

# MINUTES

Audit Committee

## MINUTES OF THE AUDIT COMMITTEE MEETING

HELD ON

MEETING DATE



**TUESDAY, 6 MARCH 2007**

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City of  
Joondalup

## CITY OF JOONDALUP

**MINUTES OF MEETING OF THE AUDIT COMMITTEE HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY, 6 MARCH 2007**

### ATTENDANCE

#### Committee Members:

Cr Tom McLean	<i>Presiding Person</i>	North Ward
Cr Steve Magyar	<i>Deputy Presiding Person</i>	North-Central Ward
Mayor Troy Pickard		
Cr Geoff Amphlett		Central Ward
Cr Richard Currie		South Ward

#### Officers:

Mr Garry Hunt	Chief Executive Officer	
Mr Mike Tidy	Director Corporate Services	
Mr Said Hafez	Manager Financial Services	<i>to 1930 hrs</i>
Ms Lesley Taylor	Administrative Secretary	

#### Observer:

Cr R Fishwick	South Ward
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#### In Attendance

Mr Patrick Warr	Bentleys MRI Perth	<i>to 1830 hrs.</i>
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### DECLARATION OF OPENING

The Presiding Person declared the meeting open at 1806 hrs.

### APOLOGIES/LEAVE OF ABSENCE

Apologies - Crs Hart and John

### CONFIRMATION OF MINUTES

#### MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 5 DECEMBER 2006

**MOVED Cr Magyar, SECONDED Cr Amphlett that the minutes of the meeting of the Audit Committee held on 5 December 2006 be confirmed as a true and correct record.**

**The Motion was Put and**

**CARRIED UNANIMOUSLY (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

**ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION**

Nil.

**DECLARATIONS OF INTEREST****Disclosure of Financial Interests**

Nil.

**Disclosure of interest affecting impartiality**

<b>Name/Position</b>	<b>Mr Garry Hunt – Chief Executive Officer</b>
<b>Item No/Subject</b>	Item 2 – Quarterly Report – Corporate Credit Card Usage
<b>Nature of interest</b>	Interest that may affect impartiality
<b>Extent of interest</b>	Relates to CEO credit card expenditure

<b>Name/Position</b>	<b>Mr Mike Tidy, Director Corporate Services</b>
<b>Item No/Subject</b>	Item 2 – Quarterly Report – Corporate Credit Card Usage
<b>Nature of interest</b>	Interest that may affect impartiality
<b>Extent of interest</b>	Mr Tidy was a participant/guest at the City Xmas lunch listed in Appendix 1 to the report

**IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY SIT BEHIND CLOSED DOORS**

Nil.

**PETITIONS AND DEPUTATIONS**

Nil.

**ITEM 1 INTRODUCTION OF AUDITOR TO MEMBERS OF THE AUDIT COMMITTEE - [50068]**

**WARD:** All

**RESPONSIBLE DIRECTOR:** Mr Mike Tidy  
Corporate Services

Mr Patrick Warr of Bentleys MRI Perth addressed the Committee and presented an overview of the processes Bentleys will undertake in conducting the forthcoming audit for the City, together with a list of anticipated timelines within which each process would occur.

*Mr Patrick Warr left the Room at 1830 hrs.*

## **ITEM 2                    QUARTERLY REPORT- CORPORATE CREDIT CARD USAGE - [09882] [18049]**

**WARD:**                    All

**RESPONSIBLE**    Mr Mike Tidy  
**DIRECTOR:**        Corporate Services

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### **PURPOSE**

The purpose of this report is to provide the Audit Committee with details of the corporate credit card usage of the CEO for the quarter ended 31 December 2006.

### **EXECUTIVE SUMMARY**

The report of the CEO's credit card usage for the quarter ended 31 December 2006 is attached.

It is recommended that the Audit Committee *NOTES the report on the corporate credit card usage of the CEO for the quarter ended 31 December 2006.*

### **BACKGROUND**

At its meeting held on 11 October 2005 (CJ210-10/05 refers), Council inter alia resolved that a quarterly report on the corporate credit card usage of the CEO is to be prepared and presented to the Audit Committee.

