

Recommendation Five

Local government entities should, where necessary, seek advice in advance of year end if uncertain about appropriate accounting treatments.

Officer Comment - The City does occasionally seek advice if uncertain about appropriate accounting treatments. The City has five professional qualified accountants (either Chartered Accountant or Certified Practising Accountant memberships) with considerable experience in interpreting accounting standards.

Recommendation Six

To facilitate timely preparation of annual financial reports, and to minimise the additional audit costs associated with Australian Accounting Standards on revenue, income and leases (AASB 15, AASB 1058 and AASB 16), entities should complete preparations for those new standards by 30 June 2020.

Officer Comment - The City is close to completing the preparation for the new accounting standards and they will be in place by 30 June 2020.

The recommendations from the report for the Department of Local Government, Sport and Cultural Industries are detailed below:

1. DLGSC should consider extending existing declaration processes to include annual related party declarations for councillors and key management personnel that assist compliance with Australian Accounting Standard AASB 124 and that are fit-for-purpose to the local government environment.
2. To improve the quality of financial reports and achieve greater consistency across entities, DLGSC should consider providing an accounting advice helpdesk to the local government sector.
3. DLGSC should re-assess the amount of detail required to be included in annual financial reports, in particular for small and medium sized entities.
4. DLGSC should re-assess the potential advantages and disadvantages if smaller local government entities reported some asset classes such as plant and equipment using the cost model, rather than periodically re-valuing those assets.
5. Entities and DLGSC should monitor the progress of the Australian Accounting Standards Board (AASB) and the International Public Sector Accounting Standards Board (IPSASB) public sector fair value projects relating to the valuation of assets.
6. DLGSC should consider facilitating a shared internal audit service for the local government sector, as a service available to small and medium entities who do not have their own internal audit function.

The City supports the OAG's recommendations to the DLGSC.

<u>Officer Recommendation</u>

That the Audit and Risk Committee note the officer's responses to the Office of the Auditor General's (OAG) recommendations in the OAG's Audit Results Report – Annual 2018-19 Financial Audits of Local Government Entities.

Committee Recommendation

MOTION
Moved: Councillor Green
Seconded: Councillor Jackson

That the Audit and Risk Committee note the officer's responses to the Office of the Auditor General's (OAG) recommendations in the OAG's Audit Results Report – Annual 2018-19 Financial Audits of Local Government Entities.

CARRIED UNANIMOUSLY: 6/0

AR.7/5/20 AUDIT 2020 CONSIDERATIONS (REPORT 4)

Summary

The City's auditor, Deloitte, have asked City officers to review certain assumptions and considerations used in the financial reporting process for this year's financial statements (financial year ending 30 June 2020). City officers have reviewed the supplied document and determined that while many of these issues are not reflected in local government, there are several that need consideration.

Comment

From the International Financial Reporting Standards (IFRS) in focus report, the following points require consideration:

- Preparation of forecast cash flow estimates
  - The City has prepared a COVID-19 budget adjustment to account for the loss in revenue and consequent decrease in expenditure as a result. This report will be presented to the May Ordinary Council Meeting as part of the April monthly financial report.
- Recoverability and impairment of assets
  - The City's asset values are not expected to be impaired from the COVID-19 pandemic as the majority are infrastructure assets such as roads, drainage and parks. Under AASB 13 *Fair Value measurement*, these classes of assets are valued using replacement cost less depreciation as there are no available market participants to obtain a value that the asset would sell for.
- Accounting for financial assets
  - Under AASB 9 – *Financial Instruments* the City needs to assess trade debtors, loans receivables and rent\lease receivables to establish the expected credit losses for each category. The City does not calculate expected credit losses on rate debtors as these charges are statutory and a charge on land is eventually recoverable with the sale of that land. This recognition came into effect in the 2019 financial year and replaces the accounting treatment for doubtful debts provision. As part of the end of financial year planning the expected credit loss calculations will be undertaken and included as a note in the financial statements.
- Contract Modifications
  - The pandemic has resulted in contract variations for the City. These changes will result in financial adjustments that will be made in the budget and the COVID-19 budget adjustments. The City is expecting a delay in the roll out of the new Enterprise Resource Planning (ERP) software and are in discussions with the supplier to determine if the City can position itself in a more advantageous position. This may impact the lease asset and liability amounts.

- *Going Concern*
  - The City has assessed the budget for the COVID-19 pandemic and have identified reduced expenditures to match the loss in revenue. The City's cashflow position remains viable and it is expected that the City will be operating well into the future.

All other issues raised in the document, detailed in Attachment 4.1, have been assessed by City officers and do not apply to the City's business, as a local government.

Officer Recommendation

That the Audit and Risk Committee note the City officer responses outlined in the Comment section of the report.

Committee Recommendation

MOTION
Moved: Mr Ticehurst
Seconded: Mayor Williams

That the Audit and Risk Committee note the City officer responses outlined in the Comment section of the report.

CARRIED UNANIMOUSLY: 6/0

AR.8/5/20 STRATEGIC INTERNAL AUDIT PLAN 2020/21 – 2022/23 (REPORT 5)

Summary

Internal audit is a dynamic function involved in helping an organisation achieve its objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes. Although it is not an activity required by the *Local Government Act 1995* (Act), it is considered to be an essential part of achieving best practice in risk management and effective and efficient internal controls.

The City of Mandurah's (the City) internal audit function has now been established and is due for implementation in 2020/21 financial year.

The Audit and Risk Committee are requested to review the City's Strategic Internal Audit Plan 2020/21 -2022/23, Internal Audit Charter, Internal Audit Plan and amendments to the Audit and Risk Committee Terms of Reference before the documents are presented to Council for adoption.

Officer Recommendation

That the Audit and Risk Committee recommend that Council adopts the:

1 Amended the Audit and Risk Committee Terms of Reference as per Attachment 5.1.

2 Strategic Internal Audit Plan 2020/21 – 2022/23 as per Confidential Attachment 5.2.

3 Amended Internal Audit Charter as per Confidential Attachment 5.3.

4 Amended Internal Audit Manual as per Confidential Attachment 5.4.

Committee Recommendation

MOTION
Moved: Councillor Peter Rogers
Seconded: Councillor Ahmed Zilani

That the Audit and Risk Committee recommend that Council adopts the:

1. **Amended the Audit and Risk Committee Terms of Reference as per Attachment 5.1.**

2. **Strategic Internal Audit Plan 2020/21 – 2022/23 as per Confidential Attachment 5.2 with the following amendments:**
   - **2.1 Defer the Contract Management (city wide) Internal Audit from 2020/21 to take place in the 2021/22 financial year; and**
   - **2.2 Insert new auditable area of Crisis Governance and Response Internal Audit to be undertaken in 2020/21.**

3. **Amended Internal Audit Charter as per Confidential Attachment 5.3.**

4. **Amended Internal Audit Manual as per Confidential Attachment 5.4.**

CARRIED UNANIMOUSLY: 6/0

Reason: The Committee agreed to the amendment to resolution point 2. Note: Council will be required to approve the scope and objective of the Crisis Governance and Response Internal Audit to be undertaken in 2020/21 at the Ordinary Council Meeting of 26 May 2020.

AR.9/5/20 CEO REVIEW OF RISK MANAGEMENT, INTERNAL CONTROLS AND COMPLIANCE (REPORT 6)

Summary

In accordance with Regulation 17(1) of the *Local Government (Audit) Regulations 1996* (Regulations), the Chief Executive Officer (CEO) is required to review the appropriateness and effectiveness of the City of Mandurah (the City) systems and procedures in relation to risk management, internal controls and legislative compliance at least once every three calendar years.

An independent internal audit service provider was appointed by the CEO to undertake the review in April 2020. The findings from the review represent an opportunity for continuous improvement to the City’s governance systems. Over the next 18 months the review improvements will be implemented and the progress monitored in accordance with the City’s Internal Audit Function.

The report is now being presented to Audit and Risk Committee for consideration and review of the improvement actions identified.

In accordance with Regulation 16, the Audit and Risk Committee is required to receive the review report and report to Council the results of the Committees review.

Officer Recommendation

That the Audit and Risk Committee recommend that Council:

1. Endorses the CEO's review of risk management, internal controls and legislative compliance as per Confidential Attachment 6.1.

2. Notes the action plan for implementation of the improvements identified as per Confidential Attachment 6.2.

3. Adopts one amendment to the 2019 Local Government Compliance Audit Return for the period 1 January 2019 to 31 December 2019 as per Attachment 6.3 and submits the amendment to the Department of Local Government, Sport and Cultural Industries.

Councillor Zilani left the Chamber at 6.47pm returning at 6.51pm.

Committee Recommendation

MOTION
Moved: Mayor Rhys Williams
Seconded: Councillor Peter Rogers

That the Audit and Risk Committee recommend that Council:

1. **Notes the CEO's review of risk management, internal controls and legislative compliance as per Confidential Attachment 6.1.**

2. **Notes the action plan for implementation of the improvements identified as per Confidential Attachment 6.2.**

3. **Adopts one amendment to the 2019 Local Government Compliance Audit Return for the period 1 January 2019 to 31 December 2019 as per Attachment 6.3 and submits the amendment to the Department of Local Government, Sport and Cultural Industries.**

CARRIED UNANIMOUSLY: 6/0

Reason: The Committee agreed to amend resolution point 1 to note the CEO's review.

REPORTS FROM AUDITORS [AGENDA ITEM 13]

Nil.

LATE AND URGENT BUSINESS ITEMS [AGENDA ITEM 14]

Nil.

6.58pm: Prior to concluding the meeting Councillor Jackson checked with the electronic attendee and confirmed the attendee remained connected and in attendance at the electronic meeting.

CLOSE OF MEETING [AGENDA ITEM 15]

There being no further business, the Chairman declared the meeting closed at 6.58pm.

CONFIRMED: ……………………………………………………………….[CHAIRMAN]

Attachments to Audit and Risk Committee Minutes:

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AR.8/5/20	Audit and Risk Committee Terms of Reference Attachment 5.1	26 – 31
AR.9/5/20	Amendment to the 2019 Local Government Compliance Audit Return Attachment 6.3	32

Confidential Attachments to Audit and Risk Committee Minutes:

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AR.8/5/20	Strategic Internal Audit Plan 2020/21 – 2022/23 Confidential Attachment 5.2	1 - 18
AR.8/5/20	Internal Audit Charter Confidential Attachment 5.3	19 – 25
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IFRS in Focus

Accounting considerations related to the Coronavirus 2019 Disease

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Introduction

The coronavirus 2019 (COVID-19) pandemic is affecting economic and financial markets, and virtually all industries are facing challenges associated with the economic conditions resulting from efforts to address it. For example, many entities in the travel, hospitality, leisure, and retail industries have seen sharp declines in revenues due to regulatory and organisational mandates (e.g. "shelter in place" mandates, school closures) and voluntary changes in consumer behaviour (e.g. "social distancing").

As the pandemic increases in both magnitude and duration, entities are experiencing conditions often associated with a general economic downturn. This includes, but is not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on an entity's financial results. This *IFRS in Focus* discusses certain key IFRS accounting considerations related to conditions that may result from the COVID-19 pandemic. The significance of the individual issues discussed below will of course vary by industry and by entity, but we believe that the following topics will be the most pervasive and difficult to address.

- *Preparation of forecast cash flow estimates*—The use of forecast information is pervasive in an entity's assessment of, among other things, the impairment of non-financial assets, expected credit losses, the recoverability of deferred tax assets and the entity's ability to continue as a going concern. Unique complexities associated with preparing forward-looking information as a result of the pandemic and economic downturn include the following:
  - There is an extremely wide range of possible outcomes, resulting in a particularly high degree of uncertainty about the ultimate trajectory of the pandemic and the path and time needed for a return to a "steady state."
  - The associated economic impact of the pandemic is highly dependent on variables that are difficult to predict. Examples include the degree to which governments prohibit business and personal activities, the associated level of compliance by citizens, the degree to which "flattening the curve" is successful, and the nature and effectiveness of government assistance.
  - Each entity must then translate the effect of those macro conditions into estimates of its own future cash flows.

Nevertheless, entities will need to do their best to make reasonable estimates, prepare comprehensive documentation supporting the basis for such estimates and provide robust disclosure of the significant judgements exercised, the key assumptions used and, potentially, their sensitivity to change.

- *Recoverability and impairment of assets*—Perhaps the most acute example of the increased challenge associated with forecast information is the impairment testing for non-financial assets (for example, property, plant and equipment (PP&E), right-of-use assets, intangible assets and goodwill). The impairment test for these assets often requires the development of cash flow projections that are subject to the significant uncertainties noted above.
- *Accounting for financial assets*—There has been a severe decline in the fair value of many financial assets, particularly equity securities. Likewise, the ability of debtors to comply with the terms of loans and similar instruments has been adversely affected. Entities will need to carefully consider and apply the appropriate measurement and impairment loss recognition requirements.
- *Contract modifications*—Changes in the economic activity caused by the pandemic will cause many entities to renegotiate the terms of existing contracts and arrangements. Examples include contracts with customers, compensation arrangements with employees, leases and the terms of many financial assets and liabilities. Entities will need to ensure that the relevant requirements in IFRS Standards are applied.
- *Events after the end of the reporting period*—It may be challenging for an entity to determine if an event after the end of the reporting period is adjusting or non-adjusting in a global marketplace that is extremely volatile and in which major developments occur daily (e.g. announcements of government stimuli and restrictions) and the stock market's daily reaction to new information. Although entities may not have all facts "on hand" at the reporting date, once such facts are gathered an assessment must be based on conditions as they existed at the reporting date. The amounts in the financial statements must be adjusted only to reflect subsequent events that provide evidence of conditions that existed at the reporting date. With respect to reporting periods ending on or before 31 December 2019, it is generally appropriate to consider that the effects of the COVID-19 outbreak on an entity are the result of events that arose after the reporting date, for example decisions made in response to the COVID-19 outbreak, that may require disclosure in the financial statements, but would not affect the amounts recognised. For subsequent reporting periods, the effects of the COVID-19 pandemic may affect the recognition and measurement of assets and liabilities in the financial statements. This will be highly dependent on the reporting date, the specific circumstances of the entity's operations and the particular events under consideration.
- *Going concern*—As a result of COVID-19 and its associated effects, entities need to consider whether, in their specific circumstances, they have the ability to continue as a going concern for at least, but not limited to, 12 months from the reporting date. Management's assessment of the entity's ability to continue as a going concern involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. This will require an entity to consider, among other things, (1) the extent of operational disruption; (2) potential diminished demand for products or services; (3) contractual obligations due or anticipated within one year; (4) potential liquidity and working capital shortfalls; and (5) access to existing sources of capital (e.g., available line of credit, government aid). In making its going concern assessment, IAS 10 *Events after the Reporting Period* requires an entity to consider events up to the date of authorisation of the financial statements. In certain jurisdictions, regulations may extend this period (e.g. until presentation of the financial statements at an annual shareholders' meeting).

Entities must carefully consider their unique circumstances and risk exposures when analysing how recent events may affect their financial statements. Specifically, financial statement disclosures will need to convey the material effects of the COVID-19 pandemic.

Material judgements and uncertainties

As a result of the uncertainty associated with the unprecedented nature of the COVID-19 pandemic, entities are likely to face challenges related to selecting appropriate assumptions and developing reliable estimates. Nevertheless, they will still be required by IFRS Standards to develop estimates that underlie various accounting conclusions. To develop estimates, entities will need to consider all available information as well as whether they have met all applicable disclosure requirements, including those in IAS 1 *Presentation of Financial Statements*.

A number of assumptions or estimates may be required for more than one purpose (e.g. forecast revenues may be relevant to impairment tests and recognition of deferred tax assets). Consistent assumptions should be used for all relevant assessments.

When reporting in uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into the entity's resilience in the face of the current uncertainty and to understand the key assumptions and judgements made when preparing financial information.

Depending on an entity's specific circumstances, each of the areas discussed in this publication may be a source of material judgement and uncertainty that requires disclosure applying IAS 1. Where this is the case, the entity should provide disclosures, distinguishing between:

- Significant judgements (disclosure required by IAS 1:122), i.e. judgements other than estimations made in applying an entity's accounting policies, often as to how an item is characterised; and
- Significant sources of estimation uncertainty (disclosure required by IAS 1:125, if the source of estimation uncertainty results in a significant risk of material adjustment to assets or liabilities within the next financial year), i.e. assumptions or other sources of estimation uncertainty (including judgements involving estimation), primarily over the carrying amount of an item.

In the current situation, it would appear reasonable for entities not to be bound by a narrow interpretation of what constitutes a significant source of estimation uncertainty and provide as much context as possible for the assumptions and predictions underlying amounts recognised in the financial statements, in line with the spirit of the requirements of IAS 1:125.

Relevant judgements and assumptions might include the:

- availability and extent of support through government support measures that have been announced;
- availability, extent and timing of sources of cash, including compliance with banking covenants or reliance on those covenants being waived;
- duration of social distancing measures and their potential impacts.

There is not a single view on how the COVID-19 pandemic will evolve and its impact on the economy. This lack of consistency makes the need for full disclosure of judgements, assumptions and sensitive estimates significantly more important than usual.

A Deloitte IFRS in Focus publication provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Going concern

COVID-19 is disrupting operations of many businesses. Entities will need to consider whether such disruption will be prolonged and result in diminished demand for products or services or significant liquidity shortfalls (or both) that, among other things, cause management to assess whether the entity may be able to continue as a going concern for at least, but not limited to, 12 months from the reporting date.

Financial statements are prepared on a going concern basis unless management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When making its assessment, if management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity must disclose those uncertainties.

If management identify events or conditions (other than those with a remote probability of occurring) that could lead to corporate failure, these should be disclosed. In identifying such events or conditions, management should consider both the uncertainty and the likely success of any realistic possible response to mitigate this uncertainty.

An entity's current facts and circumstances may challenge the going concern basis of preparation. Assessing whether an entity is a "going concern" typically requires the following factors to be considered:

- Whether the forecast performance would result in an adequate level of headroom over the entity's available borrowing facilities and compliance with relevant loan covenants; and
- The availability of sufficient committed borrowing facilities for the foreseeable future and whether there are indicators that the lending counterparty will be unable to provide this funding.

In the current situation, the assessment is made more difficult given the uncertainties about the impact of the COVID-19 pandemic, the extent and duration of social distancing measures in effect in many jurisdictions and the impact on the economy. Management should consider the impact of these matters on the *entity's specific circumstances*, in particular current and potential cash resources including access to existing and new financing facilities, and factoring and reverse factoring arrangements. Access and use of such facilities and arrangements should be disclosed.

The assessment as to whether the going concern basis is appropriate takes into account events after the end of the reporting period. For example, for 31 December 2019 reporters that are severely affected by COVID-19, even though the significant impact on operations occurred after year-end, will need to consider the appropriateness of preparing financial statements on a going concern basis.

In making this assessment, management will need to take into account all information available up to the date of authorisation of the financial statements (in certain jurisdictions, local regulations may extend this period). The information to be considered includes government announcements affecting the ability of an entity to operate and of any government assistance programmes to which the entity may be entitled. When management is aware of material uncertainties that cast a significant doubt on the entity's ability to continue as a going concern, IAS 1:25 requires the entity to disclose those material uncertainties in the financial statements. The disclosure should be specific to the entity's own situation, for example explaining how and when the uncertainty may crystallise and its impact on the entity's resources, operations, liquidity and solvency.

When an entity has applied significant judgement in the process of concluding that no material uncertainty exists that meets criteria for disclosure, that circumstance requires disclosure under IAS 1:122 on disclosures of significant judgements in order to provide users of the financial statements with sufficient information to understand the pressures on liquidity, viability and solvency.

Events after the end of the reporting period

Given the economic environment and the likelihood that events may occur rapidly or unexpectedly, entities should carefully evaluate information that becomes available after the end of the reporting period but before the date of authorisation of the financial statements. The amounts in the financial statements must be adjusted to reflect events after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period. Events that are indicative of conditions that arose after the reporting period are non-adjusting events. They are not reflected in the recognition or measurement of items in the financial statements, but require disclosure when material.

Often the "events" are (1) company-specific; and (2) associated with a specific account that permits a more precise analysis. However, sometimes the "events" are macroeconomic in nature (such as those resulting from COVID-19) and have a pervasive impact on many estimates in a set of financial statements which may make it difficult to ascertain whether such conditions "existed" at the reporting date. The full impact of the COVID-19 pandemic on short-term, medium-term, and long-term economic activity is still unknown, and major developments are occurring frequently. However, COVID-19 will be a factor in an entity's analysis of estimates made in the preparation of the financial statements, including those related to the expected credit loss on receivables, inventory obsolescence, impairment analyses, variable and contingent consideration estimates, and other factors. Whilst the events stemming from COVID-19 are extremely volatile, entities will nevertheless be required to consider conditions as they existed at the reporting date when evaluating subsequent events.

With respect to reporting periods ending on or before 31 December 2019, it is generally appropriate to consider that the effects on an entity are the result of events that arose after the reporting date that may require disclosure in the financial statements but would not affect the amounts recognised.

For subsequent reporting dates, entities will need to judge how much of the impact of COVID-19 should be considered to arise from non-adjusting events. This will be highly dependent on the reporting date, the specific circumstances of the entity's operations and the particular events under consideration. In other words, there is no universal 'flip' point at which entities should view all COVID-19 related impacts to be adjusting events. Instead, each event should be assessed to determine whether it provides evidence of conditions that existed at the end of the reporting period or whether it reflects a change in conditions after the reporting date.

If non-adjusting events are material, an entity is required to disclose the nature of the event and an estimate of its financial effect. The estimate does not need to be precise. It is preferable to provide a range of estimated effects as an indication of impact to not providing any quantitative information at all. However, where quantitative effect cannot be reasonably estimated, qualitative description should be provided, along with a statement that it is not possible to estimate the effect.

Impairment of non-financial assets

Assets subject to the requirements of IAS 36

Entities will need to assess whether the impact of COVID-19 has potentially led to an asset Impairment. Financial performance, including estimates of future cash flows and earnings, may be significantly affected by the direct or indirect impacts of recent and ongoing events.

IAS 36 *Impairment of Assets* seeks to ensure that an entity's assets are carried at not more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). Entities are required to conduct impairment tests when there is an indication of impairment of an asset at the reporting date. The test is conducted for a 'cash-generating unit' (CGU) when an asset does not generate cash inflows that are largely independent of those from other assets. The CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The scope of assets subject to the requirements in IAS 36 is broad. It includes property, plant and equipment (carried at cost or revalued amount), intangible assets (carried at cost or revalued amount), goodwill, right-of-use assets (if carried at cost), investment property (if carried at cost), biological assets (if carried at cost) and investments in associates and joint ventures accounted for using the equity method. Note that interests in associates and joint ventures not subject to the equity method, such as loans, are subject to the impairment requirements in IFRS 9 *Financial Instruments*. In an entity's separate financial statements, investments in subsidiaries, associates and joint ventures (other than those accounted for in accordance with IFRS 9) are also subject to the requirements of IAS 36.