### **DETAILS**

The report listing all credit card payments made by the CEO for the quarter, including bank fees, is set out in Attachment 1.

### **Issues and options considered:**

As provided in CJ210 – 10/05.

### **Link to Strategic Plan:**

The report on credit card usage links to the Strategic Plan outcome of: "The City of Joondalup is a sustainable and accountable business" and in particular objective 4.1 which is "to manage the business in a responsible and accountable manner".

### **Legislation – Statutory Provisions:**

Regulation 11(1) of the Local Government (Financial Management) Regulations 1996 requires a local government to develop procedures for the authorisation and payment of accounts to ensure that there is effective security for, and properly authorised use of credit cards.

**Risk Management considerations:**

In accordance with the City's Corporate Procedure 5.9 Use of Credit/Charge Cards, the CEO's credit card has a maximum limit of \$5,000. All expenditure incurred by the CEO by way of credit card is authorised by the Director Corporate Services. It is also a requirement, by resolution of Council, that the CEO's credit card expenditure is reviewed by the Audit Committee on a quarterly basis. The procedure additionally covers matters such as the issue and return of credit cards, lost or stolen cards, what purchases can be made by credit cards, documentation requirements and management review.

**Financial/Budget Implications:**

Not Applicable.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

By ensuring that expenditure is incurred in accordance with procedures and within budget parameters, financial viability and sustainability is maintained.

**Consultation:**

Not Applicable.

**COMMENT**

The CEO's credit card usage is in accordance with Corporate Procedure 5.9 - Use of Credit/Charge Cards - and the Contract of Employment of the CEO, with all expenditure being business related and authorised by the Director Corporate Services.

**ATTACHMENTS**

Attachment 1 CEO Credit Card Expenditure for the Quarter Ended 31 December 2006

**VOTING REQUIREMENTS**

Simple Majority

**MOVED Mayor Pickard, SECONDED Cr Amphlett that the Audit Committee NOTES the report on the corporate credit card usage of the CEO for the quarter ended 31 December 2006.**

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

*Appendix 1 refers*

**ITEM 3            HALF-YEARLY REPORT - CONTRACT EXTENSIONS -  
[07032]****WARD:** All**RESPONSIBLE** Mr Mike Tidy  
**DIRECTOR:** Corporate Services

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**PURPOSE**

The purpose of this report is to provide the Audit Committee with details of contracts extended by the Chief Executive Officer between July and December 2006.

**EXECUTIVE SUMMARY**

The report of contracts extended by the Chief Executive Officer during the half-year from 1 July to 31 December 2006 is provided in Attachments 1 and 2.

*It is recommended that the Audit Committee NOTES the report detailing contracts extended by the CEO during the period July – December 2006.*

**BACKGROUND**

At its meeting held on 1 November 2005 (CJ231-11/05 refers), Council resolved that a half-yearly report be prepared for the Audit Committee detailing contracts that were originally approved by Council and have subsequently been extended by the Chief Executive Officer.

**DETAILS**

Council has delegated to the CEO the authority to approve all contract extensions on tenders approved by Council subject to a report to the Audit Committee being prepared on a half-yearly basis providing details of those contracts extended.

**Issues and options considered:**

The report detailing contracts extended by the CEO is provided at Attachments 1 and 2.

**Link to Strategic Plan:**

The report of contracts extended by the CEO links to the Strategic Plan outcome of:

“The City of Joondalup is a sustainable and accountable business” and in particular Objective 4.1 which is “to manage the business in a responsible and accountable manner”.

**Legislation – Statutory Provisions:**

The City’s legal advice is that under section 5.41(d) of the Local Government Act 1995 the CEO may be delegated the power to extend a contract – provided the CEO does not extend the contract beyond the “total term of the contract” specified by the Council in the resolution.

**Risk Management considerations:**

The delegated authority to extend contracts is limited to the original terms and conditions approved by resolution of Council when the tender was first awarded.