Indicators of impairment include (but are not limited to) significant changes with an adverse effect on the entity that have taken place during the period, or will take place in the near future in the market or economic environment in which the entity operates. An entity will also need to consider the extent to which, or the manner in which, an asset is used or is expected to be used (for example, an asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs or plans to dispose of an asset before the previously expected date).

Factors resulting from the COVID-19 pandemic which indicate that the carrying amount of a CGU may not be recoverable may include (1) decreased demand for the entity's products or service; (2) increased costs/business interruptions due to supply chain issues; (3) cancellations or postponements of orders by customers; (4) need to provide significant concessions to customers; (5) significant customers experiencing financial difficulties or cash flow difficulties. These factors may indicate that the entity may be forced to liquidate some of its assets rapidly.

In addition, given recent stock market price declines, the carrying amount of net assets of an entity may exceed its market capitalisation. IAS 36 notes that this situation is a further indicator of impairment.

As a result of the impact of COVID-19, certain entities may need to perform an impairment assessment of assets in addition to the requirement to perform an impairment test at least annually of goodwill and intangible assets with an indefinite useful life.
Entities often rely on discounted cash flows in estimating recoverable amounts. Careful consideration of the cash flow projections, growth rate(s) and discount rate(s) will be critical in terms of the supportability and reasonableness of the calculations given the current market conditions. In particular, the projected cash flows should be based on what could have reasonably been known at the reporting date of the conditions that existed at that date. However, in a value in use calculation, they should not reflect the effects of restructuring plans that are not committed at the reporting date or the benefits of the possible government assistance as this would be inconsistent with the requirement to determine the value in use of the CGU in its current condition at the end of the reporting period.

The discount rate to be used is an estimate of the rate that a market participant would expect on an equally risky investment. Hence, to the extent that risk and uncertainties about the future impact of the COVID-19 pandemic are not reflected in the projected cash flows of the CGU being tested, they should be reflected in the discount rate applied.

In these uncertain times, management may face significant challenges in preparing the budgets and forecasts necessary to estimate the recoverable amount of an asset (or CGU). Management may determine that using an expected cash flow approach is the most effective means of reflecting the uncertainties of the COVID-19 pandemic in its estimates of recoverable amount. This approach reflects all expectations about possible cash flows instead of the single expected outcome. For example, a cash flow might be CU100, CU200 or CU300, with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively, giving an expected cash flow of CU220, i.e. (CU100 × 10%) + (CU200 × 60%) + (CU300 × 30%). While an expected cash flow approach is highly dependent on assigning probabilities to estimates of future cash flows, such judgements on the inputs may nevertheless be more transparent and more readily tied to underlying commercial expectations than the addition of a "COVID-19" risk premium to the discount rate that may be more arbitrary and for which there is no evidential base to support the quantum of the adjustment.

Key principles to bear in mind are:

- Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question.
- Estimated cash flows should reflect a range of possible outcomes, rather than a single expected outcome.
- Cash flow projections should reflect the conditions in existence at the reporting date and be based on the most recent financial budgets/forecasts, approved by management at the appropriate level of authority, covering a maximum period of five years, unless a longer period can be justified. In these uncertain times, reliable detailed budgets may only be available for a shorter period.
- Projections of cash flows beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified based on objective information about patterns over a product or industry lifecycle. This growth rate should not be overly optimistic and should not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified. In some cases, it may be appropriate for the growth rate to be zero or negative.

- Future cash flows should be estimated for the asset in its current condition and should not include estimated future cash inflows or outflows expected to arise from improving or enhancing the asset's performance or future restructuring to which the entity is not yet committed (when the recoverable amount is determined as the value in use).
- The entity's weighted average cost of capital (WACC) may be used as a starting point for estimating a market discount rate, but this should then be adjusted to reflect the way the market would assess the cash-generating unit's cash flows (unless that risk is already included in the estimated cash flows). When considering the underlying individual inputs into a traditional capital asset pricing model ("CAPM") consideration must be given to the interplay between inputs (i.e. the risk free rate assumption and the equity risk premium) and how the changes in some inputs may be offset by the change in other inputs. The expectation of a falling risk free rate environment does not necessarily translate into a lower cost of capital.
- Care should be taken as to consistency of the data being prepared and compared to avoid double counting or omission of some data.

If information is received after the end of the reporting period, but before the financial statements are authorised for issue, indicating that an asset is impaired, management should consider whether that information is indicative of impairment that existed at the end of the reporting period. If so, an impairment review (or a re-performance of any impairment test already performed) should be carried out. If the information received after the reporting period is not indicative of conditions existing at the end of the reporting period, it should not trigger an impairment test (or the re-performance of any impairment test already carried out). Rather, the information should be disclosed as a non-adjusting event after the reporting period when it is of such importance that non-disclosure would affect decisions of users of the financial statements.

If there is indication that the asset may be impaired, the underlying facts should be kept in mind when performing the annual reviews of the useful life of the asset, the depreciation or amortisation method used and the estimated residual value. These items may need to be adjusted even if no impairment loss is recognised.

Information about asset impairments will be critical in helping users of the financial statements understand the impact of the COVID-19 pandemic on an entity's financial performance and position. Disclosure of the key assumptions used to determine the recoverable amount, together with a description of management's approach to determining the value assigned to each key assumption, must be provided in sufficient detail. These include assumptions on the duration and intensity of effects of the suspension of activities and of the recovery phase. Key assumptions used in performing impairment tests are likely to represent a source of significant estimation uncertainty and therefore the information required by IAS 36 may need to be supplemented by the information required by IAS 1:125-133, such as a sensitivity analysis.

Valuation of inventories

The COVID-19 pandemic may affect the recoverability of inventory balances. Some entities with inventories that are seasonal or are subject to expiration may have to assess whether a write-down for obsolescence or slow-moving stock may be necessary at an interim or annual period as a result of a slower sales pace. Other entities may have to assess whether a decline in their future estimated selling price is expected, which may require a write-down in the cost of inventory in an interim or annual period.

Applying IAS 2 *Inventories*, inventories are measured at the lower of their cost and net realisable value (NRV). In a difficult economic environment, the NRV calculation may be more challenging and require more detailed methods or assumptions. Interim inventory impairment losses should be reflected in the interim period in which they occur, with subsequent recoveries recognised as gains in future periods.

In addition, manufacturing entities may have to reassess their practices for fixed overhead cost absorption if production volumes become abnormally low during the year as a result of plant closures or lower demand for their products. IAS 2 requires that variable production overhead costs should be allocated to each unit of production based on the **actual use** of the production facilities. It also calls for the allocation of fixed overhead costs to each unit of production based on the **normal capacity** of the production facilities. The COVID-19 pandemic may affect manufacturing entities in a number of ways (e.g. shortages of labour and materials or unplanned factory downtime) that, if sustained, may result in an abnormal reduction of an entity's production levels. In such circumstances, an entity should not increase the amount of fixed overhead costs allocated to each inventory item. Rather, the unallocated fixed overhead costs are recognised in profit or loss in the period in which they are incurred.

Costs to obtain or fulfil a revenue contract and up-front payments to customers

An entity may have recognised costs to obtain or fulfil a contract as an asset in accordance with IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 provides guidance on determining the appropriate amortisation period and on recognising any impairment loss on such an asset. An entity may need to update its amortisation approach to reflect any significant changes in the expected timing of the transfer of the related goods or services. In addition, an entity must recognise an impairment loss if the carrying amount of the asset exceeds (1) the sum of the amount of consideration expected to be received and the amount of consideration already received but not yet recognised as revenue, less (2) the costs that are directly related to providing the remaining promised goods or services under the contract that have not been recognised as expenses. The consideration determined in (1) above should be adjusted to account for the customer's credit risk, and the amounts determined under both (1) and (2) should include the effects of expected contract renewals from the same customer. An entity may also need to consider whether contract modifications or changes in expectations regarding customer renewals affect the amortisation or recoverability of these revenue-related costs.

An entity may also have recognised up-front payments to customers as an asset that are reflected as a reduction in the transaction price. If so, it would be reasonable for the entity to perform similar analyses for any asset recognised for such up-front payments.

Further, an entity should evaluate contract assets for impairment by using the same model as customer receivables. See Financial Instruments for more information.

Financial Instruments

Allowance for expected credit losses (ECL)

COVID-19 can affect the ability of borrowers, whether corporate or individuals, to meet their obligations under loan relationships. Individual and corporate borrowers may have a particular exposure to the economic impacts in their geography and industry sector. More broadly, reductions in forecasts in economic growth increase the probability of default across many borrowers and loss rates may increase due to the fall in value of collateral evident more generally by falls in prices of assets.

Applying IFRS 9 *Financial Instruments*, an entity should measure ECL in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The impact of COVID-19 on ECL will be particularly challenging and significant for banks and other lending businesses. The effect could also be significant for non-financial corporates. This is because ECL does not only apply to loans but also applies to many investments in interest bearing financial assets (e.g. bonds and debentures), trade receivables, contract assets, lease receivables, issued loan commitments and issued financial guarantee contracts. The extent of these exposures in non-financial corporates may also be greater in individual company financial statements due to intra-group transactions such as intra-group loans or guarantees provided by the reporting entity on other entities' debt obligations.

Under the general model for impairment ECL is recognised for 12-month ECL or lifetime ECL dependent on whether there has been a significant increase in credit risk ("SICR") of a financial asset (or other exposure) since initial recognition (a "staging" analysis). This analysis requires the estimate of lifetime probability of default at initial recognition of a financial asset and at each reporting date thereafter, based on an assessment of forward-looking information which is particularly challenging given uncertainties of the eventual impact of COVID-19. Despite the challenges, entities are still required to make estimates based on reasonable and supportable information that is available without undue cost or effort at the reporting date. Sources of such information can include information used in the entity's ongoing credit evaluation processes and financial forecasts for economies or industries that are becoming available over time. It is not expected that the difficulties associated with making estimates and assumptions in these uncertain times would be a basis for entities not to update ECL measurements.

Trade receivables

For entities with certain financial assets such as short term trade receivables and contract assets the complexity of the estimate of ECL is reduced due to the application of the simplified approach. Under this approach there is no requirement for a complex staging analysis to be performed as lifetime ECL is recognised from the date of initial recognition. However, measurement of lifetime ECL follows the same principles as under the general model.

In practice the measurement of ECL for portfolios of trade receivables does not usually require complex analysis. The average historical credit losses on a large group of trade receivables with shared risk characteristics may until now have been a reasonable estimate of the probability-weighted expected loss amount. A common example of a loss rate approach used for trade receivables is a provision matrix developed using historical credit loss experience. IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions. However, until now such adjustments may have been limited.

COVID-19 will require entities to revisit the provision matrix approach and consider the following:

- The amount and timing of the expected credit losses as well as the probability assigned to alternative scenarios must be based on reasonable and supportable information that is available without undue cost or effort at the reporting date without the use of hindsight. Entities will need to reconsider their previous credit loss expectations if these are based on unadjusted historical experience that is not reflective of the current market conditions and forward looking information. In many cases, this may require significant judgement given the uncertainties present (e.g. financial viability of debtors, levels of government support, etc.).
- There may be a lack of relevant historical data reflecting sufficiently adverse economic conditions on which to base the estimate. An entity may already be observing the default of debtors and will need to determine the impact that these observations have on expectations of recoveries and future default of other debtors.
- Operational disruption experienced by both customers and suppliers as well as moratoriums on debt repayments or enforcement actions may result in delays in the processing and settlement of transactions. Short-term trade receivables are recognised at their transaction price and consequently have an effective interest rate (EIR) of nil, and therefore a delay in collection will not result in an increase in the reported loss allowance (measured by discounting expected shortfalls at the asset's EIR). However, these delays introduce uncertainty as to whether the full amount will be recovered and this uncertainty is required to be reflected in the ECL measurement. In some cases the delays may be considered temporary. This may mean that previously determined loss rates for the individual "days-past-due" categories included in an entity's provision matrix may not be reflective of expected recoveries.
- Greater volatility in potential economic conditions, even over the relatively short exposure period of trade receivables, will increase the importance of considering multiple economic scenarios in determining expected loss rates.
- With greater incidence of individual receivables in default, loss rates may need to be applied to individual receivables or sub-portfolios of receivables if the receivables in the overall portfolio no longer exhibit similar credit risk characteristics. This may result in a requirement to apply the provision matrix at a more granular level or to assess a greater number of receivables on an individual basis. Entities should ensure that any estimate of ECL on an individual debtor reflects a probability-weighted outcome and that an appropriate loss allowance continues to be recorded on a collective basis for all receivables that are not assessed individually.

The above considerations also apply to contract assets.

Other receivables

Although a staging analysis may not be required for trade receivables and contract assets, most entities will have some financial assets that are accounted for under the general model rather than the simplified model for which a staging analysis will be needed. For example, intercompany receivables, lending balances with entities outside the group and receivables relating to business disposals. The impact of forward-looking information and multiple economic scenarios is also likely to be more significant for such assets.

Low probabilities of default may have meant in the past that ECL for these has not been material. This may no longer be the case given the increased weighting to negative economic scenarios and exposures to specific industry sectors or geographical areas that are most significantly affected by COVID-19. Entities will therefore need to reconsider the appropriateness of past methods for assessing ECL and ensure up to date inputs are used.

Credit Enhancements

Credit enhancements may become increasingly prevalent, particularly as a result of various central government and central bank programmes designed to support debtors and/or creditors. Such schemes should be carefully analysed to assess whether they affect the measurement of ECL. Only credit enhancements integral to the receivable and that are not separately recognised should be reflected in the measurement of the ECL. Amounts receivable from non-integral credit enhancements are not included in ECL measurement and are recognised separately.

Support of the economy in general or that is expected to be given directly to a debtor to assist them with repaying the amounts owed does not represent a credit enhancement but could nevertheless affect the ECL measurement (e.g. through reduced probability of default or reduced loss given default).

Issued financial guarantee contracts

Parent entities sometimes issue financial guarantee contracts (FGC) to lenders of their subsidiaries, associates or joint ventures that allow the lender to claim any losses suffered due to non-payment of those entities. These parent entities are required to recognise a liability for the issued FGC for the higher of the unamortised premium and the ECL determined in accordance with IFRS 9. When COVID-19 results in a higher risk of default this will lead to increased ECL amounts.

Fair value measurements

Fair value measurements of financial instruments should reflect market participant views and market data at the measurement date under current market conditions. Observable market data cannot be ignored even if depressed prices are considered temporary. Entities will need to pay particular attention to fair value measurements based on unobservable inputs (sometimes referred to as level 3 measurements) and ensure that the unobservable inputs used reflect how market participants would reflect the effect of COVID-19, if any, in their expectations of future cash flows, discount rates and other significant valuation inputs related to the asset or liability at the reporting date.

Liquidity risk management

Disruptions in production and reduced sales can have implications on an entity's working capital and could lead to a breach of a debt covenant resulting in the liability becoming current.

Entities may look for ways to manage this risk, including the use of alternative sources of funding, such as later payment to suppliers and arrangements with financial institutions such as supplier finance and reverse factoring which may permit the entity to draw down on finance in exchange for the financial institution paying the entity's suppliers. When entities have previously determined that liabilities to banks in these scenarios are presented as trade or other creditors rather than as borrowings, any increase in the repayment term will require a reassessment of the classification to ensure it remains appropriate. Disclosure of these facilities will be critical particularly when they are material to the entity's funding or viability.

Entities may also seek to obtain early settlement of their trade receivables via a financial institution buying the receivables at a discounted amount to the invoice amount. Such transactions should be carefully assessed to determine if derecognition of the factored receivables is appropriate.

Concentration risk may be particularly significant to some entities when customers are concentrated in an adversely affected industry such as the hospitality and tourism and airline industries. Such entities will need to give clear disclosure of the potential impact on liquidity if significant.

Entities should consider how the use of working capital enhancement or management techniques is reflected in the entity's disclosure of its liquidity risk management as required by IFRS 7 *Financial Instruments: Disclosures*. Entities should also consider the specific disclosure requirements for transfers of financial assets as required by IFRS 7 when financial assets are sold to fund working capital needs, and the accounting policies and judgements applied in determining the balance sheet and cash flow statement presentation of amounts due and paid when supplier finance and reverse factoring arrangements are used.

Entities may also need to reconsider the existing classification of certain investments as cash equivalents under IAS 7 *Statement of Cash Flows*. To be classified as a cash equivalent, an investment, for example in a money market fund, must be held for the purpose of meeting short-term cash commitments and must be readily convertible to known amounts of cash and subject to insignificant changes in value. Current economic conditions are likely to increase the volatility in prices of many investments and reduce their liquidity.

Classification of financial assets

Some entities may decide to sell receivables as part of their strategy to manage their credit and liquidity risks. Where such receivables are treated as "held to collect" and measured at amortised cost an increase in frequency and value of sales may result in the need to consider whether there has been a change in the entity's business model or whether a new business model has been initiated.

Entities should analyse any increase in sales to determine, among other things, whether the increase is expected to persist (for example if the sales are in response to temporary increases in credit or liquidity risk) or whether future sales volumes will be lower in frequency or value. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not normally considered to be inconsistent with a held to collect business model because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such a business model.

Some entities that have assets that are held under a "held to collect and sell" or "held to sell" business model may find that previously anticipated sales are no longer expected to take place due to a reduction in asset values or in the liquidity of the relevant market. IFRS 9:B4.4.3 states that neither a change in intention related to a particular asset (even in circumstances of significant changes in market conditions), nor a temporary disappearance of a particular market represent a change in an entity's business model.

Reclassifications triggered by a change in business model are expected to be highly infrequent and to incur only when the activity is significant to the entity's operations; they are applied prospectively from the reclassification date.

Debt modifications

In response to liquidity challenges, an entity's debtors may seek to renegotiate the terms of their arrangements with the entity. Where the entity grants such concessions and modifies the related contractual arrangements, the accounting impact of the modification must be assessed. Similarly, a reporting entity may itself experience liquidity or solvency challenges and seek to renegotiate terms of its borrowings or other liabilities resulting in amendments to existing agreements (either amendments to the cash flows or related covenants).
In respect of financial liabilities the entity must consider whether the modifications are substantial which typically involves qualitative factors as well as an assessment of whether the modifications result in a change in the net present value of the instrument's cash flows of more than 10 per cent (the "10 per cent test"). When a modification is substantial the existing financial liability is derecognised and the new liability is recognised at fair value resulting in a gain or loss. It is particularly important to note, however, that an adjustment to the carrying value will result even when the modification is not substantial (determined by discounting the revised cash flows at the original EIR).

Although IFRS 9 includes no specific guidance on accounting for modifications of financial assets and when they should result in derecognition, some entities have an accounting policy of applying the 10 per cent test to financial assets and accounting for a substantial modification as the extinguishment of the old asset and recognition of a new asset.

IFRS 9:5.5.12 provides specific guidance on how to apply the impairment requirements to scenarios when a modification of a financial asset does not lead to derecognition.

When intragroup funding arrangements are modified, consideration should be given to the identification of intergroup capital contributions or distributions. Entities should determine whether there has been impairment of a financial asset in advance of its modification. Thereafter, the difference between the carrying amount of the financial instrument derecognised and the fair value of the new financial instrument recognised may need to be allocated between a derecognition gain or loss and a capital contribution or distribution between parties under common control.

Changes in estimated cash flows

COVID-19 may result in a change in expectations regarding the exercise of prepayment, extension or conversion features in debt agreements. When such features are accounted for as bifurcated embedded derivatives or when the entire instrument is measured at fair value through profit or loss (FVTPL), changes in the likelihood of those features being exercised will be reflected in the fair valuation. When such features are accounted for as part of a host debt instrument that is measured at amortised cost, remeasurement adjustments recognised in profit or loss may still arise as the revised expected cash flows are discounted at the instrument's original effective interest rate. When a conversion feature is classified as equity, changes in expectations regarding its exercise would have no impact on the amount originally recorded in equity.

Hedge accounting

When a transaction has been designated as the hedged item in a cash flow hedge relationship the entity will need to consider whether the transaction is still a "highly probable forecasted transaction" and if not, whether it is still expected to occur. Hedged items in a cash flow hedge that could be affected due to COVID-19 include:

- Sale or purchase volumes that fall below the levels originally forecasted;
- Planned debt issuances that are delayed or cancelled such that interest payments fall below levels originally forecasted; and
- Business acquisitions or disposals that are delayed or cancelled.

If an entity determines that a forecasted transaction is no longer highly probable, but still expected to occur, the entity must discontinue hedge accounting prospectively and defer the gain or loss on the hedging instrument that has been recognised in other comprehensive income accumulated in equity until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur the entity must immediately reclassify to profit or loss any accumulated gain or loss on the hedging instrument.

When the expected timing of a designated hedged transaction changes, an entity is required to reassess whether the hedged transaction identified in the entity's hedge documentation is still the same hedged transaction (i.e. assess whether the hedged transaction is still expected to occur).

A change in the timing of a hedged forecast transaction when its occurrence remains highly probable may also have an effect on profit or loss. Hedge ineffectiveness can exist because a difference arises in the amount and/or timing of the hedged item and the hedging instrument. It is common for entities to determine a 'hypothetical derivative' to reflect the timing and amount of the hedged item and use the fair valuation of this to compare with the hedging instrument to determine the amount of hedge ineffectiveness to be recognised in profit or loss. As the timing and/or amount of the hedged item changes in response to economic conditions, entities should redefine the hypothetical derivative to ensure hedge ineffectiveness is appropriately recognised.
Finally, increases in credit risk may cause a hedge relationship to fail its hedge effectiveness assessment if credit risk dominates the value

changes resulting from the economic relationship between the hedging instrument and the hedged item.

Financial vs non-financial assets and liabilities

The significant disruption to supply and demand may result in net cash settlement of contracts to buy or sell commodities or other non-financial assets that were previously expected to be physically settled and were accounted for as own use contracts. The expected net cash settlement of contracts to buy/sell non-financial items (e.g. commodities) will bring those contracts in scope of IFRS 9 and may result in classification of the contracts as financial assets or liabilities.

Entities sometimes enter into transactions where cash is prepaid for the supply of non-financial items, e.g. for commodities such as oil. For the payer of the prepayment this may result in the recognition of a non-financial asset because it expects to receive the non-financial item and it meets the own use requirements in IFRS 9. Likewise, the receiver of the cash may recognise a non-financial liability because it expects to deliver the non-financial item and it meets the own use requirements in IFRS 9. Expected cash settlement of such contracts would result in them being treated as a financial instruments and classified as a financial asset or financial liabilities.