**Financial/Budget Implications:**

In accordance with each individual contract and approved budget limits.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

Not Applicable.

**Consultation:**

Not Applicable.

**COMMENT**

This report provides the Audit Committee with details of contracts originally approved by Council or by the CEO under delegated authority, which have subsequently been extended by the CEO during the period from July to December 2006.

**ATTACHMENTS**

Attachment 1	Extensions of Council's originally approved contracts
Attachment 2	Extensions of CEO originally approved contracts

**VOTING REQUIREMENTS**

Simple Majority

**MOVED Cr Amphlett, SECONDED Cr Currie that the Audit Committee NOTES the report detailing contracts extended by the CEO during the half-year period between July 2006 and December 2006.**

Discussion ensued, with a number of questions being raised in relation to the review processes undertaken to gauge satisfactory performance of the contractor prior to any renewal/extension of the contract.

Cr Magyar made reference to the information contained within the attachments to this report and requested that an additional column be provided that shows the final contract completion date.

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

*Appendix 2 refers*

**ITEM 4            WRITE OFF OF MONIES - [07032]**

**WARD:**                All

**RESPONSIBLE**        Mr Mike Tidy  
**DIRECTOR:**            Corporate Services

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**PURPOSE**

To report to the Audit Committee on monies written off under delegated authority.

**EXECUTIVE SUMMARY**

The semi-annual report of amounts written off under delegated authority during the six months ended on 31 December 2006 follows. Amounts between \$100 and \$20,000 are normally listed in a schedule but for this reporting period there were no individual write-offs over \$100.

*It is recommended that the Audit Committee RECEIVES the report of amounts written-off under delegated authority for the period July to December 2006.*

**BACKGROUND**

Section 6.12 (1)(c) of the Local Government Act 1995 gives the Council the power to write off any amount of money owing to the City.

By authority of section 5.42 of the Act, the Council delegated this authority to the CEO, who in turn, under section 5.44, delegated his authority to nominated employees, up to the limits provided in the instrument of delegation.

**DETAILS**

At its meeting held on 6 June 2006 (CJ079-06/06 refers) Council approved 'inter alia' to delegate to the CEO the authority to write-off monies owed to the City, subject to a report being provided to the Audit Committee on a six (6) monthly basis on the exercise of this delegation for amounts between \$100 and \$20,000.

During the six month ended on 31 December 2006 a total amount of \$10,550.75 was written-off; none of the items included was over \$100.

The total amount of Rates written-off was \$4,239.70 made up of 3,729 small items. These items vary from one cent to five dollars each, representing in the main, rounding decimals or penalty interest charged for a few days' late payment where ratepayers did not pay the penalty and the cost of collection was, for all practical purposes, proving to be uneconomical.

The total outstanding Library bad debt written off from expired memberships was \$6,311.05. This amount is broken down into \$4,337.05 in small fines and \$1,974.00 in bills averaging \$7 each, the collection of which became doubtful and the whereabouts of debtors un-known.

**Link to Strategic Plan:**

4.3.3 Provide fair and transparent decision-making processes.

**Legislation – Statutory Provisions:**

Section 6.12 (1)(c) of the Local Government Act 1995.

**Financial/Budget Implications:**

Amounts of Rates written off are charged back to the Rate account originally credited and get adjusted against the Rate revenue for the year. Library charges are accounted for separately and only taken to income when collected.

**Policy Implications:**

Delegation of Authority.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

Not Applicable.

**Consultation:**

Not Applicable.

**COMMENT**

Monies written-off under delegated authority totalled \$10,550.75 made up of small items all of which fell below the limit specified for detailed reporting to the Audit Committee.

**ATTACHMENTS**

Nil.

**VOTING REQUIREMENTS**

Simple Majority

**MOVED Cr Currie, SECONDED Cr Magyar that the Audit Committee RECEIVES the report of monies written-off under delegated authority for the period July to December 2006.**

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

## **ITEM 5                    CONSIDERATION OF THE AUDITOR'S MANAGEMENT LETTER FOR THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2006 – [58591]**

**WARD:**                    All

**RESPONSIBLE            Mr Mike Tidy**  
**DIRECTOR:**            Corporate Services

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### **PURPOSE**

This report is to consider the management letter issued by the auditors in relation to the audit of the City of Joondalup's accounts for the year ended 30 June 2006.

### **EXECUTIVE SUMMARY**

At the completion of the annual audit the auditors may in addition to the Independent Audit Report that accompanies the accounts issue a management letter. The management letter usually addresses issues that the auditor wishes to raise but which do not warrant any qualification or statement in the Independent Audit Report.

The Independent Audit Report on the accounts for the financial year to 30 June 2006 was completed by the auditors in October 2006 and was considered by Council at its meeting on 31 October 2006. The audit was completed by Deloitte Touché Tohmatsu who were the auditors for the 2005/06 financial year but their contract has since concluded and Council has subsequently appointed new auditors. The management letter was received in December 2006 and sets out six issues.

*It is recommended that the Audit Committee recommends to Council that the report on the Management Letter by the auditors in relation to the audit of the annual financial accounts for the financial year ended 30 June 2006 be received and the management responses to each of the issues raised be noted.*

### **BACKGROUND**

Part 7 of the Local Government Act 1995, (the Act) sets out the requirements in relation to the conduct of audits of local governments. This includes provisions for the establishment of regulations in relation to the conduct of audits and these are in turn set out in the Local Government (Audit) Regulations 1996 (the Regulations). Regulation 10 of the Regulations sets out the reporting requirements of auditors and sub regulation (4) provides;

"Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report."

Section 7.9(1) specifies the persons as the mayor or president, the CEO and the Minister.

It should be noted that the requirement for a management letter is only where it is considered by the auditor to be appropriate to do so and there have been occasions in the past when management letters have not been issued.

## DETAILS

The management letter in relation to the audited accounts for the financial year ended 30 June 2006 sets out six identified issues and these are detailed in the management letter at Attachment 1.

### Issues and options considered:

Each of the issues that have been raised by the auditors have been examined and discussed with management in some detail and the management response in relation to each of the issues is included in the management letter under the heading of Management Response on the left hand side.

The Committee may recommend acceptance and noting of managements responses in relation to each of the issues or recommend an alternative course of action.

### Link to Strategic Plan:

Objective 4.1 - To manage the business in a responsible and accountable manner.

### Legislation – Statutory Provisions:

Part 7 of the Local Government Act 1995 and the Local Government (Audit) Regulations 1996 apply. In particular, regulation 10 sets out the reporting requirements of auditors as follows -

#### 10. Report by auditor

- (1) An auditor's report is to be forwarded to the persons specified in section 7.9(1) within 30 days of completing the audit.
- (2) The report is to give the auditor's opinion on —
  - (a) the financial position of the local government; and
  - (b) the results of the operations of the local government.
- (3) The report is to include —
  - (a) any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government;
  - (b) any matters indicating non-compliance with Part 6 of the Act, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls in any other written law;
  - (c) details of whether information and explanations were obtained by the auditor; and
  - (d) a report on the conduct of the audit.
- (4) Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report.

**Risk Management considerations:**

The management letter issued by the auditors is a key risk control in managing the financial affairs of the City. While there are no specific implications for not receiving and noting a management letter, the issues raised are considered important for the Audit Committee to be aware of.

**Financial/Budget Implications:**

Not Applicable.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

The audit requirement is a statutory obligation to ensure the prudent and sustainable operation of the City.

**Consultation:**

The auditors have held a number of discussions with City of Joondalup management in relation to the issues and content of the management letter following the audit of the accounts for the financial year ended 30 June 2006. The responses and comments of management are included in the management letter.

**COMMENT**

Each of the items that have been raised in the management letter include observations, implications and recommendations from the auditors together with a response from the City of Joondalup management. By and large they are self-explanatory however the following additional comments are offered.