Revenue from contracts with customers

Business disruptions associated with the COVID-19 pandemic may prevent an entity from entering into customer agreements by using its normal business practices, which may make the determination of whether it has enforceable rights and obligations challenging. In addition, because many of its customers are experiencing financial difficulties and liquidity issues, an entity may need to develop additional procedures to properly assess the collectability of its customer arrangements and consider changes in estimates related to variable consideration (e.g. because of greater returns, reduced usage of its products or services, or decreased royalties). To help its customers or to provide incentives for them to continue purchasing its goods or services, an entity may (1) revise its agreements to reduce any purchase commitments; (2) allow customers to terminate agreements without penalty; or (3) provide price concessions, discounts on the purchase of future goods or services, free goods or services, extended payment terms or extensions of loyalty programmes. Further, because the entity itself may be experiencing financial difficulties and supply disruptions, it may (1) request up-front payments from its customers; (2) delay the delivery of goods or services; (3) pay penalties or refunds for failing to perform, not meeting service-level agreements, or terminating agreements; or (4) incur unexpected costs to fulfil its performance obligations. Therefore, as a result of the changes in circumstances experienced by both an entity and its customers due to the COVID-19 pandemic, an entity may need to consider the following when assessing revenue from contracts with customers:

- *Contract enforceability*—IFRS 15:9 provides criteria that need to be met to account for a contract with a customer, including the approval of the parties to the contract and a commitment to perform their respective obligations. If the criteria are not met, no revenue can be recognised until one of the following occurs: (1) the criteria are met; (2) no obligations to transfer goods or services remain and substantially all of the consideration promised by the customer has been received and is non-refundable; (3) the contract has been terminated and the consideration received is non-refundable.

  In certain circumstances, the parties may not be able to approve a contract under an entity's normal and customary business practices. For example, the entity may not be able to obtain the signatures it normally obtains when entering into a contract because personnel from the entity or customer are unavailable or otherwise unable to provide signatures. Therefore, it is important to carefully evaluate whether the approval process creates a contract with enforceable rights and obligations between the entity and its customer. In making this determination, an entity may consider consulting with its legal counsel. If enforceable rights and obligations do not exist, revenue cannot be recognised until certain conditions are met (see above paragraph).

  The effect of a "force majeure" clause allowing the parties to terminate a contract without incurring penalties in certain extraordinary circumstances will also need to be considered.

- *Collectability*—A contract with a customer does not exist unless it is probable that the entity will collect substantially all the consideration to which it will be entitled in exchange for the promised goods or services that will be transferred. The collectability of that consideration should be assessed after taking into account expected price concessions (including implied concessions), which are evaluated as variable consideration, even if those concessions are provided as a result of credit risk. In addition, whilst the collectability analysis is performed at the individual contract level, an entity may look to a portfolio of similar contracts (e.g., by risk profile, size of customer, industry, geography, etc.) in its assessment. For example, if it is probable that an entity will collect substantially all the consideration for 90 per cent of a portfolio of similar contracts, and the entity is unable to identify specific contracts for which consideration is unlikely to be collected (i.e. the risk is the same for all contracts), the entity may conclude that it has met the collectability threshold for all the contracts in the portfolio. However, an entity should not ignore evidence related to specific contracts that do not meet the collectability criterion. In that circumstance, it should evaluate those specific contracts separately.

  An entity should not reassess whether a contract meets the criteria in IFRS 15:9 after contract inception unless there has been a significant change in facts and circumstances. If the impacts of the COVID-19 pandemic result in a significant deterioration of a customer's or a portfolio of customers' ability to pay, the entity should reassess collectability. For example, if a customer experiences liquidity issues or a downgrade in its credit rating, the entity would need to carefully evaluate whether those circumstances are short-term in nature or result in a determination that it is no longer probable that the customer has the ability to pay. Because of the significant uncertainty associated with the effects of the pandemic, it is important for the entity to document the judgements it made and the data or factors it considered. If the entity concludes that collectability is not probable, a customer contract no longer exists and, thus, the entity can no longer recognise revenue under IFRS 15's 5-step model. If collectability becomes probable in a subsequent period and the other criteria in IFRS 15 are met, the entity can begin to recognise revenue again. See the discussion on contract enforceability above for conditions that need to be met to recognise revenue when an enforceable contract does not exist.

- *Contract modification*—An entity may modify its enforceable rights or obligations under a contract with a customer. For example, the entity may grant a price concession to a customer. In that circumstance, the entity should consider whether the concession is due to the resolution of variability that existed at contract inception (i.e. a change in transaction price associated with variable consideration) or a modification that changes the parties' rights and obligations. A price concession that is provided solely as a result of the COVID-19 pandemic most likely represents a modification that changes the parties' rights and obligations. In addition, an entity may modify the scope of a contract (e.g. by reducing minimum purchase commitments). If the modification adds goods or services to the contract, the entity should first evaluate whether the modification is accounted for as a separate contract in accordance with IFRS 15:20. However, if the only change to a contract is a reduction of the transaction price or the modification is not otherwise a separate contract applying IFRS 15:20, the entity should evaluate the guidance in IFRS 15:21 to determine whether the modification should be accounted for as (1) a termination of the old contract and the creation of a new contract because the remaining goods or services are distinct (which results in prospective treatment); (2) a cumulative catch-up adjustment to the original contract because the remaining goods or services are not distinct; or (3) a combination of (1) and (2). If all performance obligations have been satisfied, any price concession would be treated as a change in transaction price in accordance with IFRS 15:87-89.

- *Variable consideration*—Variable consideration includes, among other things, rebates, discounts, refunds (including for product returns), and price concessions In accordance with IFRS 15:56, an entity should only include amounts of variable consideration in the transaction price if (or to the extent that) it is highly probable that doing so would not result in a significant reversal of cumulative revenue recognised when the uncertainty related to the variable consideration is resolved. Further, an entity must update its estimated transaction price in each reporting period. The entity may need to consider any expected changes in (1) its ability to perform; and (2) customer behaviour that results from deteriorating economic conditions. For example, an entity may need to consider updating its estimated transaction price if it expects an increase in product returns, decreased usage of its goods or services or decreased royalties, or to potentially pay contractual penalties associated with its inability to perform (e.g. the inability to deliver goods or services on a timely basis or to meet service-level agreements). If there is a reduction in the estimated transaction price, a change in estimate may result in the reversal of revenue for amounts previously recognised as variable consideration (e.g. as a result of an increase in return reserves). Because of the significant uncertainty associated with the pandemic's effects on an entity and its customers, it may be challenging for the entity to make appropriate estimates of variable consideration. Therefore, in a manner similar to its assessment of contract collectability, an entity must document the judgements it made and the data or factors it considered, and ensure it has carefully considered how to constrain estimates of variable consideration.

Further, an entity may have a right to receive non-cash consideration (e.g. shares) from a customer that has declined in value. If the entity's accounting policy is to measure non-cash consideration at its estimated fair value at contract inception, any changes in the fair value of non-cash consideration after contract inception that are solely due to a decrease in value are not variable consideration and would not be reflected in the transaction price. Rather, the non-cash consideration should be accounted for under the applicable IFRS Standard.

- *Material right*—To mitigate any decline in sales, an entity may offer its customers sales incentives, including discounts on future goods or services. In this circumstance, the entity should evaluate whether a sales incentive on the purchase of future goods or services represents (1) a material right in accordance with IFRS 15:B40 that is associated with a current revenue contract (whether explicit or implicit because there is a reasonable expectation on the part of a customer that he or she will receive a sales incentive at contract inception); or (2) a discount that is recognised in the future upon redemption (i.e. when revenue is recognised for the related goods or services) in a manner consistent with IFRS 15:72.

  In addition, an entity may need to update its estimates for new contracts of the stand-alone selling price of a material right (e.g. because the entity extended the periods for use or provided additional incentives to a customer) or to reassess its breakage assumptions (e.g. because of extensions or changes in expected usage patterns). For example, an entity may modify its loyalty programme by extending customers' ability to use points; this change may require the entity to reassess the breakage assumptions it uses.

- *Significant financing component*—To assist customers that are experiencing liquidity issues in purchasing goods and services, an entity may provide extended payment terms. Similarly, an entity with liquidity issues may require its customers to make an up-front payment in order for the entity to fulfil its promised goods or services. In those circumstances, an entity should evaluate whether a significant financing component exists in accordance with IFRS 15:60-65. If an entity modifies payments terms for an existing customer contract, it should consider the guidance on price concessions discussed above.

- *Implied performance obligations*—An entity may assist its customers by providing them with free goods or services that are not explicitly promised in the contract. In a manner consistent with IFRS 15:24, an entity should determine whether its contracts with customers contain promised goods or services that are implied by its customary business practices or published policies or by specific statements that create a reasonable expectation of the customer that the entity will transfer those goods or services.

  There may also be instances in which an entity provides free goods or services to its customer that are not part of a prior contract with that customer (i.e. when the prior contract was entered into, there were no explicit or implicit obligations to provide those goods or services). An entity must carefully evaluate whether the additional promised goods or services are a modification of a pre-existing customer contract or a cost incurred that is separate from any pre-existing contracts. In these situations, it may be helpful to consider the contract combination guidance in IFRS 15:17, which specifies that contracts with the same customer (or related party of the customer) are combined, if (1) they are negotiated as a package with a single commercial objective; (2) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or (3) there are goods or services in one contract that would be a single performance obligation when combined with the goods or services in another contract. In addition, an entity should consider the substance of the arrangement to provide the free goods or services and whether accounting for the arrangement as a separate transaction or as a contract modification would faithfully depict the recognition of revenue related to the goods or services promised to the customer in a pre-existing contract. In many cases, free goods or services provided to a customer solely as a result of the COVID-19 pandemic (that are not part of another newly entered contract with that customer) will not be considered a contract modification. However, an entity may need to determine whether it has developed a practice that creates an implied promise in future contracts.

- *Recognition of revenue*—Because of potential supply disruptions or other circumstances, an entity may need to reconsider the timing of revenue recognition if it is unable to satisfy its performance obligations on a timely basis. In addition, the entity must determine whether there are any contractual penalties that would affect the transaction price. In some cases, an entity may be completely unable to satisfy its performance obligation, which could result in (1) the termination of the contract, (2) a reversal of any revenue it previously recognised for a performance obligation that was not fully satisfied, and (3) the recognition of a refund liability (or additional liability due to a payment of penalties) instead of deferred revenue.

An entity may also incur unexpected costs in fulfilling a performance obligation that is satisfied over time. If the entity is using costs incurred to date as an input method to measure progress towards complete satisfaction of its performance obligation, it should be careful to ensure that revenue attributed to work carried out is not increased to offset additional costs incurred when abnormal or excessive costs arise as a result of inefficiency or error. In particular, IFRS 15:B19(a) states that, when using a cost-based input method, entities may be required to adjust the measure of progress when costs are incurred that are "attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the contract".

- *Disclosure requirements*—Many of the circumstances described above could affect an entity's disclosures. These include, but are not limited to, disclosures of significant changes in the contract asset due to an impairment, significant payment terms (including any significant financing component), and the timing of when an entity expects to recognise revenue for its remaining performance obligations (which would exclude terminated contracts or transactions that do not meet the criteria in IFRS 15:9 to be accounted for as a customer contract). Given the level of uncertainty caused by the COVID-19 pandemic, an entity may find it challenging to make certain critical estimates. Therefore, it is important for the entity to disclose any significant judgements and estimates it makes in accounting for its revenue contracts (e.g. assessing collectability; estimating and constraining variable consideration; measuring obligations for returns, refunds, and other similar obligations; measuring progress toward completion of a performance obligation recognised over time; and determining the stand-alone selling prices and breakage assumptions for material rights).

Restructuring plans

In a difficult economic environment and facing difficulties in obtaining financing, an entity may be considering or implementing restructuring plans such as the sale or closure of part of its businesses or the downsizing (temporarily or permanently) of operations. Plans such as these may require consideration of a number of issues, including whether:

- the entity has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. If, and only if, both of these criteria are met a restructuring provision should be recognised; and
- any part of the business is available for immediate sale in its present condition and completion of such a sale within one year is highly probable. If so, the assets and liabilities to be disposed of are classified as held for sale applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and written down to their fair value less costs to sell if this is lower than their carrying amount.

Onerous contracts provisions

At the inception of an executory contract, both parties to the contract expect to receive benefits that are equal to or greater than the costs to be incurred under the contract. Because of the impacts of COVID-19, unavoidable costs of meeting the obligations under the contract may exceed the benefits expected to be received, resulting in an onerous contract. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires recognition of a provision in respect of an onerous contract.

Examples of contracts for which an onerous contract provision may be required include:

- Revenue from contracts with customers containing penalties for late or non-delivery;
- Increased costs of fulfilling a customer contract due, for example, to the replacement of staff who are infected, subject to quarantine or are otherwise restricted from travel; or having to purchase alternative raw materials at a higher price due to supply chain issues; and
- Lease contracts prior to the commencement date.

The provision recognised for an onerous contract should reflect the least net cost of exiting from the contract, i.e. the lower of:

- The cost of fulfilling the contract; and
- Any compensation or penalties arising from failure to fulfil the contract.

When assets dedicated to a contract are involved, however, a separate provision is recognised only after any impairment loss has been recognised in respect of those assets.

In determining the least net cost of exiting the contract, an entity should pay attention to terms of the contract that allow the entity to terminate the contract without incurring penalties in certain extraordinary circumstances ("force majeure"). If a contract includes such a force majeure provision that can be enacted by the COVID-19 pandemic, it may be that the contract is not onerous because the entity can avoid any further obligations.

Provisions should not be recognised in respect to:

- Penalties for failure to respect the terms of a contract when the event that triggers the penalty has not yet occurred: for example, a late delivery penalty may be incurred when goods are not supplied by a specified delivery date. Even though, at the reporting date, an entity may expect to deliver the goods late, the obligation to pay the penalty should not be recognised before the delivery due date. However, if the remaining part of the contract has, as a whole, become onerous as a result of the penalty clause, a provision should be recognised for any overall net loss expected to result.
- Leases (other than short-term leases and leases of low value assets accounted for in accordance with paragraph 6 of IFRS 16 *Leases*) that become onerous after their commencement date: these leases are dealt with instead applying the general requirements of IFRS 16. For example, an entity will determine and recognise any impairment of ROU assets applying IAS 36. However, an onerous contract provision may need to be recognised for non-lease components that are accounted for separately.
- Future operating losses: IAS 37 sets out two prohibitions on the recognition of provisions for future operating losses:
  - A general prohibition, on the grounds that there is no present obligation and thus no liability (albeit the expectation of future operating losses may indicate a need to test whether assets have been impaired).
  - A specific prohibition in respect of future operating losses up to the date of a restructuring (again on grounds that there is no present obligation, unless the losses relate to an onerous contract).

Insurance recoveries

Entities that incur losses stemming from the COVID-19 pandemic may be entitled to insurance recoveries. For example, losses associated with increased medical claims, asset impairments, or shareholder litigation may be considered insured losses by many entities. Furthermore, entities may have a business interruption insurance that provides coverage for lost profits due to a suspension of their operations. It may also be the case that an entity with a present obligation can seek reimbursement of part or all of the expenditure from another party, for example via an insurance contract arranged to cover a risk, an indemnity clause in a contract or a warranty provided by a supplier.

The basis underlying the recognition of a reimbursement is that any asset arising is separate from the related obligation. Consistent with the requirements of IAS 37 on contingent assets, such a reimbursement should be recognised only when it is virtually certain that it will be received if the entity settles the obligation.

Note that it is the existence of the reimbursement asset that must be virtually certain, rather than its amount. An entity may be virtually certain that it has insurance to cover a particular provision, but it may not be certain of the precise amount that would be received from the insurer. Provided that the range of possible recoveries is such that the entity can arrive at a reliable estimate, it will be able to recognise this as an asset, even though the amount ultimately received may be different.

However, a conclusion that potential insurance recovery is virtually certain will involve significant judgement and should be based on all relevant facts and circumstances. In determining whether the threshold for recognition of a reimbursement asset is met, an entity will most likely, among other factors, need to understand the solvency of the insurance carrier and have had enough dialogue and historical experience with the insurer related to the type of claim in question to assess the likelihood of payment. Other potential challenges an entity may encounter when evaluating whether a loss is considered recoverable through insurance include, but are not limited to, (1) the need to consider whether losses stemming from a pandemic are specifically excluded as a covered event; (2) the extent of coverage and limits, including multiple layers of insurance from different carriers; and (3) the extent, if any, to which the insurance carrier disputes coverage. Consultation with legal counsel may also be necessary.

When a reimbursement asset is recognised, its presentation is as follows:

- In the statement of financial position, a separate asset is recognised (which must not exceed the amount of the provision).
- In profit or loss, a net amount may be presented, being the anticipated cost of the obligation less the reimbursement.

Lease contracts

As a result of the COVID-19 pandemic, certain entities are experiencing significantly reduced consumer traffic in retail stores and shopping areas, or indefinite closures due to quarantine measures and other government directives.

Impairments to right-of use (ROU) assets could occur as a result of business closures, supply chain disruption, or other consequences of the pandemic that negatively affect the future cash flows expected to be derived from the use of the underlying asset. ROU assets measured applying a cost model are carried at cost less any accumulated depreciation and any impairment losses (and adjusted for specific remeasurement of the lease liability). Impairment is assessed applying the requirements in IAS 36 discussed above.

Lessees in some affected markets are receiving rent abatements or other economic incentives.

Generally, the accounting treatment for lease rent concessions will depend on whether (1) the lessee was entitled to the economic relief (i.e. the contractual arrangement or jurisdictional laws provide an enforceable right) or (2) the relief was given or negotiated outside the original agreement. In determining whether the lease contained an entitlement to relief, an entity should consider contractual provisions governing the occurrence of extraordinary events (e.g. a force majeure clause or similar provision). Depending on the complexity of the arrangement and the legal framework in the applicable jurisdiction, the entity may need assistance from legal counsel.

Economic relief that was given or negotiated outside the original agreement most likely represents a lease modification, in which case the lessee applies the requirements in IFRS 16:44-46 and the lessor applies the requirements in IFRS 16:79-80 if the lease being modified is a finance lease and in IFRS 16:88 if it is an operating lease.

For the lessee, this means that if the economic relief affects only the lease payments but does not change the scope of the lease (i.e. there is no change in the assets leased or in the duration of the lease term), the lease liability would be remeasured by discounting the revised lease payments using a revised discount rate, and a corresponding adjustment would be made to the right of use asset.

If the lessee was entitled to the economic relief because of either contractual or legal rights, the relief would be treated as variable rent (i.e., negative variable rent) in the period incurred. The lessee would then recognise variable lease payments in profit or loss when the associated variability or conditionality is resolved.

The above discussion addresses relief received from a lessor (either contractually or through negotiation). In some jurisdictions, tenant relief is provided by governments as subsidies in support of the economy. If the lessee receives the relief directly from the government, the tenant relief is accounted for as a government grant applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. If the government relief is provided to the lessor who then passes it to the lessee, careful assessment is needed to establish whether the lessor is acting as an agent and the relief to the lessee is a government grant or whether the relief to the lessee is provided by the lessor and thus is a lease modification.

Consolidation

The COVID-19 pandemic may give rise to specific transactions or events that could change a reporting entity's governance rights over other legal entities and thereby affect accounting conclusions for consolidation.

In particular, loan agreements will commonly confer upon the lender rights that can be exercised in the event of the borrower breaching a loan covenant and/or defaulting on payments due under the loan agreement (e.g. the right to seize an asset provided by a borrower as collateral). Frequently, such rights are regarded as 'protective rights' and, consequently, are not considered to give the lender power over (and consequently control of) the borrower. However, in some circumstances, the rights are not merely protective and may give the lender power over the borrower on the occurrence of a breach or default.

When a lender's rights under a loan agreement are enforceable upon default or breach of a loan covenant by the borrower, in some circumstances the lender will have obtained control of the borrower. In determining whether it has obtained power over a borrower defaulting on a loan or breaching a covenant, a lender should consider:

- Whether the lender's rights are regarded as protective in nature both before and after the default or breach and hence do not give the lender power over the borrower;
- Whether the lender's rights have been amended as a result of the default or breach to give the lender power over the borrower; or
- Whether the terms of the loan agreement were originally designed to give power in the event of a default or breach.

When the rights give the lender power over the borrower in the event of a default or breach, if the other two elements of control exist (i.e. the exposure or rights to variable returns and the ability to use the power to affect the investor's returns), the lender has control over that entity.

Defined benefit plans

The significant economic uncertainty associated with the COVID-19 pandemic will affect the measurement of defined benefit obligations and plan assets.

IAS 19 *Employee Benefits* requires an entity to determine the present value of defined benefit obligations and the fair value of plan assets at the end of each reporting period. It encourages an entity to involve a professionally qualified actuary in measuring the obligations.

An entity's considerations related to the fair value measurement of financial and non-financial assets also apply to the measurement of plan assets under IAS 19. Pension plans may hold significant amounts of assets that do not have an active market, such as investments in hedge funds, structured products, and real estate assets that may become more illiquid, making their valuation more complex. Appropriately determining the fair value of such assets is important in the determination of the funded status of a defined benefit plan.

Share-based payments

Some businesses may cease operations or operate at reduced capacity as a result of the impacts of COVID-19, which could affect the probability that vesting conditions for share-based payments with performance conditions will be met. IFRS 2 *Share-based Payment* requires entities to recognise compensation expense for a share-based payment arrangement with a performance condition in situations in which the outcome of the performance condition is probable. For example, if an award contains a performance condition that affects vesting (such as an award that vests if a certain growth in profit is met) and it is not probable that the performance condition will be satisfied, any previously recognised compensation expense should be reversed.

In addition, entities may decide to modify the terms or conditions of an equity-settled award, for example a change in the fair value-based measure, vesting conditions, or classification of the award. As a result of the modification, entities may need to recognise additional compensation expense for any incremental value provided (if the modification increases the fair value of the awards or additional awards are granted), or adjust the probability that the awards will vest in measuring compensation expense (if the vesting conditions are changed in a manner beneficial to the employees).

Other employee benefits (including termination benefits)

Entities may be considering (or implementing) restructuring plans to mitigate their exposures associated with unforeseen consequences of the COVID-19 pandemic. Immediate actions may include measures to reduce their workforce through temporary employee layoffs. Further, entities may be forced to consider subsequent restructuring actions as information becomes available on the long-term effects of the pandemic on an entity's operations. In addition, in certain jurisdictions, governments may facilitate programmes to alleviate some or all of those costs (see the Government Assistance below discussion for further detail). In determining how to account for these measures, entities must start by identifying the nature and characteristics of each proposed action that is being considered because it may affect the timing of the recognition of the benefits provided to employees:

- *Stay bonus*—Some entities may offer special bonuses to employees as a reward for them working in these difficult conditions. Payments of these bonuses may be contingent on the employees continuing to provide services until a certain date. In such circumstances, the plan creates a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of that specified period. The fact that some employees may leave without receiving payments offered under the bonus plans is reflected in the measurement of the obligation. It is not appropriate to defer recognition of the obligation until the employee completes the entitlement period.