The first three issues, 2.1.1, 2.1.2 and 2.1.3, essentially relate to access and security issues in relation to IT systems within the City of Joondalup.

The first relates to a periodical review of user account access and subsequent to providing comments to the auditor the agreed actions have been completed.

The second relates to user access administration and in particular the removal of security access to Oracle for persons who have left the organisation. The removal of user access as employees leave the organisation is already controlled through established processes and procedures and to a large extent is automated. There can be occasions where appropriate notification is not passed through to Information Management and the deletion of the user account does not occur. It should be pointed out however that there are multiple layers of user access and failure to delete a user access account in Oracle by no means would still allow a previous employee to gain access to Oracle. It is considered that the action proposed by the auditors would involve a significant amount of additional work and resource while not contributing to increased security. It is therefore not proposed to undertake this recommendation.

The third item is in relation to periodical review of security logs. There is currently limited manual review of the security logs focussing on those considered the most important or greatest risk. To extend this as recommended by the auditors in the current situation would be an extremely laborious and time-consuming process relative to the additional level of security achieved. It is proposed in the new financial year to acquire some additional software management tools that will assist and extend the level of log monitoring.

Items 2.1.4 and 2.1.5 both relate to assets. In the first one the requirement to undertake a stocktake of fixed assets has been highlighted and this requirement is acknowledged. This is intended to be undertaken in conjunction with the 2006/07 financial accounts. The second relates to infrastructure assets and their valuation. It is acknowledged that the costing of these assets needs review and again this will be undertaken as part of the 2006/07 financial accounts.

The final item, 2.1.6, relates to staff acknowledging the policy in relation to online services as new employees commence at the City and subsequent to providing comments to the auditor the agreed actions have been completed.

## ATTACHMENTS

Attachment 1 City of Joondalup Management Letter for the year ended 30 June 2006.

## VOTING REQUIREMENTS

Simple Majority

**MOVED Cr Amphlett, SECONDED Cr Currie that the Audit Committee RECOMMENDS to Council that the report on the Management Letter by the auditors in relation to the audit of the annual financial accounts for the financial year ended 30 June 2006 be RECEIVED and the management responses to each of the issues raised be supported.**

Discussion ensued. Cr Magyar raised a query in relation to the length of time the City retains security logs.

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

*Appendix 3 refers*

## **ITEM 6 APPOINTMENT OF EXTERNAL MEMBER OF AUDIT COMMITTEE - [50068]**

**WARD:** All

**RESPONSIBLE DIRECTOR:** Mr Mike Tidy  
Corporate Services

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## PURPOSE

For the Committee to consider the appointment of an external member to the Audit Committee.

## **EXECUTIVE SUMMARY**

The Terms of Reference of the Audit Committee provide for an external member, ie not a Council member or staff member, to be appointed to the Audit Committee. An invitation to express an interest in becoming an external member of the Audit Committee was advertised in September 2006 and resulted in only one response. The respondent does not reside or work in the City of Joondalup.

*It is recommended that the City READVERTISES for an external member representative on the Audit Committee in the Joondalup and Wanneroo Times only.*

## **BACKGROUND**

The City of Joondalup's Audit Committee Charter provides in Section 4 dealing with Membership for the appointment of one representative to the Audit Committee who is external to the operations of the City of Joondalup. In August 2006 Council amended the Audit Committee Charter in relation to the external member representative to include a new clause 4.7

*"That when appointing the external member to the Audit Committee as detailed within the Audit Charter, the Council may prefer to appoint a person who is enrolled to vote in the elections for the City of Joondalup in accordance with the provisions of the Local Government Act, 1995".*

In September 2006 the position of external member on the Audit Committee was advertised in the West Australian with expressions of interest sought from suitably qualified and experienced persons. Only one response was received. A copy of that response is at Attachment 1.

## **DETAILS**

### **Issues and options considered:**

The single respondent to the advertisement is a chartered accountant and a registered company auditor who has an extensive background in auditing, accounting and finance. The applicant has no connections to the City of Joondalup and although he is aware of the area he does not live or work within the City of Joondalup.