- *Salary continuation, temporary suspension of employment*—Some entities may offer to continue to compensate employees even though they are not actively working during the suspension period, keeping the right to call employees back to work as necessary and preventing employees from taking up work elsewhere during the suspension period. When an entity uses a temporary suspension arrangement of this nature in order to reduce its employment costs during periods of reduced activity, the costs of the temporary suspension should be classified as a short-term benefit similar to a paid absence (e.g. holiday or leave pay). Short-term paid absences only give rise to a liability when they are accumulating, as discussed in IAS 19:13 and 18. This is not the case in the circumstances described, because the employees only have a right to receive payments as suspension occurs and for as long as suspension lasts. The entity has the discretion to ask some or all of its employees to return to work when the conditions will permit and revert to normal working arrangements and remuneration. Therefore, in these circumstances, the costs of suspension should be recognised over the suspension period and should not be accrued at the outset. Note that, in the circumstances described, the payments should not be classified as termination benefits; they are paid in exchange for suspension of the employees' employment rather than in exchange for termination of the employees' employment (as would be required under the definition of termination benefits in IAS 19:8)

- *Termination benefits*—If benefits are provided by the entity as a result of termination of employment, the entity should recognise its obligation at the earlier of either the date when it can no longer withdraw the offer of those benefits or the date when it recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of those termination benefits. IAS 19 provides further guidance to establish the date when the entity can no longer withdraw the offer. In particular, IAS 19:167 specifies that when the termination benefits are payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
  - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
  - The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and
  - The plan establishes the termination benefits that employees will receive in sufficient detail such that employees can determine the type and amount of benefits they will receive when their employment is terminated.

The measurement requirements for termination benefits are determined in accordance with their nature. Accordingly, as indicated in IAS 19:169, an entity should measure termination benefits as follows:

- If the termination benefits are an enhancement to post-employment benefits, IAS 19's requirements for post-employment benefits should be applied; otherwise

- If the termination benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the termination benefit is recognised, IAS 19's requirements for short-term employee benefits should be applied; and

- If the termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period, IAS 19's requirements for other long-term employee benefits should be applied.

Long-term intra-group foreign investments

Paragraph 48 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* provides an exception that allows gains and losses on certain intra-group foreign currency items of a long-term investment nature to be recognised in other comprehensive income instead of being recognised in profit or loss. For an item to qualify as a long-term investment, the entity must be able to assert that "settlement is neither planned nor likely to occur in the foreseeable future". An entity that has characterised an intra-group item as part of its net investment in the entity may need to reassess whether that designation is still appropriate in the current economic environment. For example, an entity that plans to undergo restructuring because of the COVID-19 pandemic may need to reassess whether certain intercompany loans that had previously been determined to be of a "long-term investment nature" should continue to be accounted for as such if the loans could now be settled in the "foreseeable future" in connection with the restructuring plan.

Government assistance

In response to the COVID-19 pandemic, governments in many jurisdictions are considering, or have implemented, legislation to help entities that are experiencing financial difficulty stemming from the pandemic. Such assistance may be in the form of income-based tax credits that are dependent on taxable income or other forms of relief that is not dependent on taxable income (e.g. payroll tax credits, tenant reliefs and other similar subsidies).

IAS 20 has a broad scope exemption encompassing "government assistance that is provided for an entity in the form of benefits that are available in determining taxable income or are determined or limited on the basis of income tax liability". Additionally, IAS 12 *Income Taxes* excludes from its scope government grants and investment tax credits. Therefore, a first step in accounting for the various measures offered by a government is determining whether they should be accounted for applying IAS 20 or IAS 12.

Some relief programmes will clearly be in the scope of IAS 20 because they are calculated and distributed to an entity without any link to taxable income (this may be the case for subsidies granted with respect to salaries of employees on temporary suspension). Other relief programmes will be clearly in the scope of IAS 12, for example, deferral of payment of income tax or temporary changes in the income tax rate applicable to an entity.

When a government provides support to an entity through investment tax credit, it is a matter of judgement under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine the most appropriate accounting treatment. It may be appropriate to analogise to IAS 12 or IAS 20. Generally, if an approach similar to IAS 12 is adopted, a credit will be recognised in profit or loss as part of income tax expense/income, and the related asset in the statement of financial position, when the entity satisfies the criteria to receive the credit (and the government measure is substantively enacted). If the substance of the arrangement is considered to be closer to a government grant, and an IAS 20 approach is adopted, the credit will be recognised in profit or loss over the periods necessary to match the benefit of the credit with the costs for which it is intended to compensate.

Government support may also be provided as forgivable loans or low interest loans. A forgivable loan from government, for which the government has undertaken to waive repayment under certain prescribed conditions, is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan. The benefit of a government loan at a below-market rate of interest is also treated as a government grant. The loan is recognised and measured in accordance with IFRS 9. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan determined in accordance with IFRS 9 and the proceeds received. This benefit is accounted for in accordance with the general principles of IAS 20. The entity is required to consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

The effect of a government grant in the scope of IAS 20 is recognised when, and only when, there is reasonable assurance that the entity will comply with the conditions attaching to it and that the grant will be received. A grant related to income (e.g. reimbursement of employment costs) is recognised as part of profit or loss either, as an accounting policy choice:

- Separately or under a general heading such as 'other income'; or
- As a deduction in reporting the related expense.

A grant related to the acquisition of an asset is recognised in the statement of financial position either, as an accounting policy choice:

- Recognising the grant as deferred income, which is recognised in profit or loss on a systematic basis over the useful life of the asset; or
- Deducting the grant in calculating the carrying amount of the asset, in which case the grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation expense.

An entity that has benefited from government assistance will need to consider the disclosure requirements in IAS 20. In particular, it should disclose the nature and extent of the government grants recognised and provide an indication of the other form of government assistance from which it has benefited. Any unfulfilled conditions and other contingencies attaching to the government assistance should also be disclosed.

Income tax

Entities should consider how profitability, liquidity, and impairment concerns that could result from the impacts of COVID-19 might also affect their income tax accounting under IAS 12. For example, a reduction in current-period income or the actual incurrence of losses, coupled with a reduction in forecasted income or a forecast of future losses, could result in a reassessment of whether it is probable that some or all of an entity's deferred tax assets can be recovered. Such assessments will be particularly challenging in situations in which the changes in current and projected future profitability actually result in, or are expected to result in, cumulative losses and the entity has not had a stable earnings history before the impacts of COVID-19. If declining earnings or impairments generate losses, entities also need to evaluate whether there is sufficient income of the appropriate character to fully realise the related deferred tax asset.

The rate and tax base used to calculate the deferred tax balances should reflect the manner in which the entity expects, at the end of the reporting period, to recover the asset or settle the liability. Accordingly, entities will need to consider whether strategies considered to address the challenges brought by the COVID-19 pandemic have an effect on the recognition and measurement of deferred tax amounts. This may be the case for example, if an entity plans to sell an asset to improve liquidity and the tax consequences of selling an asset are different from those resulting from using the asset in operations (the original intent of the entity).

Deferred tax consequences of adjustments to the carrying amounts of assets and liabilities (for example, as a result of impairment losses or decreases in the value of a pension surplus) will also need to be considered.

As permitted by IAS 12, an entity may have not recognised deferred tax liabilities for taxable temporary differences associated with subsidiaries, branches and associates, and interests in joint arrangements, because it controls the timing of the reversal of the temporary difference and it has been probable until now that the temporary difference will not reverse in the foreseeable future. Conversely, it may have recognised deferred tax assets for deductible temporary differences associated with such investments because it was probable that the temporary difference would reverse in the future (and it was probable that the deferred tax asset could be recovered). It may be appropriate to reconsider these conclusions if there is a change in intent with respect to repatriation of undistributed earnings in an investee to help with liquidity issues.

Tax relief and credits determined to be in the scope of IAS 12 should be reflected in the recognition and measurement of tax amounts only when the tax measure is substantively enacted. The assessment of whether a measure is substantively enacted depends on the relevant local legislative process. When an entity is uncertain of whether it will meet the conditions to be eligible for a substantively enacted tax measure, it should apply the requirements of IFRIC 23 Uncertainty over Income Tax Treatments. If an entity concludes that it is not probable that a taxation authority will accept its tax treatment, the entity should reflect the effect of the uncertainty in determining the related tax balances.

Other uncertain tax positions may also arise as a result of the consequences on the entity of the COVID-19. This may be the case for tax positions related to transfer pricing arrangements, where previously prepared benchmarking studies to support the policy may no longer be valid. Here again, the requirements of IFRIC 23 would apply.

Some jurisdictions establish whether an entity is subject to taxation in a jurisdiction based on residency, often determined by a "central management and control" test, which is determined based on factors such as physical attendance at board meetings. Travel restrictions may require entities to consider whether they have met all of the requirements to be subject (or not subject) to taxation in a jurisdiction.

Breach of covenants

Unstable trading conditions and shortages of cash flows in the affected regions may increase the risk that entities breach financial covenants. Entities should consider how the breach of a loan covenant may affect the timing of repayment of the related loan and other liabilities (e.g. it becomes repayable on demand) and how it affects the classification of the related liabilities at the reporting date.

If a breach occurs on, or before, the reporting date and the breach provides the lender with the right to demand repayment within 12 months of the reporting date, the liability should be classified as current in the entity's financial statements in the absence of any agreements made prior to the reporting date that give the entity a right to defer payment beyond 12 months after the reporting date.

In contrast, a breach of loan covenants after the reporting date is a non-adjusting event that should be disclosed in the financial statements if the information is material (including the stage of the discussions with lenders to address the breach, if applicable). A breach after the reporting date could create uncertainty that raises substantial doubt about the entity's ability to continue as a going concern.

Distributable profits

Entities operating in jurisdictions where distributable profits are established on the basis of profits determined in accordance with IFRS Standards, will need to consider how the effect of the COVID-19 pandemic on their financial statements may affect their ability to declare dividends.

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For more information please see the following websites:
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Deloitte.

Audit and Risk Committee

Terms of Reference

Document Control

Effective date	Next review due	Amendment Details	Prepared by	Endorsed by	Approved by
October 2019	October 2021	Expanded description of Committee function, purpose, membership and role of City staff, plus recognition of the new role of the Office of the Auditor General	Manager Governance Services	Chief Audit Executive	Council
May 2020	October 2021	Removal of the ability for Audit and Risk Committee to approve the appointment of any internal audit service provider.	Manager Governance Services	Chief Audit Executive	Council

1. Committee's authority and purpose

Authority

In accordance with section 7.1A of the *Local Government Act 1995* (**the Act**), the Council of the City of Mandurah (**the City**) has established an Audit and Risk Committee (**the Committee**). The Committee will operate in accordance with all relevant provisions of the Act, the *Local Government (Audit) Regulations 1996* and the *Local Government (Administration) Regulations 1996*.

As prescribed in Section 16 of the *Local Government (Audit) Regulations 1996*, the Committee is to provide guidance and assistance to Council on matters relevant to its terms of reference. This role is designed to facilitate informed decision-making by Council in relation to its legislative functions and duties that have not been delegated to the CEO.

The Committee is a formally appointed committee of the Council and is responsible to the Council. The Committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The Committee does not have any management functions and cannot involve itself in management processes or procedures.

Purpose

The purpose of the Committee is to:

- Provide advice and assistance to Council as to the carrying out of the function of the City in relation to annual audits of the City's financial statements (**external audit**);
- Monitor and receive reports concerning the development, implementation and on-going management of a City-wide risk management plan;
- Monitor and receive reports concerning the development, implementation and on-going management of the City's internal audit function;
- Review the annual Compliance Audit Return and report to Council the results of that review; and
- Receive, consider and review reports from the CEO under regulation 17 of the *Local Government (Audit) Regulations 1996* and report to Council the results of its review.

2. Committee's responsibilities

The Committee is to:

- Meet with the City's external auditor at least once in every year and provide a report to Council on the matter discussed and the outcomes of those discussions;
- Support council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability;
- Examine reports of the external auditor after receiving a report from the CEO on the matter, and:

  - Determine if any matter raised requires action to be taken by the City;
  - Ensure that appropriate action is taken in respect of those matters; and
  - Review the report prepared by the CEO in respect of any matters raised in the report of the external auditor and presenting the report to Council for adoption.
- Approve the following:
  - Internal Audit Charter;
  - Internal Audit Manual;
  - Strategic and Operational Internal Audit Plans; and
  - Recommendations arising from internal audit services.
- Review the level of resources allocated to internal audit and the scope of the functions authority;
- Receive and review reports of internal audits, review the extent to which management reacts to matters raised by those internal audits, and monitor the implementation of action plans developed in response to those matters;
- Review the City's annual compliance audit return and report the results of that review to Council; and
- Receive and review biennial reports from the CEO regarding the appropriateness and effectiveness of the City's risk management, internal controls and legislative compliance.

3. Committee membership

Composition

The Committee shall comprise of up to six members, consisting of:

- Five Elected Members; and
- One external independent member.

The Council can appoint one or more deputies to the Audit and Risk Committee at any time.

Members of the Committee shall be appointed by Council in accordance with section 7.1A of the Act, which states:

- *The members of the audit committee are to be appointed by the local government and at least 3 of the members, and the majority of the members, are to be council members.*
- *A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent the CEO as a member of an audit committee.*
- *An employee is not to be a member of an audit committee.*

The Council shall appoint one of the five Elected Members as Committee Chairperson.

The tenure of members' appointment to the Committee must be compliant with Section 5.11 of the Act, being up to two years terminating on the day of the Ordinary Council elections, at which time all Elected Members will be eligible for reappointment.

Committee members who are Elected Members must declare conflicts of interest in accordance with section 11 of the *Local Government (Rules of Conduct) Regulations 2007*, in a written notice given to the CEO before the meeting or at the meeting immediately before the matter is discussed.

Appointment of external independent persons will be made following a public advertisement. The evaluation of potential members will be reviewed by the CEO and appointments will be approved by Council on the basis of the potential member's experience and qualifications in any or all of the following:

- Internal audit;
- Risk management;
- Financial management/reporting;
- Understanding of complexities associated with the City of Mandurah.

An external independent member will be a person with no operating responsibilities with the City of Mandurah, nor will that person provide paid services to the City either directly or indirectly.

Any instance where an external member has a commercial interest, or is closely associated with an organisation that has an interest in the business of the City which represents a conflict of interest or pecuniary interest, or there is a risk or perception of conflict of interest, should be declared to the Chief Executive Officer before or at the relevant Committee meeting.

Termination of appointment

Council may terminate the appointment of any member prior to the expiry of their term, if:

- The Committee Chairperson considers that the member is not making a positive contribution to the Committee.
- The member is found to be in breach of the Council's Code of Conduct or a serious contravention of the Act.
- A member's conduct, action or comments bring the City of Mandurah into disrepute.

Committee member entitlements

All Committee members will be provided with appropriate training and professional development to be determined by the Committee and provided that adequate funds are available in the City of Mandurah budget for this purpose.

External independent member(s) will receive $3,000 per annum for reimbursement of expenses.

4. Role of City staff

The following will be issued with a standing invitation to attend Committee meetings, in order to provide advice and guidance to the Committee:

- Chief Executive Officer;
- Executive Leadership Team;
- Chief Audit Executive (CAE) (or some other person as determined by the CEO to act as the CAE);
- Manager Governance Services; and
- Representative of the Office of the Auditor General.

The Internal Auditor or internal audit service provider will be invited to present reports as and when required by the Committee.

Other staff may be invited to attend meetings to discuss specific issues or reviews as and when required.

Such attendees may take part in the discussions and business of the meetings, but have no voting rights.

A Minute Officer will be appointed by the Chief Executive Officer to assist the Committee as follows:

(a) Arranging meetings, preparing agendas, preparing minutes;

(b) Taking action to implement Committee decisions as guided by the City's Governance section in relation to:

- Obtaining information for the next or future meeting;
- Preparing a paper for the next or future meeting;
- Coordinating relevant staff of the City to provide advice at the next or a future meeting;
- Promulgating decisions e.g. reporting, providing or seeking advice on significant correspondence of all kinds.

(c) Preparing background notes;

(d) Providing advice to the Chairperson, committee members and committee users on Committee policy and process matters; and

(e) Maintaining appropriate committee records in an accessible form.

5. Committee meetings

Quorum

As prescribed by Section 5.19 of the Act, the quorum for Committee meetings shall be at least 50% of the number of offices of the Committee (whether vacant or not).

In the Chairperson's absence, Committee members who are present will select a Chairperson for that particular meeting.

Frequency

Meetings will be scheduled where necessary to allow the Committee to discharge its functions up to ten times per year.

Agenda

An agenda will be distributed at least 72 hours prior to the meeting, along with the minutes of the previous meeting, reports and other attachments or information to be addressed.

Public Attendance at Meetings

The Committee meeting will be open to the public.

In accordance with Section 5.23 of the Act, the Committee may close to members of the public the meeting or part of the meeting, if the meeting or the part of the meeting deals with a number of aspects as defined by Section 5.23 of the Act.

Voting

Voting is in accordance with Section 5.21 of the Act.

Minutes and matters arising

All meetings shall be minuted by the Minute Officer, and minutes shall be approved by the Committee at the next committee meeting.

Reporting

Recommendations of each Committee meeting shall be presented to the next ordinary meeting of the Council.

Confidentiality

All Committee members will be required to adhere to the City's confidentially requirements. In particular, no confidential information received or generated by the Committee will be disclosed to unauthorised persons.

Amendment to the 2019 Local Government Compliance Audit Return

Disclosure of Interest

No	Reference	Question	Response	Comment	Respondent
7	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly designated employees within three months of their start date.	No	The designated employee included the incorrect start date in their primary return. The start date submitted in the primary return was the date they commenced in the position, rather than the date the employee received the delegation approved by the CEO.	Tahlia Jones

1	**SUBJECT:**	Office of the Auditor General – Information Systems Audit
	DIRECTOR:	Director Corporate Services
	MEETING:	Audit and Risk Committee
	MEETING DATE:	16 June 2020

Summary

The Auditor General has issued a report assessing the general information technology (IT) controls at all State Government entities. Each entity was assessed over six categories; information security, business continuity, management of IT risks, IT operations, change control, and physical security.

A comparison between the report's findings and the City's IT structure and organisation has been undertaken.

Council is requested to note the comparison of the status of the City's information systems controls with the findings of the audit on State Government entities.

Disclosure of Interest

Nil

Previous Relevant Documentation

Nil

Background

The Office of the Auditor General (OAG)[1] has conducted similar audits since 2008. Their objective is to determine whether computer controls effectively support the confidentiality, integrity and availability of information systems.

Six categories of general computer controls were selected for assessment; information security, business continuity, management of IT risks, IT operations, change control, and physical security. After examination, each category is assigned a score based on the following table:

0 **Non-existent**	Management processes are not applied at all. Complete lack of any recognisable processes.
1 **Initial/ad hoc**	Processes are ad hoc and overall approach to management is disorganised.
2 **Repeatable but intuitive**	Processes follow a regular pattern where similar procedures are followed by different people with no formal training or standard procedures. Responsibility is left to the individual and errors are highly likely.
3 **Defined**	Processes are documented and communicated. Procedures are standardised, documented and communicated through training. Processes are mandated, however it is unlikely that deviations will be detected. The procedures themselves are not sophisticated but are the formalisation of existing practices.
4 **Managed and measurable**	Management monitors and measures compliance with procedures and takes action where appropriate. Processes are under constant improvement and provide good practice. Automation and tools are used in a limited or fragmented way.

[1] Due to the size of the Auditor General's report it has not been included as an attachment. The report can be accessed at https://audit.wa.gov.au/reports-and-publications/reports/is-2020-state/

5 Optimised	Good practices are followed and automated. Processes have been refined to a level of good practice, based on the results of continuous improvement and maturity modelling with other enterprises. IT is used in an integrated way to automate the workflow, providing tools to improve quality and effectiveness, making the entity quick to adapt.

The scores derived enable the OAG to perform a capability assessment across control categories. It is expected that entities will achieve at least a Level 3 score (i.e. defined) across all categories. The OAG assessed 37 entities were examined. Only four entities have been able to demonstrate consistent good practice for every year.

The report provides both recommendations for each category as well as the control weaknesses identified.

Comment

Comments regarding the City's position compared to the control weaknesses are included in Confidential Attachment 1.1.

In addition, the following points are noted:

- Although it is possible to provide information regarding the City's controls it is not possible to conclude what the City's actual score would be, as the OAG report does not provide information regarding the various assessment criteria necessary to allocate a score. Despite that, the comparison is a useful exercise, and is largely favourable with improvements required in risk management and disaster recovery testing.

- Many State Government entities have vastly different and larger systems than the City. Some, such as Health and Education, manage a significant volume of confidential data. While that would not take away from the City's need to achieve at least the basic acceptable score if examined, it does mean that, in some cases, the requirements placed on a government entity may be different or unachievable in the local government environment.

  An example of this can be seen in the comments relating to service level agreements with IT vendors. In the case of the State Government, some services are either outsourced or the vendor maintains significant infrastructure on their behalf. This does not translate directly to the much smaller operation at the City.

- State Government entities and the City share a common highly significant risk; the threat posed by a cyber-attack. It is not feasible for the City to have IT staff dedicated to security issues as is the case in larger entities. Despite this, the IT team has undertaken a continuous education process to ensure that the City's defences are as robust as possible.

Consultation

Nil

Statutory Environment

Local Government Act 1995 s5.41(h) Functions of CEO

> *"ensure that records and documents of the local government are properly kept for the purposes of this Act and any other written law"*

Policy Implications

Nil

Economic Implications

Nil

Risk Analysis

The inability to maintain systems which are as robust as possible presents risks both in terms of data loss and impairment of operating capability. Damage would then be seen to the City's reputation and possibly to stakeholders such as suppliers and the community.

Strategic Implications

The following strategy from the *City of Mandurah Strategic Community Plan 2020 – 2040* is relevant to this report:

Organisational Excellence:

- Ensure the City has the capacity and capability to deliver quality services and facilities through accountable and transparent business practices, governance, risk and financial management.

Conclusion

The OAG's report on the audit of general computer controls provides a useful checklist to assist with the improvement of the City's systems.

NOTE:

- Refer ***Confidential Attachment 1.1*** ***Comparison of City systems with Auditor General's report on State Government entities.***

RECOMMENDATION

That Council note the comparison of the status of the City's general computer controls with the findings of the Auditor General's report on State Government entities as detailed in Confidential Attachment 1.1.

2	**SUBJECT:**	Risk Management Policy and Risk Management Framework
	DIRECTOR:	Director Corporate Services
	MEETING:	Audit and Risk Committee
	MEETING DATE:	16 June 2020

Summary

The City of Mandurah (the City) has significant moral, financial and legal responsibilities to exercise effective and efficient governance of services and infrastructure to the community and environment. Effective risk management is essential to the City's success in serving the community, delivering on its objectives and establishing a prosperous future for the City.

Governance Services has recently undertaken a review of the City's Risk Management System in response to the need for an updated corporate-wide Risk Management Framework. As a part of the Risk Management System review, the Risk Management Council Policy POL-RKM 01 and City's Risk Management Framework RMK-02 (RM Framework) were reviewed to ensure consistency with the Australian ISO 31000:2018 *Risk Management Guidelines* (the Standard).

Following consultation, the Audit and Risk Committee is requested to recommend to Council to adopt the amendments to the POL-RKM 01 Risk Management Policy (refer Attachment 2.1) and the Risk Management Framework RKM 02 (refer Attachment 2.2).

Disclosure of Interest

Nil.

Previous Relevant Documentation

• AR.2/5/20	19 May 2020	Presentation on Risk Management Update, including proposed updates to the RM Framework
• AR.1/12/19	9 December 2019	Presentation on Internal Audit Function noting an updated RM Framework was required
• G.11/7/19	23 July 2019	Update on implementation of Risk Management practices Report 2
• G.12/7/19	23 July 2019	Review of Policy Manual Report 2 – Risk Management Policy POL-RKM 01 updated
• G.8/9/18	25 September 2018	Corporate Management Progress and Risk Action Plans
• G.15/5/18	16 May 2018	Presentation on Risks Management System (*Promapp*) Presentation 1
• G.13/3/18	27 March 2018	Corporate Risks Management Progress and Risk Action Plans Report 1
• G.26/5/17	23 May 2017	Risk Management, Internal Controls & legislative Compliance – CEO Biennial Report
• G.29/3/16	22 March 2016	Update on Risk Management
• G.6/5/15	26 May 2015	Risk Management Progress and Risk Management Framework

Background

On 30 October 2018 the Australian Standard on Risk Management updated from AS ISO 31000:2009 to AS ISO 31000:2018. On 23 July 2019, Council adopted amendments to the Risk Management Policy to reflect the new Standard on Risk Management. In response to this, the City has reviewed and updated its RM Framework which is now before Council for noting.

A review and update of the City's RM Framework in accordance with the Policy amendments of 23 July 2019 and the updated Standards has in turn required the Risk Management Policy be further reviewed and updated for continuity across the City's Risk Management System.

Comment

Risk Management Policy

Amendments to the Risk Management Policy have not altered Council's original intention with respect to risk management practices but have further articulated, clarified and improved the objectives, principles, reporting and monitoring requirements.

As part of the Policy review process, the City consulted with Elected Members through numerous means, including a presentation and risk management questionnaire. The feedback obtained by the City through this process has now been incorporated into the proposed Risk Management Policy.

An overview of the key amendments

The Risk Management Policy objectives have been amended as below:

- *Protection*: to safeguard the City's assets - people, financial sustainability, environment, property, reputation and information;
- *Improved quality*: to use risk management as a tool for improving the reliability, effectiveness and efficiency of services and infrastructure to a consistently high standard;
- *Increase success*: strengthen financial and non-financial outcomes by using risk assessments to make better informed decisions and clearly articulate what is achievable;
- *Minimise adverse impacts*: to undertake good and proper management of risks in order to prevent loss, damage and minimise harm from the City's services and infrastructure on the community, visitors and the environment; and
- *Opportunity and innovation*: to capitalise on opportunities identified, foster creativity and facilitate innovation for future success within a sound environment.

A key addition to the Policy is the inclusion of the City's Risk Management Principles. The updated Standard advises that establishing risk management principles "provides guidance on the characteristics of effective and efficient risk management, communicating its value and explaining its intention and purpose" (AS 31000:2018 *Risk Management Guidelines*, page 2).

It is therefore, imperative that Council set the standard and communicate the City's value and commitment to risk management. The Standard recommends the following principles make for effective and efficient risk management:

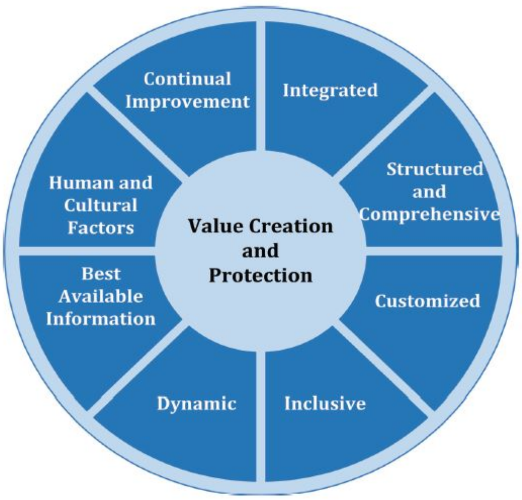


Figure 2 — Principles

AS 31000:2018 *Risk Management Guidelines*, page 3.

A new section of "Applicability" has been added to the Policy to clearly identify who in the community and organisation this policy applies to. In the area of Risk Management, Council's amended policy states that it applies to City officers, volunteers, appointed representatives and where applicable, contractors.

Responsibility and accountability for risk management has been amended to make clear that the CEO is responsible for the allocation of roles, responsibilities and accountabilities that give effect to Council's Risk Management Policy and the Framework. The CEO's responsibility in this area stems from s5.41 of the Act which requires the CEO to cause Council decisions to be implemented and manage the day to day operations of the City.

A brief summary of the role the Audit and Risk Committee plays in risk management has also been added to the amended policy. This is in recognition of the Audit and Risk Committee's importance in providing assurance to Council of the City's risk management practices within the scope of the Audit and Risk Committee's Terms of Reference.

All other amendments to the Risk Management Policy do not deviate from the existing content and are considered minor.

Regulation 17 Audit and Review

An internal audit under *Local Government (Audit) Regulations 1996* s17 was undertaken in March 2020. The City's risk management system was reviewed. It reported that the City needed to update and implement a risk management framework that was consistent with the current Risk Management Policy and the updated Standards. This had already been identified by Governance Services and development of an updated risk management framework had commenced prior to the audit starting. The updated RM Framework is now complete and as such, the City has actioned the audit recommendations.

Risk Management Framework

The purpose of the RM Framework is to give effect to the RM Policy objectives and explains how risk management will be integrated into the organisation. The RM Framework is the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation. The main reason for redrafting the RM Framework was to align it with the Standard and current Risk Management Policy requirements.

The main changes in the Standard are:

- review and update of the principles of risk management;
- highlighting the leadership of top management and the integration of risk management starting with the governance of the organisation;
- greater emphasis on the iterative nature of risk management, noting that new experiences and knowledge can lead to revision of processes, actions and controls at any stage;
- greater focus on sustaining an open systems model to fit multiple needs and contexts.

Accordingly, the City's RM Framework has:

- included the City's principles of risk management as also stated in the amended Risk Management Policy;
- emphasised the importance and influence of Council, ELT and CoMMT in the City's risk management activities, setting the 'tone from the top';
- imposed a requirement for consideration and reviews on the effectiveness of risk controls and processes at several stages throughout the risk management procedure and further allowed those elements to be adjusted and updated as needed and/or within set timeframes should there be no prior need. The RM Framework encourages continual improvement and the document, itself, is to be considered a 'working document' that will be subject to change as the organisation develops, learns and grows through the implementation of risk management activities. In accordance with the updated Standard, the RM Framework aims to ensure risk management practices are kept quite liquid; and

- been designed to integrate and work with the City's policies, plans, procedures and activities. The focus being that risk management is the responsibility of everyone and is therefore, designed and implemented in a way that is meaningful, practical and effective across the varying Business Areas of the City.

Risk Management Reporting Framework

The updated RM Framework also establishes the risk reporting framework. Reporting is a key aspect of effective risk management as it sets timeframes and expectations of monitoring and reviews. This is essential to ensuring the City's risk management practices do not become stagnant and 'out-of-date', but rather, remain relevant, practical and effective. Reporting is evidence of risk activities and supports transparency and accountability throughout the City.

Under the RM Framework there are three components to risk reporting:
1. The Risk Reporting Framework. This is a table setting out the main risk reports for the risk management system, strategic risk management and operational risk management;
2. Strategic and Operational Risk Registers; and
3. Individual Business Area record keeping processes.

Notably, the Audit and Risk Committee will be receiving quarterly summary reports of the strategic risk register and risk treatments. Annually it will receive summary review reports on risk appetite thresholds, strategic risk treatment plans, any Risk Management Policy reviews and a RM Framework implementation summary. An internal audit of the risk management system will also be reported in accordance with *Local Government (Audit) Regulations* s17 every three years.

Implementation of the Risk Management Framework

The next stage in risk management will be the implementation of the amended Risk Management Policy and updated RM Framework. Governance Services has already initiated consultation with Elected Members and Senior Management with respect to identifying and updating strategic risks against each strategic community objective via a questionnaire. This has formed a basis for further consultation by Elected Members with risk experts to re-evaluate the risk appetite thresholds.

Simultaneously, consultation will begin with ELT and CoMMT in identifying and assessing the organisations operational risks. A Risk Management Procedure and subsequent checklists are being developed to assist with the RM Framework implementation, recording, monitoring and reporting across the organisation.

Workshops with Business Areas will be undertaken by Governance Services to inform and equip staff in the area of risk management. This will include consultation with each Business Area to ascertain how risk management procedures can be effectively and efficiently integrated into their processes.

It is to be expected that proper integration of the RM Framework will take time, open mindedness and change.

Consultation

An extensive questionnaire was completed by Elected Members and Senior Management to seek their opinions and input with respect to strategic risk management and risk objectives. The results of the questionnaire were emailed to Elected Members for their information and consideration.

A presentation was completed at Audit and Risk Committee on the redrafted RM Framework and proposed risk management policy amendments. The presentation was also circulated to all Elected Members for comment.

The proposed Risk Management Policy changes were emailed to Elected Members for input and recommendations.

The redrafted RM Framework was emailed to Elected Members, ELT and CoMMT for comment.

Statutory Environment

Section 2.7(2)(b) of the *Local Government Act 1995* prescribes that Council determine the local governments policies.

Pursuant to Section 3.1(1) of the *Local Government Act 199*5 which stipulates '*The general function of a local government is to provide for the good government of persons in its district*'. The *Local Government Act 1995* s3.18 qualifies 'good government' with the expectation that local governments will manage their services and facilities *efficiently* and *effectively*.

Policy Implications

The Risk Management Policy forms part of the Council Policy suite and will be published on the City's website. It is a governing document in the City's Risk Management System and is applicable to City Officers, volunteers, authorised representatives and contractors.

Economic Implications

The implication of the Risk Management Policy and RM Framework are considered essential to the City's normal business planning and budgeting considerations. The objectives of risk management are that the City will be better positioned to protect and limit economic loss and simultaneously, increase economic opportunity and success. The financial costs of undertaking risk assessments and implementing risk controls and treatments are to be taken into consideration as a part of the risk procedure prior to decisions being made.

Risk Analysis

A united and consistent Risk Management Policy and RM Framework is crucial to the City's ability to assess and manage risks that may impact on the strategic community objectives. Implementation of the RM Framework is, in and of itself, a core measure of risk control.

Strategic Implications

The following strategy from the *City of Mandurah Strategic Community Plan 2020 – 2040* is relevant to this report:

<u>Organisational Excellence</u>:
- Ensure the City has the capacity and capability to deliver quality services and facilities through accountable and transparent business practices, governance, risk and financial management.

Conclusion

It is requested that the Audit and Risk Committee recommend to Council to adopt the amendments to the Risk Management Policy and note the updated Risk Management Framework.

NOTE:

- Refer ***Attachment 2.1 POL-RKM 01 Risk Management***
  Attachment 2.2 RKM 02 Risk Management Framework

RECOMMENDATION

That Council:

1. **Adopt the proposed amendments to POL-RKM 01 Risk Management Policy as per Attachment 2.1*;***

2. **Note the updated RKM-02 Risk Management Framework.**

RISK MANAGEMENT

COUNCIL POLICY

POL-RKM 01

Introduction:

As a public authority, the City of Mandurah (the City) is exposed to a broad range of risks which, if not managed, could adversely impact on its ability to achieve the strategic community objectives.

Therefore, the City will implement a risk management system encompassing a Risk Management Framework, this Policy and Risk Management Procedures to identify and address, where practicable, areas of risk within the City. The system adopted will be consistent with *Australian and New Zealand Standard ISO 31000:2018 Risk Management Guidelines* (the Standard).

The intent of this policy is to create an environment where Council, management and staff accept direct responsibility for risk management, through development, implementation and maintaining of effective risk management practices. Risk management is the responsibility of everyone and will be treated as an integral part of the City's culture, policies, protocols and processes.

Objective:

The objectives of the risk management and this policy are:

- ***Protection:*** to safeguard the City's assets - people, financial sustainability, environment, property, reputation and information;
- ***Improved quality:*** to use risk management principles as a tool for improving the reliability, effectiveness and efficiency of services and infrastructure to a consistently high standard;
- ***Increase success:*** strengthen financial and non-financial outcomes by using risk assessments to make better informed decisions and clearly articulate what is achievable;
- ***Minimise adverse impacts:*** to undertake good and proper management of risks in order to prevent loss, damage and minimise harm from the City's services and infrastructure on the community, visitors and the environment; and
- ***Opportunity and innovation:*** to capitalise on opportunities identified, foster creativity and facilitate innovation for future success within a sound environment.

Statement:

1. APPLICABILITY

This policy applies to all risk management activities undertaken by City officers, volunteers, appointed representatives and where applicable, contractors.

2. POLICY REQUIREMENTS

2.1 The City will manage risk in accordance with the Standard, and will, at all levels of the organisation, ensure the following is achieved:

- Design and implement a Risk Management Framework that is consistent with the Standard to provide a common structure for all risk management activities across the City;

- Identify, assess and prioritise the strategic risks for each objective stated in the *City of Mandurah Strategic Community Plan 2020-2040* and ensure risk treatments are implemented progressively based on the level of risk and the effectiveness of the current controls;
- Manage all identified risks and undertake regular review of all identified risks;
- Integrate risk management processes into existing business planning cycles and operational processes across all levels of the organisation;
- Act in accordance with relevant legislation and consider political, social, natural and economic environments when managing risk;
- Create and actively promote a culture of risk awareness across the City through implementation, expectation and equipping staff with risk management tools for individual and organisational development; and
- Ensure resources and operational capabilities are identified and allocated to all aspects of the City's Risk Management Framework.

2.2 All levels of the City shall incorporate the following principles of Risk Management. These principles are the City's commitment to create, value and foster effective and efficient risk management.

The City's risk management approach will:

A. be ***integrated*** into all management planning and operational processes undertaken or overseen by The City;

B. be a ***structured and comprehensive*** approach that is applied to ensure risk management processes are systematic and timely;

C. be ***customised*** to fit seamlessly within The City's diverse strategic, operational and project-based activities and in proportion to the external and internal context in which the City operates;

D. be ***inclusive*** of internal and external stakeholder's knowledge, views and perceptions for transparency and better-informed decision-making;

E. be ***dynamic***, ***current*** and ***responsive*** to anticipate and manage change in a meaningful and timely manner;

F. be based on the ***best available information*** considering historical, current and future expectations as would be reasonably foreseeable;

G. be the ***responsibility of all***, from Council to the CEO to every employee, forming an essential element in the City's 'One Team' culture; and

H. be ***continually improved***.

2.3 The City will use the following elements of the Standard as the model for implementing and managing the risk management process within Council's business operations.

- **General**
  The City will ensure the risk management process becomes an integral part of management, embedded in the culture and practices, and tailored to its business processes.

- **Communication and consultation**
  The City will communicate and consult with external and internal stakeholders during all stages of the risk management process, and will address issues relating to the risk - its causes, its consequences (if known) and the measures being taken to treat it. This process will ensure accountability on the part of those implementing the risk management process.

- **Establish the scope, context and criteria**

  By establishing the context, the City will articulate its risk objectives, consider the external and internal parameters, set the scope and criteria for the risk management process. This will be undertaken in full consideration of the need to justify the resources required to be used in carrying out risk management.

- **Risk identification**

  The City will identify sources of risk, areas of impacts, events (including changes in circumstances) and their causes and potential consequences. The aim of this step is to generate a comprehensive list of risks based on those events that may create, enhance, prevent, degrade, accelerate or delay the achievement of the City's objectives.

- **Risk analysis**

  The City will identify causes and sources of risk, the positive and negative consequences, and the likelihood of those consequences occurring. Existing controls, their effectiveness and efficiency, will also be considered. The analysis will identify the inherent risk level and residual risk level once controls and treatments have been applied.

- **Risk evaluation**

  The City will compare the level of risk with the established context and criteria for the risk. Risk controls and treatment will then be considered. Such decisions will take into account the wider context including the risk tolerance thresholds of internal and external stakeholders that may be impacted by the risk. Decisions will be made in accordance with any legal requirements and obligations the City may have.

- **Risk treatment**

  The City will select the most appropriate and viable risk treatment option taking into consideration a number of factors including, the costs, expected benefit, legal obligations, economic viability, environment, social responsibilities and economic factors.

  Risk treatments will maintain the City's risk exposure within Council's risk appetite thresholds. Any risks that exceed the residual risk level acceptable threshold will be reported to the CEO and Council for input and sign-off.

- **Monitoring and review**

  The City will implement and integrate a 'monitor and review' process to report on achievements of the risk management objectives.

  Treatment and action plans will also be monitored to ensure continual improvement of the City's performance. Monitoring and review will take place at all stages of the process and in compliance with legislative requirements.

- **Recording and reporting**

  The City will ensure all risk management activities are accurately recorded and traceable. Results of the monitoring and review processes will be reported as appropriate through external and internal avenues including, but not limited to, quarterly reports to Audit and Risk and an annual report to Council. Reports will be used to assess and review the effectiveness of the risk management framework and identify specific areas of need.

- **Responsibility/Accountability**

  The Chief Executive Officer is responsible for the allocation of roles, responsibilities and accountabilities. These are documented in the Risk Management Framework and Risk Management Procedure.

  Risk management is everyone's responsibility:
  - All employees are accountable for managing risk within their area of responsibility in accordance with the Risk Management Framework and Procedures.
  - Audit and Risk Committee, in accordance with the Terms of Reference, is to monitor and receive reports concerning the development and implementation of the Risk Management Framework and support Council in fulfilling its governance and risk management oversight responsibilities.
  - Executive Leadership and Management Team will be required to create an environment where managing risk is accepted as the personal responsibility of each member of the organisation, and integrated with planning and operational processes.
  - Each Business Area will be accountable for the management of risks within their area of responsibility in ways that is consistent with the Risk Management Framework and Procedures.

Responsible Directorate:	Corporate Services
Reviewer:	Director Corporate Services
Creation date:	Minute AR.6/6/07, 26 June 2007

RISK MANAGEMENT

Amendments:	Minute G.15/9/09, 15 September 2009 Minute G.43/12/09, 15 December 2009 Minute G.35/2/15, 24 February 2015 Minute G.12/7/19, 23 July 2019
Related Documentation and/or Legislation:	*Local Government Act 1995* *Local Government (Audit) Regulations 1996* *Occupational Safety and Health Act 1984* *Occupational Safety and Health Regulations 1996* *Health (Miscellaneous Provisions) Act 1911* *Health (Public Buildings) Regulations 1992* AS ISO 31000:2018 – *Risk Management – Guidelines.* The City of Mandurah Risk Management Framework 2020 Audit and Risk Committee Terms of Reference

Report 02 Risk Management Policy and Framework Att 2

RESPONSIBLE DIRECTORATE: CORPORATE SERVICES
AUTHOR: GOVERNANCE SERVICES TEAM
VERSION 1.0
JUNE 2020

Table of contents

1. Introduction

The City of Mandurah (the City) has significant moral, financial and legal responsibilities to exercise appropriate, effective and efficient governance of services and infrastructure to the community and environment. Effective risk management is essential to the City's success in serving the community, delivering on its objectives and establishing a prosperous future for the City.

The Risk Management Framework (RM Framework) is the system that provides a standardised basis for all risk management activities undertaken by the City. It unites Council's Risk Management Policy POL-RKM 01 (RM Policy) with the City's Risk Management Procedure (RM Procedure), creating a considered and consistent approach to risk management activities at the City. The components of this document are developed in accordance with the Australian Standard *AS ISO 31000:2018 Risk Management Guidelines*.

The RM Framework gives effect to a 'risk aware' culture. Ultimately, the RM Framework is the foundation that supports the City in effectively and efficiently managing risks in pursuit of the City's objectives and community vision.

The RM Framework will be continuously reviewed by the Chief Executive Officer (CEO) and presented to Council (through the Audit and Risk Committee) for noting every two years.

2. Objective

The objective of this document is to create an effective framework that seamlessly integrates risk management across all levels of the organisation. The RM Framework aims to support the following:

- Ensures risk is a key component in the development of the City's Integrated Planning and Reporting Requirements, including 10-year Strategic Community Plan, Corporate Business Plan and a Long-Term Financial Plan;
- Promotes and improves the understanding of risk management across all levels of the City through the implementation of the City's RM Procedures and guidelines;
- Provides a balanced, documented, structured and systematic process with the size and complexity of the City along with existing time, resource and workload pressures;
- Supports strong corporate governance, compliance with relevant legislation, regulation and policies and informed decision-making processes; and
- Provides clear identification of the roles and responsibilities of the risk management functions.

3. Legislative Context

The risk management system is vital to the City's performance of good governance and legislative compliance. Risk management affects all areas of the organisation and is imposed upon the City by several legislative bodies.

3.1 Local Government Act 1995 expects the City to have a risk management system

The *Local Government Act 1995* (*LGA*) requires local governments to provide for the good government of persons in its district.[1] *LGA* s3.18 qualifies 'good government' with the

[1] *Local Government Act 1995* s3.1

expectation that local governments will manage their services and facilities ***efficiently*** and ***effectively***.

In order to provide efficient and effective management the Western Australian State Government expects local governments to implement a corporate wide risk management system. The State Treasurer has instructed that '*risk management is essential to the optimal operation of the public sector*'.[2]

3.2 Occupational Safety and Health Act 1984 imposes a duty of care on The City to manage risk

The *Occupational Safety and Health Act 1984* (*OSH Act*) s19 imposes a duty on the City to provide a workplace that does not expose its employees to hazards. More specifically, the *Occupational Safety and Health Regulations 1996* requires The City to identify, reduce and manage risks in the workplace.