In subsequent discussions the respondent expressed the view that his interest in the role was to get involved in some community type work and a desire to be involved in a charity or to participate on an Audit Committee and this role fitted that criteria.

The inclusion of a new clause 4.7 as set out in the background above reflects the Council's preference for a person who resides within the City of Joondalup to be the external member of the Audit Committee. It is felt therefore that the recommended approach would be to decline the application that has presently been received and for the City to readvertise.

The advertisement in The West Australian would have only been noticed by those who are inclined to look at the Public Notices section and not by the general reader. It is suggested that it may be more appropriate in trying to focus on a City of Joondalup resident by advertising in the local press only rather than The West Australian.

**Link to Strategic Plan:**

- 4.2.1 Provide efficient and effective service delivery
- 4.3.3 Provide fair and transparent decision making processes.

**Legislation – Statutory Provisions:**

Section 5.8 of the Local Government Act 1995 provides for a local government to establish a committee to assist Council.

Division 7.1A of Part 7 of the Local Government Act 1995 deals with the establishment, membership, decision-making and duties that a local government can delegate to an Audit Committee.

The Local Government (Audit) Regulations 1996 also includes provisions, which deal with the functions of an Audit Committee.

**Risk Management considerations:**

The Audit Committee is an important element of risk management and a contributor to the mitigation of risk. It plays a significant oversight role. Having an external member on that Committee adds an additional element to that oversight role by bringing a focus that is not influenced by other issues before Council. It offers the opportunity for input from a fresh perspective.

**Financial/Budget Implications:**

Not Applicable.

**Policy Implications:**

Although not strictly speaking a policy, there is an Audit Committee Charter, which makes provision for the objectives, functions and operation of the Audit Committee. Section 4 of the Charter sets out provisions in relation to membership and that includes clauses making provision for the appointment of an external member to the Audit Committee.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

Not Applicable.

**Consultation:**

There was brief consultation with the single respondent to the advertisement for expressions of interest for an external member on the Audit Committee.

## COMMENT

While the applicant who has responded to the advertisement has a strong auditing, accounting and finance background he has no connection either through residency or work with the City of Joondalup. Council recently amended the Audit Committee Charter in relation to the external member to reflect strong preference for the external member to be a City of Joondalup resident.

It is felt that the placement of the last advertisement in the Public Notices section of The West Australian may have been a contributing factor to the lack of interest or response. The range of persons who would normally look at that section of the paper is relatively limited. It is suggested therefore that Council readvertise but this time only in the local papers circulating in the district. This would directly target City of Joondalup residents.

## ATTACHMENTS

Attachment 1      Response to request for expression of interest for an external member on the Audit Committee  
Attachment 2      Audit Committee Charter

## VOTING REQUIREMENTS

Simple Majority

**MOVED Cr Currie, SECONDED Mayor Pickard that the City READVERTISES for an external member representative on the Audit Committee in the Joondalup and Wanneroo Times only.**

**AMENDMENT MOVED Cr Magyar, SECONDED Cr Currie that the words "for the term October 2007 to October 2009" be added after the word "committee".**

Mayor Pickard foreshadowed his intention to move a different motion should the Amendment under consideration not be successful.

**The Amendment was Put and**

**CARRIED (3/2)**

**In favour of the Amendment:** Crs Currie, McLean and Magyar      **Against the Amendment:** Mayor Pickard and Cr Amphlett

**The Original Motion as amended, being:**

**That the City READVERTISES for an external member representative on the Audit Committee for the term October 2007 to October 2009 in the Joondalup and Wanneroo Times only.**

**was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

*Appendix 4 refers*

*Manager, Financial Services left the Room at 1930 hrs.*

**ITEM 7            MICROSOFT EXCHANGE EMAIL PROBLEM   -   20-22  
DECEMBER 2006   -   [03777]****WARD:**            All**RESPONSIBLE**    Mr Mike Tidy  
**DIRECTOR:**       Corporate Services

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**PURPOSE**

To provide background on the issues associated with the email failure prior to Christmas in December 2006.