3.3 Health (Miscellaneous Provisions) Act 1911 requires the City's public buildings to have a risk management plan

The *Health (Miscellaneous Provisions) Act 1911* requires the City to ensure the safety and health of persons in its public buildings. *Health (Public Buildings) Regulations 1992* require risk management plans to be undertaken and implemented during public building approval, occupation and in cases of emergency.[3]

3.4 Emergency Management Act 2005 requires that the City implement emergency risk management strategies

Emergency Management Act 2005 ('*EMA*') s36 stipulates that a local government is to ensure local emergency management arrangements are prepared and maintained in accordance with State Emergency Management Committee risk management strategies. In accordance with emergency risk management obligations the City is to effectively manage Emergency Management and Evacuation Plans, Local Recovery Plans and Business Continuity Plans.

3.5 The City's risk management system is subject to legislated reviews and audits:

The City's implementation and day-to-day operations of its risk management Policy, Framework and Procedures are reviewed in accordance with the following legislation:

- *Local Government (Audit) Regulations 1996* ('*LGA Audit*') s17(a) requires the CEO to review the appropriateness and effectiveness of The City's risk management system;
- *LGA Audit* s10(2) requires a Local Government Auditor to report on the operations of The City; and
- *Auditor General Act 2006* s18 authorises the Auditor General at any time to investigate and examine the compliance, effectiveness and efficiency of The City's functions and report to both Houses of Parliament.

[2] Department of Treasury (2007) *Treasurer's Instructions 825 Risk Management and Security*, Western Australia.
[3] *Health (Public Buildings) Regulations 1992* s4, s26 and s26A

4. Australian Standard on Risk Management – AS ISO 31000:2018

In accordance with Government recommendations and Council's RM Policy, the components of the City's Risk Management System are consistent with the *AS ISO 31000:2018 Risk Management Guidelines* (the Standard) as published by Standards Australia Limited.

4.1 THE STANDARD ON WHAT RISK IS

The Standard simply defines ***Risk*** as the effect of uncertainty on objectives.[4]

There are three (3) elements required to be identified in order to define a risk:

1. ***Objectives*** – what is the aim, goal, purpose, or strategic position to be achieved?
2. ***Uncertainty*** – what could prevent the objective from being achieved?
3. ***Effect*** – what will happen if the 'uncertainty' actually occurs? (It can be positive, negative or both, and can address, create or result in opportunities and threats)[5]

4.2 THE STANDARD ON RISK MANAGEMENT

The Standard defines ***Risk Management*** as the principles, framework and processes used to direct and control risk.[6] Figure 1 below illustrates the Standard's recommended relationship between the risk management principles, the framework and process:

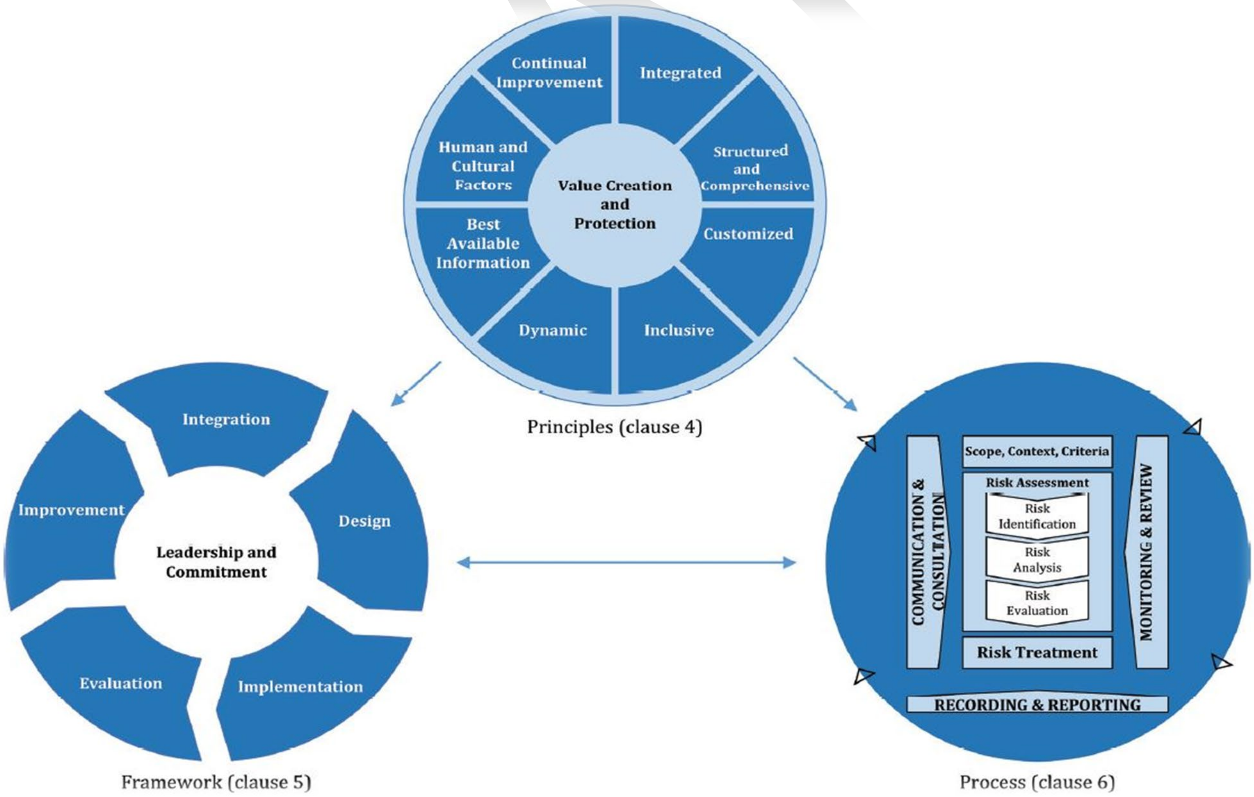


Figure 1 –AS ISO 31000:2018 recommended Risk Management System

[4] Australian ISO Standard on Risk Management: AS ISO 31000:2018, page 1.
[5] Australian ISO Standard on Risk Management: AS ISO 31000:2018, page 1.
[6] Australian ISO Standard on Risk Management: AS ISO 31000:2018, page 1.

5. Risk Management Principles

In alignment with the Standard and Council's RM Policy, the City's commitment to risk management is underpinned by the following principles.[7] All levels of the organisation will commit to incorporating these principles into their risk management activities.

5.1 PRINCIPLES

The City's risk management approach will:

A. be ***integrated*** into all management planning and operational processes undertaken or overseen by the City;

B. be a ***structured and comprehensive*** approach that is applied to ensure risk management processes are systematic and timely;

C. be ***customised*** to fit seamlessly within the City's diverse strategic, operational and project-based activities and in proportion to the external and internal context in which the City operates;

D. be ***inclusive*** of internal and external stakeholder's knowledge, views and perceptions for transparency and better-informed decision-making;

E. be ***dynamic***, ***current*** and ***responsive*** to anticipate and manage change in a meaningful and timely manner;

F. be based on the ***best available information*** considering historical, current and future expectations as would be reasonably foreseeable;

G. be the ***responsibility of all***, from Council to CEO to every employee, forming an essential element in the City's 'One Team' culture; and

H. be ***continually improved***.

[7] The Principles in accordance with Australian ISO Standard on Risk Management: AS ISO 31000:2018, page 3-4. Also see Figure 1. Above.

6. Council's Risk Management Policy (POL-RKM 01)

In accordance with *LGA* s2.7 Council's role is to govern the local government's affairs and be responsible for the performance of the local government's functions. As such Council has determined the RM Policy and shall satisfy itself that the City is operating an effective risk management system.

Council's RM Policy articulates the City of Mandurah's value and commitment to administrate an effective corporate-wide risk management system. The RM Policy has set the expectation that risk management is the direct responsibility of Council, the Executive Leadership Team (ELT), the Management Team (CoMMT) and staff, describing risk management as *'everyone's responsibility'*[8]. The City's RM Procedures, in conjunction with this document supports the organisation in the implementation of the RM Policy.

The RM Policy states the City's objectives of risk management as:[9]

A. ***Protection***: to safeguard the City's assets - people, financial sustainability, environment, property, reputation and information;

B. ***Improved quality***: to use risk management as a tool for improving the reliability, effectiveness and efficiency of services and infrastructure to a consistently high standard;

C. ***Increase success***: strengthen financial and non-financial outcomes by using risk assessments to make better informed decisions and clearly articulate what is achievable;

D. ***Minimise adverse impacts***: to undertake good and proper management of risks in order to prevent loss, damage and minimise harm from the City's services and infrastructure on the community, visitors and the environment; and

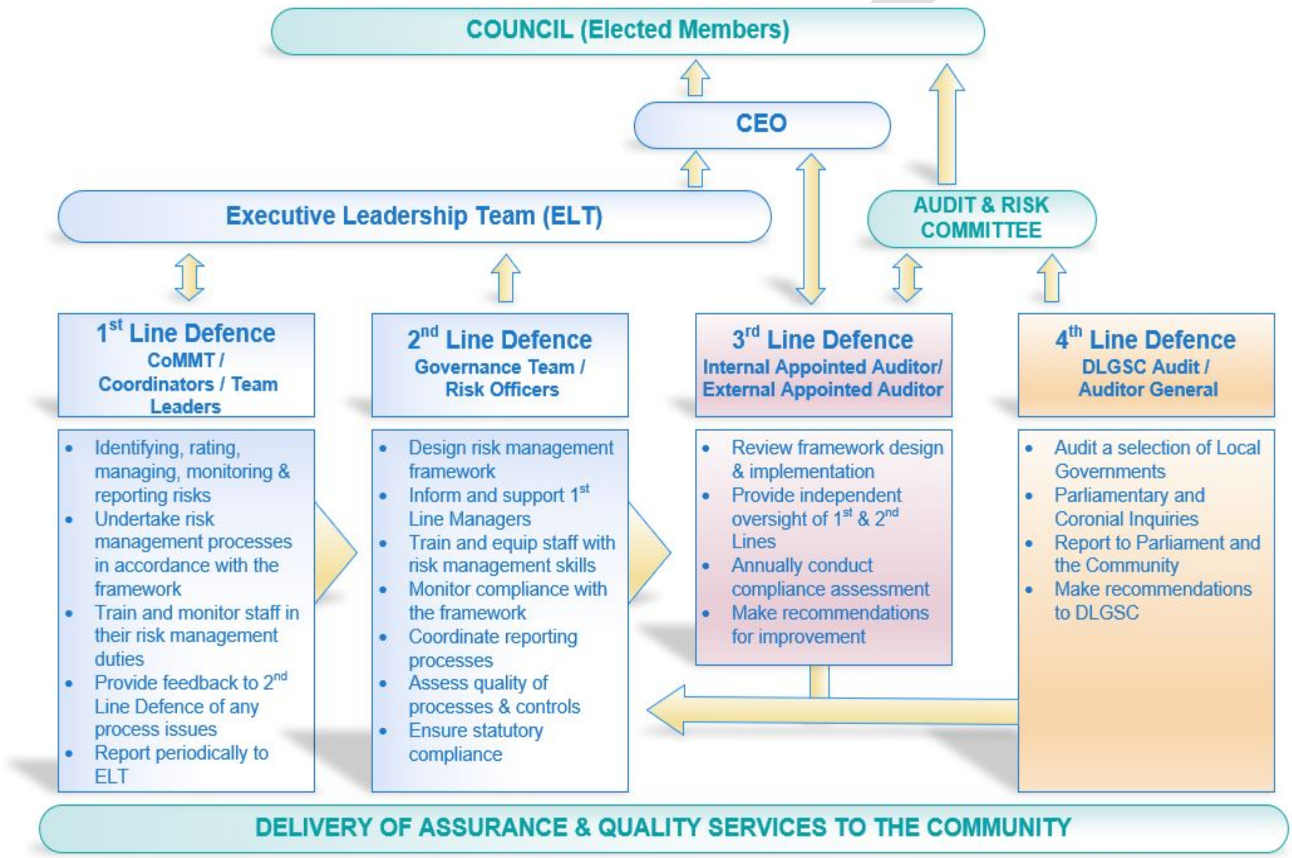
E. ***Opportunity and innovation:*** to capitalise on opportunities identified, foster creativity and facilitate innovation for future success within a sound environment.

[8] City of Mandurah (2020) *Risk Management Policy*, Council Policy POL-RKM01.
[9] City of Mandurah (2020) *Risk Management Policy*, Council Policy POL-RKM01.

7. Risk Management Assurance

The City has integrated the Office of the Auditor General (OAG) "Four Lines of Defence" model as a means of capturing and providing assurance of effective risk management.[10]

Whilst the management and reporting of risk management activities moves vertically through the organisation, the City simultaneously monitors and reviews these activities horizontally across the organisation through its Governance Services, the City's Internal Audit Function and externally appointed auditors. In doing this the City systematically enhances communications, increases transparency and strengthens control of risk management process and compliance.



7.1 FIRST LINE OF DEFENCE – City of Mandurah Management Team, Coordinators & Team Leaders

Each directorate / business area / service unit is responsible for the ownership and management of their risks. CoMMT, Coordinators and Team Leaders are the first line of assurance for risk management in the organisation and fundamental to its effectiveness through the practical performance of risk activities.

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[10] Office of The Auditor General (2020) *Audit Results Report – Annual 2018-19 Financial Audits of Local Government Entities*, Western Australia, Report 16 2019:20, page 27-28.

1st Line Key activities are to:

- promote, guide and assist each member of the team to actively participate in risk management through the business area's systems and processes;
- undertake risk identifications, assessments, and evaluations within the scope of the business areas objectives;
- prepare risk acceptance proposals and plans based on the level of residual risk and Council's risk appetite;
- exercise control through the ongoing management, monitoring and review of the business area's accepted risks; and
- provide periodical reports to ELT.

7.2 SECOND LINE OF DEFENCE – Governance Services

Governance Services are responsible for the design and implementation of the framework, risk procedures and risk compliance in the organisation.

2nd Line Key Activities are to:

- provide assurance and transparency on the risk and control environment between 1st and 3rd Lines of Defence;
- train and support the 1st Line process;
- manage and monitor compliance with the risk management framework;
- consult, review and implement any changes to the risk management framework for organisational improvement; and
- coordinate the City's reporting for the CEO, ELT, Audit and Risk Committee (A&R Committee) and Council.

7.3 THIRD LINE OF DEFENCE – Internal Audit Function

The City has an established internal audit function that provides independent assurance to Council and the A&R Committee. It is an independent, objective assurance and consulting activity designed to add value and improve the City's operations. The purpose of the internal audit function is to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The City's internal audit function should evaluate and monitor the adequacy and effectiveness of the internal control framework as a minimum. Risk management is also an essential part of the City's management and internal control framework. It looks at what risks the City may face and the best way to address these risks. Assessment and management of risk is central to determining internal audit activities.

The three-year Strategic Internal Audit Plan (SIAP) provides an outline of the areas the City considers to be a priority for review, using a risk-based approach. The SIAP is based on a risk assessment of the City's key strategic and operational areas to determine the appropriate timing and frequency of coverage of each of these areas.

Internal audit service providers are engaged to conduct audits in accordance with the Strategic Internal Audit Plan 2020/21 – 2022/23, which is reviewed by A&R Committee and adopted by Council.

3rd Line Key Activities are to:

- provide an impartial assessment of the organisation's compliance with the City's legislative requirements, the risk management framework and processes;
- audit and assess specific areas as determined by the CEO with the input of the Audit and Risk Committee;
- alert the 2nd Line as to areas of lack and potential control issues; and
- provide recommendations as to framework design, internal controls and improved processes.

7.4 FOURTH LINE OF DEFENCE – Auditor General and Other External Reviews

External audits may be undertaken by the OAG, Department of Local Government, Sport & Cultural Industries or other parliamentary enquiries. The purpose of these audits is to ensure regulatory compliance and assess the City's level of integrity.

The external audit reports are presented to parliament and the community. They are a helpful information tool for local governments to stay abreast with changes, expectations and improved methods of risk management.

This 4th Line of Defence provides both the leadership and the community with assurance that the City is operating with excellence, honesty and integrity.

7.5 ASSURANCE OF AUDIT AND RISK COMMITTEE

In accordance with section 7.1A of the *LGA*, the Council has established an A&R Committee which serves as another means of assurance for the City. The A&R Committee will operate in accordance with all relevant provisions of the Act, the *Local Government (Audit) Regulations 1996* (Audit Regulations) and the *Local Government (Administration) Regulations 1996* (Administration Regulations).

As prescribed in Section 16 of the Audit Regulations the A&R Committee is to provide guidance and assistance to Council on matters relevant to its terms of reference. This role is designed to facilitate informed decision-making by Council in relation to its legislative functions and duties that have not been delegated to the CEO. In the context of risk management, the role of the A&R Committee is to:

- Monitor and receive reports concerning the development, implementation and on-going management of a City-wide risk management plan (strategic risk management);
- Receive and review reports from the CEO regarding the appropriateness and effectiveness of the City's risk management, internal controls and legislative compliance at least once every three financial years; and
- Support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability.

8. Risk Appetite

The risk appetite is the amount of risk exposure that the City is prepared to accept in the pursuit of its strategic community objectives. The risk appetite for the City is determined by Council, in conjunction with the CEO.

Council have a key role to set and approve the risk appetite for each strategic risk and accordingly the organisation must operate within the established risk appetite. Risk appetite thresholds are to be reviewed by Council every two years as part of the Risk Management Framework review.

8.1 RISK APPETITE GUIDELINES

8.1.1 Once the CEO has identified, analysed, mitigated and re-evaluated the ***residual risk rating*** for each strategic risk, if the risk is moderate or above, the risk will be provided to the A&R Committee who will review the risk and the risk assessment and consider management recommendations. The A&R Committee will also review each operational risk that has a residual risk rating of high or above.

8.1.2 Factors to be considered when setting the Risk Appetite levels
In deciding the risk appetite Council and the CEO are required to consider and articulate:

- the priority order of strategic objectives;
- resources to be allocated;
- emerging risks within the City's control;
- risks outside the City's control;
- the risk tolerance levels of external and internal stakeholders;
- any legislative requirements or limits; and
- recommendations made by the A&R Committee.

8.1.3 Risk Appetite Rating
With consideration to the factors listed above, Council are to decide the maximum level of risk rating that the City will tolerate for each strategic risk. This forms the ***risk appetite*** that the City is to perform its operations within. Once adopted by Council, the CEO is responsible for ensuring the integration of the risk appetite into the organisations processes.

9. Strategic and Operational Risk Management

The RM Framework has been developed with a focus on managing risk at the strategic and operational levels. Both levels of risk are to be managed in accordance with the Standard's Risk Management Process (item 10 of this document) and have been incorporated into the City's RM Procedure. An overview of strategic and operational risks are below:

9.1 STRATEGIC RISKS

Strategic risks affect the sustainability of the City or its ability to deliver on the strategic community objectives. Strategic risks may affect the whole City, a significant part of the organisation, the longer-term interests of the City and the Community and may possibly affect future service delivery.

It is the strategic community objectives and strategic risks that shape, define, limit, qualify and quantify how the entire organisation will do business. Failure to adequately manage strategic risks could result in catastrophic consequences or put the City at risk of total failure and major loss.

Council, A&R Committee, the CEO, ELT and CoMMT all play a role in strategic risk management.

9.2 OPERATIONAL RISKS

Operational risks relate to the day-to-day operations, activities, functions and services of the organisation. Operational risks are those that affect the viability of achieving activities associated with individual business units and operational objectives. These risks include issues that affect 'business as usual' activities and the basic services of each business unit. Operational risks relate to the effective and efficient use of the City's resources, and can have a day-to-day impact on specific operations.

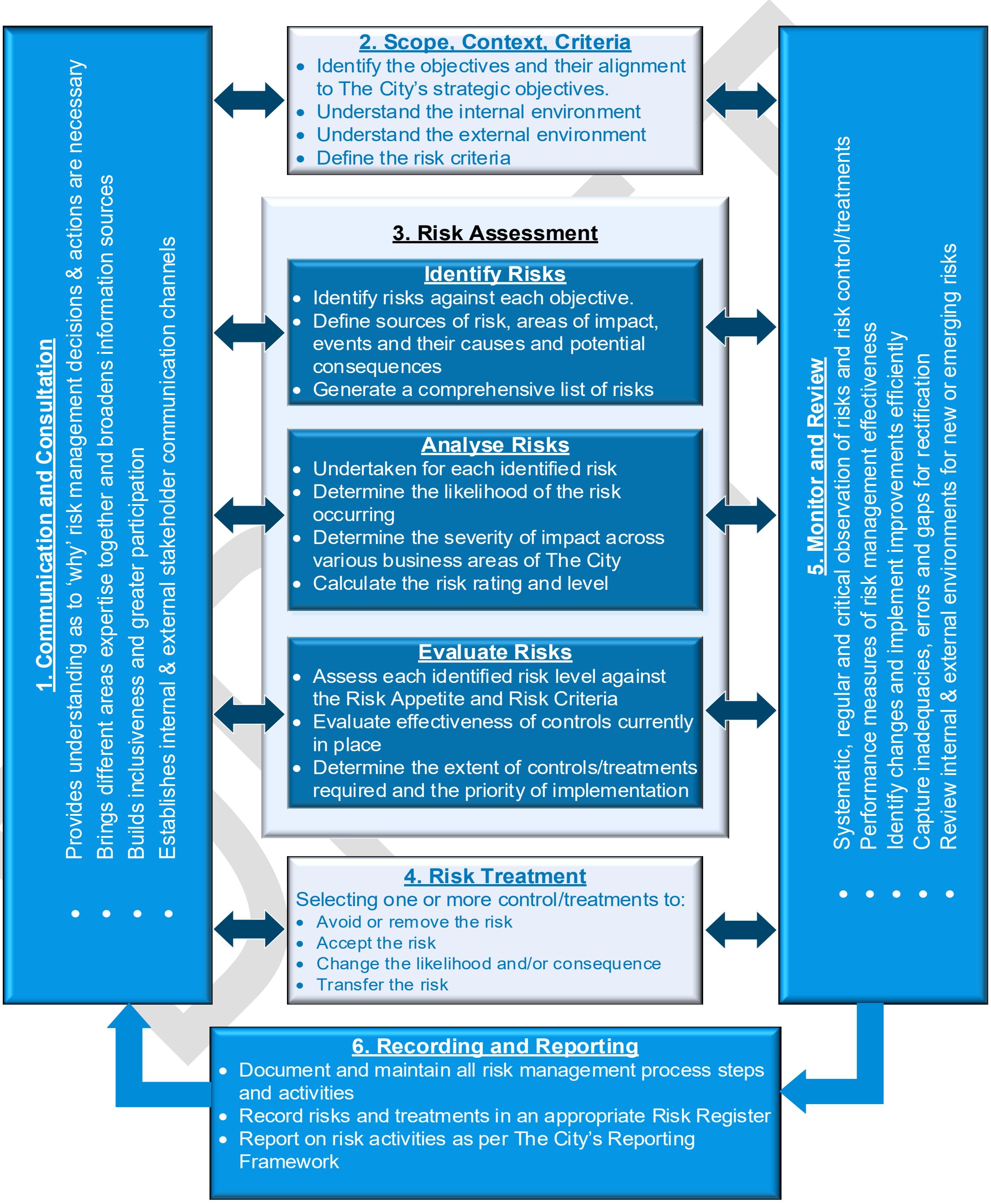
The City's strategic objectives, strategic risk assessments and treatment plans, along with the Risk Appetites as determined by Council, will inform and limit the operational objectives and management of operational risks. Business Units are to identify their work task objectives and undertake risk assessments. These risk assessments will inform, streamline and clarify how the Business Unit is to best complete its work.

Operational risks also include Project Risks. Project risks are risks associated with individual projects, initiatives or day-to-day business activities at the City. Project risks are to be assessed in the project planning phase and throughout the duration of the project's business activities.

ELT, CoMMT and Teams are responsible for operational risk management.

10. Risk Management Process

The Risk Management Process (RM Process) is the practical 'how to' component of the RM Framework and is to be integrated into the City's management practises, decision-making methods, business plans, operations and procedures for optimum results. The RM Process is standardised across all areas of the City and is documented in the City's RM Procedures. The following diagram outlines that RM Process that aligns with the Standard[11] with the following commentary providing broad descriptions of each step:



[11] See also Risk Management System Diagram - Figure 1. page 4.

10.1 STEP ONE - COMMUNICATION & CONSULTATION

Communication and consultation are imperative to the effectiveness of risk management and are to be factored into each step of the process.

10.1.1 COMMUNICATION

Communication ensures that those responsible for risk management activities and any affected internal and external stakeholders understand why certain decisions are made and actions taken.[12] Effective communication strengthens, simplifies and unites risk management processes.

10.1.2 CONSULTATION

Consultation enriches and improves risk management decisions, activities and outcomes. Consultation allows for the consideration of different areas of expertise, different viewpoints, feedback and broader information. It encourages inclusiveness and builds a greater sense of ownership for those affected by risk decisions and actions.

10.2 STEP TWO - SCOPE, CONTEXT & CRITERIA

An important step in the risk management process is understanding the context within which risks are to be addressed. Establishing the scope, context and criteria allows the risk management processes to be customised to the City's policies and procedures.[13] It also enables different business areas, teams and projects to treat and successfully manage risks in ways that are relevant to their business operations.

10.2.1 SCOPE

It is important to define the scope of risk management activities in order to keep the process efficient and effective. When defining scope consideration should be given to the following:

- the objectives and how they align with the City's strategic objectives;
- the expected outcomes from this RM Process;
- time, location and budget restrictions;
- risk assessment tools, techniques and any existing risk profiles;
- available resources, persons responsible and records to be kept; and
- the relationship with other business areas, projects, processes and activities.

10.2.2 EXTERNAL CONTEXT

Understanding the external factors that may impact or be impacted by the City's risk management activities is necessary in order to ensure the Community and external

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[12] Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 9.
[13] Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 10.

stakeholders are considered. The external context to be considered may include, but is not limited to:

- Social, political, regulatory, economic, financial, technological and environmental factors;
- Community, Industry, Regional, State, National and International expectations and trends;
- External Stakeholder and strategic third-party relations;
- The City's external threats and opportunities;
- Health and safety requirements; and
- Media and publicity factors.

10.2.3 STRATEGIC AND INTERNAL CONTEXT

It is equally as important for every member of staff to have a good understanding of the City as an organisation. The more informed staff are the more the City performs as 'One Team'. Internal factors to be considered are:

- City of Mandurah's community vision;
- City's strategic objectives;
- Integrated Planning and Reporting;
- 'One Team' Culture;
- Regulatory requirements and contractual obligations;
- CEO Policies and procedures;
- Occupational Safety, Health and Wellbeing ('OSH');
- Codes of Conduct;
- Organisational structure and governance;
- City's internal strengths, weaknesses opportunities and threats (SWOT); and
- Internal Stakeholders.

10.2.4 RISK CRITERIA

The risk criteria are the City's standards against which all risks are measured and evaluated. This is set out in Annexures 1 - 4. The level of detail that will be entered during the risk management process will be determined by the risk appetite threshold for that particular activity and the nature of the residual level of risk. In each instance consideration must always be given to the strategic objective that the activity supports and the budget allocated to it.

10.3 STEP THREE - RISK ASSESSMENT

In accordance with the Standard, a risk assessment is the overall process of ***risk identification***, ***risk analysis*** and ***risk evaluation*** undertaken within the parameters of the defined scope, contexts and criteria.[14] Risk assessments are not scientific. They are based on the best available information and require a common-sense approach. Risk assessments should form part of any strategic, business, team, project or operational plan. They are to be undertaken systematically, recurrently and in collaboration with stakeholders.

Strategic Risk Assessments are to be completed annually with corporate planning and Operational Risk Assessments for each Directorate should also be done annually as a minimum. Any 'out of cycle' risk assessments will also be required to be undertaken when events arise, audit or review recommendations are made or a material change occurs.

10.3.1 RISK IDENTIFICATION

Risks are the potential of something happening - a possibility and not an actuality. Actual past events locally, nationally and globally often assist in determining risks. Once risks have been named, additional information as to 'when', 'why' and 'how' must also be identified for each risk.

Identification of risks, whether in the City's control or not, must be comprehensive as failure to do so can have costly financial (losses, penalties, costs, fines, etc.) and non-financial (community harm, damage to reputation, damage to assets, regulatory enforcement, business interruption, legal claims, etc.) impacts or could result in lost opportunities for the City.

The City may use a range of tools and techniques to identify risks, including:

- facilitated focus group (ad-hoc) brainstorming sessions;
- specialist team working group reviews (departmental focus);
- multi-disciplinary, multi-factorial project risk review workshops;
- SWOT analysis, process mapping, flow charting, systems analysis or operational modelling;
- Strategic, planning, budget and risk identification workshops;
- Examination and review of past reports and events;
- Compliance audits and reviews; and
- OSH techniques such as Job Safety Analysis (JSA) and Safe Work Method Statement (SWMS).

Identified risks are to be documented in one of the appropriate ***Risk Registers***.

[14] Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 11.

Risk events, their cause and effect are to be recorded and grouped by the risk source. For example:

- external theft and fraud;
- misconduct;
- business and community disruption;
- errors, omissions and delays;
- failure of IT or systems and infrastructure;
- failure to fulfil statutory regulations or compliance requirements;
- providing inaccurate advice/ information;
- inadequate project/change management;
- inadequate document management processes;
- inadequate safety and security practices;
- inadequate engagement practices;
- inadequate asset sustainability practices;
- inadequate supplier/contract management;
- ineffective employment practices;
- ineffective management of facilities/venues/events; or
- inadequate environmental management.

10.3.2 RISK ANALYSIS

The primary purpose of a risk analysis is to provide a measure of the ***Risk Likelihood*** and ***Risk Impact*** for each identified risk. These are multiplied together to equal the overall ***Risk Rating***.

Risk Likelihood X *Risk Impact* = *Risk Rating*

Risk Analysis is completed in three steps and at two (2) separate stages

The risk analysis is completed for every risk listed in the Risk Identification process and is undertaken at two (2) separate stages throughout the RM Process. The first stage is the ***Inherent Risk Analysis*** and the second stage is the ***Residual Risk Analysis***.

STAGE 1 - Inherent Risk Analysis

Risk assessments on an inherent basis assumes that no risk controls are in place or that all or a substantial part of the controls have failed. This allows the City to understand which risks have the most potential to adversely affect it or its operations and require strong controls and greater oversight. The Inherent Risk Analysis is undertaken immediately after the Risk Identification process.

STAGE 2 - Residual Risk Analysis

A residual risk analysis is a re-assessment of the identified risks taking into consideration any controls that are in place or to be put in place. The effectiveness of those controls will determine if there is any reduction in the residual risk rating when compared to the inherent risk rating. A Residual Risk Analysis is undertaken after the Inherent Risk Rating has been evaluated and controls/treatments to mitigate or reduce the risk level have been applied.

Three (3) Steps of Risk Analysis:

STEP 1 - Risk Likelihood

The likelihood is the probability and frequency of a risk occurring. The City uses the below table[15] to rate the likelihood of the risk from 1 to 5. This is called the ***Likelihood Rating*** and is required to determine the overall risk rating.

STAGE 1 - Inherent Risk Likelihood - the probability and frequency of the risk occurring based on the assumption that no controls are in place or if the controls have failed.

STAGE 2 – Residual Risk Likelihood – the probability and frequency of the risk occurring taking into consideration the effectiveness of existing controls in place.

Rating	Description	Likelihood / Probability of Occurrence	
5	Almost Certain	The event could occur in most circumstances	More than 3 times per year
4	Likely	The event is expected to occur	1-2 times per year
3	Possible	The event will possibly occur at some time	At least once in 3 years
2	Unlikely	The event could occur at some time	At least once in 10 years
1	Rare	The event may only occur in exceptional circumstances	Less than once in 15 years

STEP 2 – Risk Impact

The Risk Impact is the severity or consequence of the risk occurring. The City recognises seven (7) different areas (does not include project risk area) of potential impact and rates it against five (5) levels of impact severity. A risk consequence may affect more than one area and have differing levels of severity. Management will be required to decide which area of impact has the highest consequence and which business area is therefore, best responsible for management of that risk.

The City's **Risk Impact Table** is in Annexure 2. It is used to determine each risk's ***Impact Rating*** of 1 to 5.

[15] See also 'Risk Likelihood Rating Table' in Annexure 1.

STAGE 1 - Inherent Risk Impact - the level of severity and consequence that the risk may cause based on the assumption that no controls are in place or if controls fail.

STAGE 2 – Residual Risk Impact – the level of severity and consequence the risk may cause taking into consideration the effectiveness of existing controls in place.

The City's has recognised the main **areas of risk impact** are:

- Health
- Financial Impact
- Service Interruption
- Compliance
- Reputational – External & Internal
- Property
- Environment
- Projects – Time & Cost

The City's **levels of impact severity and numerical rating** are:

- Catastrophic 5
- Major 4
- Moderate 3
- Minor 2
- Insignificant 1

STEP 3 - Risk Rating

Every identified risk is to be given an overall ***Risk Rating*** using **The City of Mandurah's Risk Rating Chart**[16] shown below. The risk rating is calculated by multiplying the *Likelihood Rating* by the *Impact Rating*. The higher the number the more critical the risk. The risk rating will determine which level the risk is categorised into and the extent to which it is to be controlled, monitored and reviewed.
The risk rating levels are:

1 – 2	= Negligible	**5 - 9**	=Medium	**20 – 25**	= Extreme
3 - 4	= Low	**10 - 19**	= High		

STAGE 1 - Inherent Risk Rating –
Inherent Likelihood Rating X Inherent Impact Rating = Inherent Risk Rating

The Inherent Risk Rating is then categorised into one of the above risk levels. This is called the ***Inherent Risk Level***.

STAGE 2 – Residual Risk Rating –
Residual Likelihood Rating X Residual Impact Rating = Residual Risk Rating

[16] See also 'The City of Mandurah's Risk Rating Chart' Annexure 3.

The Residual Risk Rating is then categorised into one of the above risk levels. This is called the ***Residual Risk Level***.

THE CITY OF MANDURAH RISK RATING CHART					
Likelihood Rating X *Impact Rating* = *Risk Rating*					
	Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain 5	5 Medium	10 High	15 High	20 Extreme	25 Extreme
Likely 4	4 Low	8 Medium	12 High	16 High	20 Extreme
Possible 3	3 Low	6 Medium	9 Medium	12 High	15 High
Unlikely 2	2 Negligible	4 Low	6 Medium	8 Medium	10 High
Rare 1	1 Negligible	2 Negligible	3 Low	4 Low	5 Medium

Impact → ; Likelihood ↑

10.3.3 RISK EVALUATION

Risk evaluation involves comparing the level of risk found during the analysis process with The City's risk criteria for treatment and risk appetite thresholds.[17] It is the primary source of information on which effective risk management decisions are based.

Risks that fall within acceptable limits may simply need to be acknowledged and monitored, while other risks in higher levels may have the potential to threaten the City's strategic and operational objectives and require treatment.

Risk evaluation enables the City to tally the number of identified risks within each level. This will aid the City in recognising associated risks, any high impact zones or gaps in the City's organisational control measures. For example, multiple minor issues associated with a particular task, project or business area, whilst not significant in and of themselves, when combined pose a much higher risk.

Risk Evaluation at each Stage:

STAGE 1 - Inherent Risk Evaluation –
The ***Inherent Risk Level*** provides the City with an understanding of the raw level of effect a risk may cause should it occur without controls or if controls fail. The Inherent Risk Level must be evaluated against the appropriate ***Risk Appetite*** threshold and the below table:

Inherent Risk Level Action				
Extreme 20 - 25	**High 10 - 19**	**Medium 5 – 9**	**Low 3 – 4**	**Negligible 1 - 2**
• Treatment is urgently required	• Treatment required	Decided on a case by case basis – • Treat to see if level can be reduced; or	Decided on a case by case basis – • Treat to see if level can be reduced; or	• Capture as a part of compliance requirements

[17] Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 12.

		• accept as is & monitor	• accept as is & monitor	

STAGE 2 – Residual Risk Evaluation –
The ***Residual Risk Level*** provides the City with direction as to what responses it is required to undertake in management and monitoring of the risk. The residual risk level should be within Council's ***Risk Appetite*** threshold. If it is not, then further treatment is required and an additional risk analysis is to be completed until it is within the acceptable level of exposure. The below table indicates what action is to be taken next:

Residual Risk Level Action				
Extreme 20 - 25	**High 10 - 19**	**Medium 5 – 9**	**Low 3 – 4**	**Negligible 1 - 2**
• More treatment is urgently required	Decided on a case by case basis – • more treatment required; or • accept with ELT strict & regular monitoring	Decided on a case by case basis – • accept & monitor; or • more treatment required	• Accept & monitor – no further treatment required	• Accept & monitor – no further treatment required • May form a part of compliance requirements

10.4 STEP 4 - RISK CONTROLS/TREATMENTS

Risk control/treatment is the implementation of response actions to reduce the likelihood and/or negative impact of a risk. The Risk Appetite sets the maximum level of risk exposure that the City is prepared to accept. Risk control/treatments enables the City to safely and intelligently pursue its objectives in the face of potential risks and within the limits of the Risk Appetite.

The Standard advises that risks may be able to be controlled/treated by one or more of the following approaches:[18]

- avoiding the risk by not pursuing the activity that give rise to it;
- increasing the risk in order to pursue an opportunity;
- removing the risk source;
- changing the likelihood of the risk occurring;
- changing the impact of the risk;
- sharing the risk with other parties; and
- accepting the risk by informed decision.

10.4.1 APPLICATION OF CONTROLS/TREATMENTS AT THE DIFFERENT STAGES

STAGE 1 – Inherent Risk Level
Risk controls are firstly applied to the Inherent Risk Level. As stated above, the Inherent Risk Level is the rating of the raw risk without any controls/treatments in place. It is expected that

[18] Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 13.

once existing controls are assessed that manage the risk then the Stage 2 Risk Analysis will report a lower risk level. This is known as the Residual Risk Level.

STAGE 2 – Residual Risk Level
If the Residual Risk Level is not within the Risk Appetite threshold then further controls/treatments are required and an ***Action Plan*** must be developed until the Residual Risk Level has been reduced.

Once the action plan has been implemented, the residual risk level should be recalculated based on the improved controls that are now in place. Note: There may be in some instances, that the residual risk level will remain the same even with improved controls.

10.4.2 DIFFERENT CONTROL/TREATMENT OPTIONS[19]

The City has several different control/treatment options and more than one may be applied to a risk. Some controls are intended to prevent a risk event, detect an event or respond to a risk event.

Accept the risk

A risk may be accepted if:

- the risk level rating is low or negligible;
- the community benefit outweighs the cost of treating the risk;
- the risk is within the appropriate Risk Appetite threshold; or
- The City has limited or no control over the risk. E.g. natural disasters, pandemics, international economic impacts or terrorist attacks. The City is to have emergency, recovery and business continuity plans in place to manage and recover from such risks.

Transfer the risk

A risk may be transferred partly or wholly to a third party. Whilst this may be a cost-effective way to reduce the risk level a certain degree of the original risk will always remain and a new risk of being dependant on a third party is inherited. The City may transfer risk through:

- Insurance;
- Terms of contract – limited liability clause or waiver of liability; or
- Compensating a third party to take on management of the risk.

Eliminate the risk

Eliminating the risk is only achieved by avoiding or discontinuing the activity. For Low level risks this may be as simple as altering an organisational process and turning it into a compliance requirement. For Extreme or High level risks that cannot be reduced to an acceptable level, it

[19] Control/Treatment options have been gleaned from a wide variety of sources including: Australian ISO Standard on Risk Management: AS ISO 31000:2018; Insurance Commission of Western Australia, '*Risk Management Guidelines',* accessed April 2020 at https://www.icwa.wa.gov.au/government-insurance/risk-management; and The Institute of Internal Auditors Australia (January 2019) '*Control Assessment: A Framework*', Sydney NSW.

may require the City to re-think its plans, projects and even its objectives. An objective or activity may need to be altered, delayed or scrapped entirely. Eliminating an Extreme or High level operational risk will usually require ELT approval. Eliminating an Extreme or High level strategic risk will require approval from the CEO and Council (through the Audit and Risk Committee).

Controls

Types of controls are set out in the table below:

Directive controls Directive controls exercise a power or authority to establish a desired outcome: • Council policies, CEO policies, codes of conduct and procedures; • Creating laws and regulations; • Setting limits, thresholds or standards; • Training and equipping seminars; • Job descriptions; or • Meetings.	**Preventative controls** Preventative controls reduce and discourage irregularities: • Organisational/Directorate/Business Area processes; • IT access authorisations and passwords; • Segregation of duties; • Fines and penalties; • Review and approval systems; • Internal audit functions; • Physical control over assets; • Warnings and signs, physical barriers; • Stakeholder management and engagement strategies; or • Asset Maintenance strategies
Detective controls Detective controls find issues and irregularities after they have occurred: • Financial reconciliations; • Inventory stocktakes; • Comparison reports and reviews; • Alarms; • IT alerts; or • Audits.	**Corrective controls** Corrective controls mitigate the extent of any damage caused by a risk event: • Reporting and noting a correction upon discovery of an error; • Updating and improving a process or procedure; • Anti-virus software; • System upgrades; • Additional training; • Increase supervision; or • Recovery Plans.

10.4.3 SELECTING THE MOST APPROPRIATE CONTROL & TREATMENT

Selecting the most appropriate control/treatment must always be with the operational and strategic objectives in mind. Risk treatments are to be considered in priority of effectiveness and efficiency to ensure adequate resources can be allocated and the desired outcome is achieved.

Consideration should be given to the following when deciding the most appropriate treatment to implement:

- How will the treatment modify the risk level?

- Do the costs of the treatment justify the benefit?
- How compatible is the treatment with the business objective and over-arching strategic objective?
- Does the treatment contradict or compliment any existing risk treatment activities?
- Does the treatment comply with legislation?
- Does the treatment create new or secondary risks?
-

10.4.4 IMPLEMENTING CONTROLS & TREATMENTS

Treatments and controls may be implemented within a team, business area, directorate or across the whole organisation. They may also be dependent on different business areas working together to ensure effectiveness and efficiency. For example, IT may be relied upon to ensure systems are available to manage a treatment.

Risk treatments must be assigned to a person/s who will be responsible for implementing, managing and reviewing risk levels and controls. ELT will be accountable for oversight of strategic risk treatments and CoMMT will be accountable for oversight of operational risk treatments. The City's Roles and Responsibilities can be found in item 11.

Action Plans

An Action Plan must be developed where controls and treatments are weak or inadequate and further mitigation is required. For example, if the Residual Risk Level is not within the Risk Appetite Threshold.

Action Plans are to be:

- **Assigned** – person responsible for ensuring the action is implemented
- **Specific** – state the exact activities to be implemented and the required resources
- **Timely** – must be completed within appropriate timeframes
- **Achievable** – action and activities must be practicable and state any restrictions
- **Measurable** – the action must be able to be assessed
- **Justified** – evidence of actual reduction in the Residual Risk Level
- **Monitored** – tracked, managed and reported.

Audits may be undertaken to ensure Action Plans are on track, remain relevant or have been successfully completed and closed out.

10.5 STEP 5 - MONITOR & REVIEW

The Standard emphasises that effective risk management is attained through ongoing and periodic monitoring and reviews at every stage throughout the RM Process.[20] The City of Mandurah and its internal and external environments are fluid. Regular monitoring and reviews enable the City to quickly adapt and respond whilst maintaining effective risk control activities.

Risk monitoring and reviews will primarily be the responsibility of those assigned to manage the risk. Identified risks, their controls and any action plans are able to be reviewed in the ***Risk Register*** and a summary of the City's risk exposure can be monitored through ***Risk Profile***. Currently, the City uses software to host its risk management data.

Certain areas of the City will assist with monitoring and reviewing the appropriateness of identified risks, risk levels and risk treatments:

- Changes in strategic objectives;
- New legislation and regulations;
- IT outages;
- Complaints;
- Reported incidents;
- Internal and external audits; and
- Completed projects.

Risk control/treatments must be monitored and reviewed to assess their effectiveness as this may alter the level of a risk. The following table provides a basis for rating a control/treatment:[21]

EXISTING CONTROLS RATINGS		
Rating	**Foreseeable**	**Description**
Effective	There is little scope for improvement.	Processes (Controls) operating as intended and aligned to Policies / Procedures. Subject to ongoing monitoring. Reviewed and tested regularly.
Adequate	There is some scope for improvement.	Processes (Controls) generally operating as intended, however inadequacies exist. Limited monitoring. Reviewed and tested, but not regularly.
Inadequate	There is a need for improvement or action.	Processes (Controls) not operating as intended. Processes (Controls) do not exist, or are not being complied with. Have not been reviewed or tested for some time.

20 Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 14.
21 'The City of Mandurah's Control/Treatment Rating Table' has been adapted from: Insurance Commission of Western Australia, '*Risk Management Guidelines',* accessed April 2020 at https://www.icwa.wa.gov.au/government-insurance/risk-management; and The Institute of Internal Auditors Australia (January 2019) '*Control Assessment: A Framework*', Sydney NSW.

The City's implementation of the Four Lines of Defence Model[22] as per item 7 is another monitoring and review mechanism that the City utilises for greater assurance of effectiveness of risk management activities.

[22] See Item 7. above.

10.6 STEP 6 - RECORDING & REPORTING

The Standard advises that Risk management process and their outcomes must be documented and reported in order to:[23]

- communicate risk management activities across the organisation and with stakeholders;
- improve risk management processes and build from acquired information and experience;
- provide evidence of risk management activities for legal and auditing purposes; and
- be accountable for risk management responsibilities.

The City's RM Process requires recording and reporting risk management activities across three (3) platforms:

10.6.1 THE CITY'S RISK REPORTING FRAMEWORK

DOCUMENT NAME	AUTHOR	RECEIPIENT/ FINAL APPROVAL	TIMEFRAME
RISK MANAGEMENT SYSTEM			
Risk Management Policy	Manager Governance Services Governance, Risk and Compliance Officer (GRCO)	Council A&R Committee	Biennially
Risk Management Framework	Manager Governance Services GRCO	Council (noting) A&R Committee (noting) CEO & ELT	Council - biennially CEO – as required
Strategic Internal Audit Plan 2020/21 – 2022/23 Audit area: CEO Risk Management, Internal Controls and Legislative Compliance Audit (Audit Reg 17)	Chief Audit Executive Manager Governance Services	Council A&R Committee CEO and ELT	Triennial in accordance with the Strategic Internal Audit Plan 2020/21 – 2022/23

[23] Australian ISO Standard on Risk Management: AS ISO 31000:2018 page 14-15.

DOCUMENT NAME	AUTHOR	RECEIPIENT/ FINAL APPROVAL	TIMEFRAME
STRATEGIC RISK MANAGEMENT			
Strategic Risk Assessment Strategic Risks with residual rating ≥ Moderate and Operational Risks with a residual risk rating ≥ High	CoMMT ELT GRCO	A&R Committee CEO	Council – annually Reviewed Quarterly
Risk Appetite Thresholds	CoMMT ELT	Council A&R Committee CEO	Council - biennially
Strategic Risk Treatment Action Plans for ≥ High (e.g Business Continuity Plan, Emergency Plans)	CoMMT GRCO	CEO & ELT A&R Committee	Annually
OPERATIONAL RISK MANAGEMENT			
Operational Risk Assessments	CoMMT GRCO	ELT	Annually Monthly review of ≥ Moderate Risks
Operational Risk Management Process & Procedures Review	Managers, Coordinators, Team Leaders with task/project oversight GRCO	CoMMT	Annually
Operational Risk Treatment reviews	Managers, Coordinators, Team Leaders with task/project oversight GRCO	ELT CoMMT A&R Committee	Quarterly
Operational Risk Summary Reports	Managers, Coordinators, Team Leaders with task/project oversight	CoMMT ELT	Monthly Annually

10.6.2 RISK REGISTERS AND RISK PROFILE

The City uses Risk Registers to capture, manage, monitor, review, update and report on identified risks and the actions undertaken to manage them. The City's Risk Registers are subject to change as it reviews, improves and tailors its recording and monitoring processes to better suit its needs. Oversight of the Risk Registers is undertaken by the Governance Services.

Currently, The City operates a Strategic Risk Register and an Operational Risk Register that is able to report the City's Risk Profile which enables CoMMT and ELT to monitor the City's overall level of risk exposure.

10.6.3 DIRECTORATE / BUSINESS AREA / TEAM RISK MANAGEMENT RECORD KEEPING PROCESSES

The City expects that each Directorate, Business Area, Team and Project will document and maintain all their risk process and management activities. Summary reports are to be prepared monthly which will encourage good record keeping. Governance Services may review and audit risk processes and reports to ensure compliance with the RM Framework and effectiveness.

11. Roles and Responsibilities

The CEO is ultimately responsible and accountable for ensuring risk is effectively managed across the entire organisation. The CEO is supported by the ELT and CoMMT in achieving this.

In accordance with Council's RM Policy, it is the organisation's leaders who set this 'tone from the top'. The City aims to create a risk aware, but not risk adverse culture that ensures the best outcome for the City and the Community.

Risk should not be seen as a standalone function, but rather risk management should form part of the organisational culture and be factored into every decision making process at the City through the application of the Risk Management Process (refer to item 10) and the City's RM Procedures .

An overview of the roles and responsibilities in the context of risk management are set out below.

- **Council and Audit and Risk Committee** – have a key leadership role in the development and endorsement of the Risk Management Policy and determining the Risk Appetite. The A&R Committee provides recommendations to Council on matters of strategic risk, assurance, oversight, monitoring and reporting.
- **CEO and ELT** – collectively accountable for operational risk management oversight. Individually accountable for the management of the Operational Risk Register and risk treatments. Responsible for approving and monitoring risk and any operational risks with a residual risk rating ≥ Moderate.
- **CoMMT** – collectively responsible for operational risk management. Individually responsible for identifying, assessing and managing each Business Area's operational risks.
- **Team Members** – responsible for actioning risk management processes in their area of work and supporting their manager/coordinator/team leader in identifying, assessing and recommending suitable plans for managing their relevant operational risks. Responsible for immediately reporting to their manager/coordinator/team leader if any material changes occur.
- **Governance Services** – will provide support and advice to the organisation with strategic and operational risk management. Assist managers/coordinators/team leaders through the development of RM Procedures, Risk Management Guidelines and responsible for the development and delivery of a Risk Education and Training Strategy for the organisation. Monitor and review the reporting of strategic and operational risks.

Refer to Annexure 5: Roles and Responsibilities Diagram for detailed information.

12. Annexures

12.1 ANNEXURE 1: THE CITY'S RISK LIKELIHOOD RATING TABLE

Rating	Description	Likelihood / Probability of Occurrence	
5	Almost Certain	The event will occur in most circumstances	More than 3 times per year
4	Likely	The event is expected to occur	1-2 times per year
3	Possible	The event will possibly occur at some time	At least once in 3 years
2	Unlikely	The event could occur at some time	At least once in 10 years
1	Rare	The event may only occur in exceptional circumstances	Less than once in 15 years

<u>STAGE 1 - Inherent Risk Likelihood</u> - probability and frequency of the risk occurring based on the assumption that <u>no controls</u> are in place or if controls fail.

<u>STAGE 2 – Residual Risk Likelihood</u> – probability and frequency of the risk occurring taking into consideration the effectiveness of controls in place.

12.2 ANNEXURE 2: THE CITY'S RISK IMPACT TABLE

	Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Health	Near miss. Minor first aid injuries, not requiring further medical treatment	Minor injuries requiring medical treatment but not hospitalisation	Lost time injury <30 days	Lost time injury >30 days	Fatality, permanent disability
Financial Impact	Less than $50,000	$50,001 - $100,000	$100,001 - $500,000	$500,001 - $3,000,000	More than $3,000,000
Service Interruption	No material service interruption	Short term temporary interruption – backlog cleared < 1 day	Medium term temporary interruption – backlog cleared by additional resources < 1 week	Prolonged interruption of services – additional resources; performance affected < 1 month	Indeterminate prolonged interruption of services – non-performance > 1 month
Compliance	No noticeable regulatory or statutory impact	Some temporary non-compliances	Short term non-compliance but with significant regulatory requirements imposed	Non-compliance results in termination of services or imposed penalties	Non-compliance results in litigation, criminal charges or significant damages or penalties
External Reputation	Unsubstantiated, low impact, low profile or 'no news' item	Substantiated, low impact, low news item	Substantiated, public embarrassment, moderate impact, moderate news profile	Substantiated, public embarrassment, high impact, high news profile, third party actions	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions

12.2 ANNEXURE 2: THE CITY'S RISK IMPACT TABLE

		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Internal Reputation		Localised employee dissatisfaction resulting in Staff Satisfaction rating drop of 5% Increase in staff turnover and absenteeism of <5%	Localised employee dissatisfaction resulting in Staff Satisfaction rating drop of >5% but <10% Increase in staff turnover and absenteeism of >5% but <10%	Localised employee dissatisfaction resulting in Staff Satisfaction rating drop of >10% but <15% Widespread employee dissatisfaction resulting in Staff Satisfaction rating drop of <5% Increase in staff turnover and absenteeism of >10% but <15%	Localised employee dissatisfaction resulting in Staff Satisfaction rating drop of >15% Widespread employee dissatisfaction resulting in Staff Satisfaction rating drop of >5% but <10% Increase in staff turnover and absenteeism of >15% but <25%	Widespread employee dissatisfaction resulting in Staff Satisfaction drop of >10% Increase of staff turnover and absenteeism of >25%
Property		Inconsequential damage.	Localised damage rectified by routine internal procedures	Localised damage requiring external resources to rectify	Significant damage requiring internal & external resources to rectify	Extensive damage requiring prolonged period of restitution Complete loss of plant, equipment & building
Environment		Contained, reversible impact managed by on site response	Contained, reversible impact managed by internal response	Contained, reversible impact managed by external agencies	Uncontained, reversible impact managed by a coordinated response from external agencies	Uncontained, irreversible impact
Project Risks	**Time**	Exceeds deadline by 10% of project timeline	Exceeds deadline by 15% of project timeline	Exceeds deadline by 20% of project timeline	Exceeds deadline by 25% of project timeline	Exceeds deadline by 30% of project timeline
	Cost	Exceeds project budget by 10%	Exceeds project budget by 15%	Exceeds project budget by 20%	Exceeds project budget by 25%	Exceeds project budget by 30%

12.3 ANNEXURE 3: THE CITY'S RISK RATING CHART

THE CITY OF MANDURAH RISK RATING CHART					
Likelihood Rating X *Impact Rating* = *Risk Rating*					
	Insignificant 1	**Minor 2**	**Moderate 3**	**Major 4**	**Catastrophic 5**
Almost Certain 5	5 Medium	10 High	15 High	20 Extreme	25 Extreme
Likely 4	4 Low	8 Medium	12 High	16 High	20 Extreme
Possible 3	3 Low	6 Medium	9 Medium	12 High	15 High
Unlikely 2	2 Negligible	4 Low	6 Medium	8 Medium	10 High
Rare 1	1 Negligible	2 Negligible	3 Low	4 Low	5 Medium

Impact →

Likelihood ↑

<u>STAGE 1 - Inherent Risk Rating</u> – Inherent Likelihood Rating X Inherent Impact Rating = Inherent Risk Rating

<u>STAGE 2 – Residual Risk Rating</u> – Residual Likelihood Rating X Residual Impact Rating = Residual Risk Rating

12.4 ANNEXURE 4: THE CITY'S RISK TREATMENT CHART

THE CITY OF MANDURAH RISK TREATMENT CHART					
Risk Level	**Accountability**	**Response**	**Minimum Treatment Required**	**Description**	**Review**
Extreme	Council or CEO	Urgent	Reject and avoid, transfer or mitigate	Immediate action required in consultation with ELT to either avoid the risk entirely, transfer it or to reduce the risk to a low, medium or high rating.	Immediately
High	CEO or ELT	Important	Accept and mitigate	Managers are to be assigned to these risks and treatments to modify, reduce, transfer or eliminate the risk is required.	Monthly
Treatment Strategies must be applied to risks ≥ High level					
Medium	Executive Manager / Manager or CoMMT	Operational Process	Accept	Manage by specific controls, monitoring or response procedures.	Monthly – Quarterly
Low	Manager / Coordinator / Team Leader	Capture in Risk Register	Accept	Manage by routine procedures.	Quarterly - Annually
Negligible	Manager / Coordinator / Team Leader / Supervisor	Refer to Compliance	Accept	Manage through compliance checks and processes.	Annually

12.5 ANNEXURE 5: ROLES AND RESPONSIBILITIES

THE CITY OF MANDURAH
EVERY PERSON

VISION

A city with a village heart - *where the **wellbeing** of our **people** and our **environment** are nurtured; where **business** in the **community** can thrive and entrepreneurship is celebrated*

RISK ROLE & RESPONSIBILITY

Every person is responsible for risk and hazard identification

COUNCIL
ELECTED MEMBERS

STRATEGIC OBJECTIVES

- Community Strategic Plan
- Corporate Business Plan
- Adopted Annual Budgets
- Asset Management Plan
- Long Term Financial Plan
- Workforce Plan

RISK ROLE & RESPONSIBILITY

- Approve Risk Appetite for each strategic objective
- Adopt a Risk Management Policy
- Note the Risk Management Framework
- Note the Management of Strategic Risks
- Establish and maintain an Audit & Risk Committee
- Be kept informed on Risk Management Processes

AUDIT & RISK COMMITTEE

AUDIT OBJECTIVES

- Assurance
- Support
- Compliance

RISK ROLE & RESPONSIBILITY

Make recommendations to Council on:
- Risk Appetite for each strategic objective
- Risk Tools
- How risks are monitored
- Strategic Risk Register
- ≥ High Operational Risks
- Review Risk Treatments & Controls

CEO

STRATEGIC OBJECTIVES

- Community Strategic Plan
- Corporate Business Plan
- Adopted Annual Budgets
- Asset Management Plan
- Long Term Financial Plan
- Workforce Plan

RISK ROLE & RESPONSIBILITY

- Approve & drive implementation of Risk Culture
- Approve the Risk Appetite for each strategic obejective
- Implement the Risk Management Policy
- Implement the Risk Management Framework
- Approve & review management of Strategic Risks
- Approve Business Continuity & Emergency Management Plans
- Oversee ELT's Risk Management responsibilities
- Review the Risk Register
- Ensure resources are allocated to risk management
- Report to Audit & Risk Committee and Council

ELT
DIRECTORS

STRATEGIC OBJECTIVES

- Corporate Business Plan
- Adopted Annual Budgets
- Asset Management Plan
- Long Term Financial Plan
- Workforce Plan

RISK ROLE & RESPONSIBILITY

- Consult on Risk Culture & Risk Appetite on strategic objectives
- Identify, assess and manage Strategic Risks
- Approve Risk Tools
- Approve & review Business Continuity & Emergency Management Plans

In each Directorate:
- Drive implementation of the Risk Management Policy, Framework, Risk Culture & Risk Appetite across Business Areas
- Ensure risk is considered in decision making processes
- Ensure resources are allocated to manage risk
- Own & manage the Directorate's Risk Profile
- Oversee CoMMT Risk Management responsibilities
- Encourage honest reporting and escalation of risks
- Report to the CEO

12.5 ANNEXURE 5: ROLES AND RESPONSIBILITIES (Cont.)

CoMMT
Executive Managers
Business Managers

OPERATIONAL OBJECTIVES

- Business Area Plans
- Business Area Annual Budget

RISK ROLE & RESPONSIBILITY

- Consult on Risk Culture and Strategic Risk Appetite
- Consult on Strategic Risk identification, assessment, treatment & controls
- Consult on Risk Tools
- Prepare Business Continuity & Emergency Management Plans

In each Business Area:

- Drive implementation of the Risk Management Framework and Risk Culture across Teams
- Identify, assess & manage Operational Risks for each Team's projects & tasks
- Ensure risk treatment & controls are current, compliant and within the Strategic Risk Appetite thresholds
- Monitor & review Operational risks in the Business area
- Highlight new and emerging risks
- Recommend suitable Team plans for risk management
- Ensure risk is considered in decision making processes
- Ensure training and resources are allocated to manage risk within each Team
- Encourage honest reporting and escalation of risks
- Report to ELT

TEAM MEMBERS

OPERATIONAL OBJECTIVES

- Team Work & Project Plans

RISK ROLE & RESPONSIBILITY

- Manage risk within their area of responsibility.
- Be informed on Council's Risk Management Policy, Framework & Processes
- Consult on Risk Assessments, Risk Treatments & Action Plans within each Team
- Apply Risk Management processes
- Highlight emerging risks & issues
- Participate & encourage open discussions around risk
- Keep records of risk management tasks
- Participate in Risk Management Training
- Provide Feedback on risk management processes & control effectiveness
- Report to Team Leader/ Business Area Manager

GOVERNANCE
GCR Officer

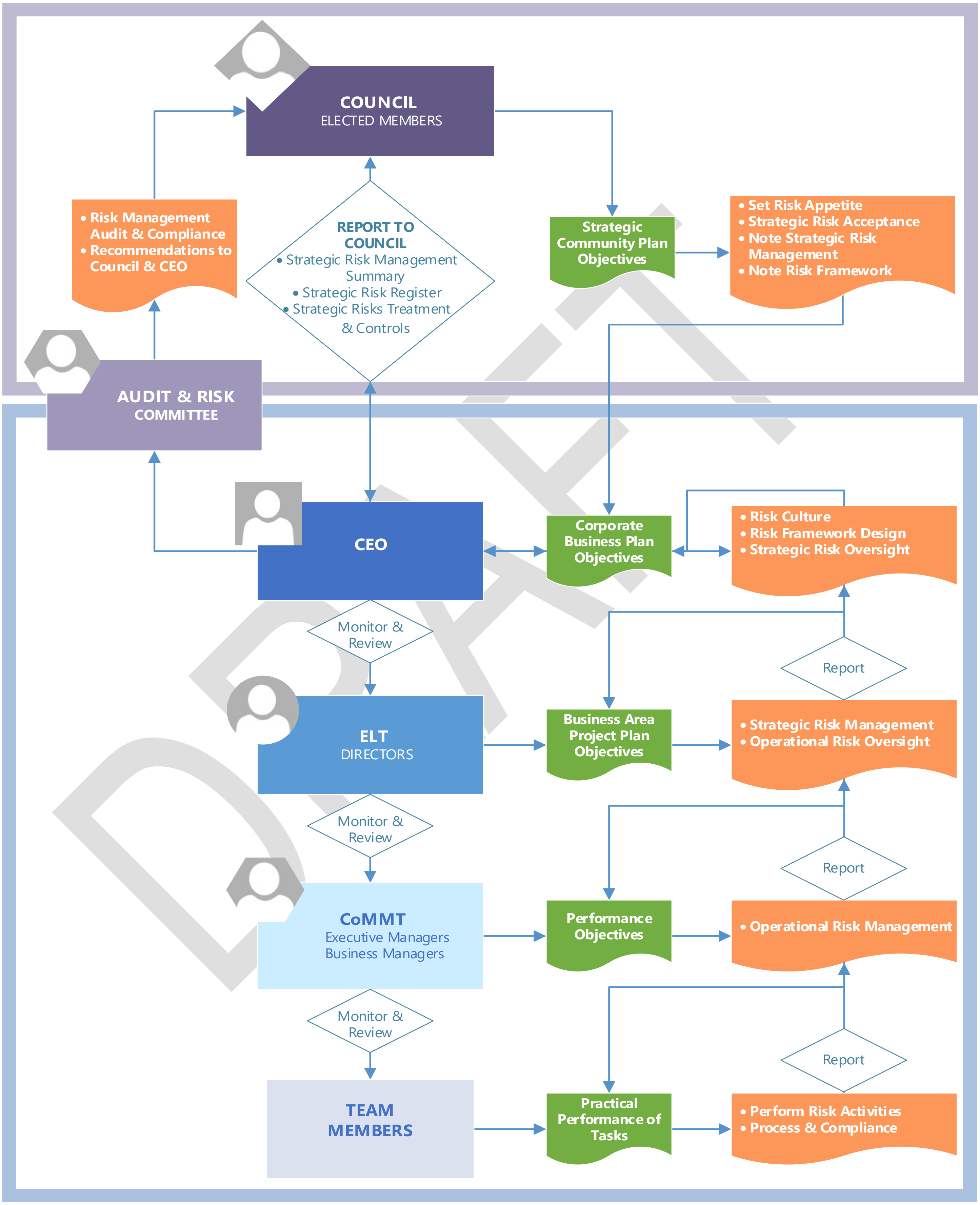
RISK MANAGEMENT OBJECTIVES

- Council Risk Management Policy
- Risk Management Framework

RISK ROLE & RESPONSIBILITY

- Consult on Risk Culture and Strategic Risk Appetite
- Design the Risk Management Framework and procedures & drive effective delivery across the organisation
- Prepare Risk Tools
- Administer Risk Management software
- Consult on Business Continuity & Emergency Management Plans
- Facilitate risk management support and training to all areas across the Organisation
- Undertake assurance audits of the risk management system compliance & effectiveness
- Escalate issues of risk framework non-compliance, risk mismanagement & high emerging risks to the CEO
- Report to Governance and Director Corporate Services

12.6 ANNEXURE 6: OVERVIEW OF THE RISK MANAGEMENT FRAMEWORK



12.7 ANNEXURE 7: RISK MANAGEMENT TERMS AND DEFINITIONS

Definitions of terms used have been sourced from Australian ISO Standard on Risk Management: AS ISO 31000:2018

TERMS	DEFINITIONS AND EXPLANATIONS
Consequence	Outcome of an event affecting objectives – also expressed as **impact** or **severity.**
Control	Measure that maintains and / or modifies risk. Controls may be directive, preventative, detective, corrective or any other mitigating action to minimise the impact of an identified risk.
Event	Occurrence or change of a particular set of circumstances – also expressed as **incident.**
Impact	The outcome of an event expressed either in financial terms or qualitatively, being a loss, injury, disadvantage or gain.
Inherent Risk	The raw risk present without considering controls, mitigating factors or treatment applied to it.
Likelihood	Chance of something happening – also expressed as **probability.**
Monitoring	Continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected.
Operational Risk	Risk associated with The City's core operational / business functions and: • may impact on the directorate, business unit or service unit achieving its unit plan objectives; • may impact delivery of specific City services and programs; • is managed by CoMMT.
Project Risk	Risk associated with a City project and: • may affect the milestones connected with the delivery of the project on time, within budget or within agreed acceptable quality parameters; • is identified at all stages of the project, discreet activities or program lifecycle; • is managed with operational risks by a designated Project Manager and an assigned Directorate.
Review	Activity undertaken to determine the suitability, adequacy and effectiveness of the subject matter to achieve established objectives.
Risk	Effect of uncertainty on objectives. It is measured in terms of likelihood of an event and its impact.

TERMS	DEFINITIONS AND EXPLANATIONS
Risk Analysis	Process to comprehend the nature of risk and to determine the level of risk, by defining its likelihood and consequence.
Risk Appetite	The level of risk that Council is prepared to accept, tolerate, or be exposed to at any point in time.
Risk Assessment	Overall process of risk identification, risk analysis and risk evaluation.
Risk Criteria	Terms of reference by which risk is assessed - organisational objectives, risk appetite, external and internal context, standards, laws, policies and other requirements.
Risk Evaluation	Process of comparing the risk level with risk criteria to determine whether or not the level of risk is acceptable.
Risk Identification	Process of finding, recognising and describing risk.
Risk Level	Magnitude of a risk calculated by multiplying the risk's level of likelihood by its level of impact.
Risk Management	Coordinated activities to direct and control an organisation with regard to risk.
Risk Profile	The residual risk impact and likelihoods reflected on a heat map to illustrate The City's risk exposure at a glance.
Risk Register	Risk management tool to record details for identified risk, including risk ratings, nature of the risk, owner, manager, and mitigation measures.
Risk Source	Element which alone or in combination has the potential to give rise to risk.
Risk Treatment / Action Plan	The additional controls / mitigation action required to ensure that the risk appetite level is achieved.
Residual Risk	The risk level remaining after taking account of the effectiveness of controls and mitigating actions.
Stakeholder	Person or organisation that can affect, be affected by, or perceive to be affected by a decision or activity.