**EXECUTIVE SUMMARY**

The City's email system failed in the three working days immediately prior to Christmas in December 2006. Information Management have undertaken a debrief in relation to the issues that concerned this failure, the recovery and what can be done in the future to avoid a repetition of this situation.

*It is recommended that the Audit Committee NOTES the report into the Microsoft Exchange email system failure in December 2006.*

**BACKGROUND**

Early morning on Thursday 21 December 2006 the City's Microsoft Exchange email system failed. While recovery actions commenced immediately, the email system could not be restored until late on Friday 22 December 2006. The loss of the email service impacted on Elected Members, staff and external parties who communicate with the City via email. All email from Wednesday 20 December was lost and also most of the external email from Thursday and Friday. Faxes that were received via the City's fax gateway could not be processed via the email system on the Thursday and Friday, although no faxes were lost. Copies of emails stored in personal folders could not be restored until Wednesday 27 December 2006.

**DETAILS**

The City uses Microsoft Exchange for its email system. In layman's terms the basic structure of the email system comprises three components:

- Microsoft Exchange application software that resides on a dedicated server.
- The data that comprises all of the email traffic (inbox, sent items and personal folders) held on a data storage system commonly referred to as a SAN (Storage Area Network).
- Specialised hardware devices and software (hereafter called the "SAN link") that enables the Exchange server to communicate to the SAN and through which the Exchange server is able to know where and how all of the mail data is located and can store and retrieve those emails.

It was a failure of the SAN link, specifically the software element (Volume Manager) that failed and not the Exchange server or the SAN. While the Exchange application was operational it was not a functional system as it could not connect to the SAN to retrieve the email.

Despite extensive investigations, including by the suppliers of the software, the precise cause of the failure has not been able to be identified.

Ironically most of the City's key servers have a redundant SAN link except the Exchange server until shortly before the incident. A week prior to the email failure a redundant SAN link was installed on the Exchange server to improve the resilience of the system. Notwithstanding that the redundant SAN link was added, it was done so a week earlier and the system functioned perfectly for a week before it failed. It was also the case that the hardware and software itself did not fail, but software configuration information was irreversibly corrupted.

The failure was immediately apparent at the time that it occurred. Following the failure the subsequent delays in getting the system back up and running were all related to trying to recover the email system and also ensure that in the process ongoing email traffic was also recovered. After numerous attempts at following through a series of different recovery processes with technical support provided by the software vendors onsite, each one of the options followed failed to fully recover the system. As a last resort attempts to preserve and recover all the email traffic received while the system was down were abandoned and the focus was placed on simply recovering the emails at the time of the last successful backup, which was Tuesday evening.

**Link to Strategic Plan:**

Not Applicable.

**Legislation – Statutory Provisions:**

Not Applicable.

**Risk Management considerations:**

The failure in the first instance and the difficulties experienced in the subsequent recovery raise a number of issues in terms of risk management which have been identified and examined in a debrief that was conducted following recovery of the email system.

Issues identified in the debrief covered backups, disaster testing, the specific software used for communication between servers and the SAN, staff training, support for the software that is used, documentation and a number of other issues. Not all of these items raised significant issues or even necessarily high priority ones however, some have been put into immediate effect where the requirement is obvious and simple. Independent of this issue, the IT Strategic Plan already proposes an upgrade of Microsoft Exchange to Exchange 2007 in the 2007/08 financial year and some of the issues that have arisen from this incident will be addressed in that implementation.

Examples of both scenarios are:

- **An immediate change:** All mail passes through the scan mail server before it gets to the exchange server. The scan mail server has the ability to store and queue all email traffic if the exchange server is not functioning and could hold up to four days of incoming mail. Should the mail system go down again, the connection between the Exchange server and the scan mail server will be disconnected immediately. On this occasion that was not done early in the process because by rights the Exchange recovery procedures should have been able to recover the emails. From now on this will be done immediately as a matter of course.
- **To be addressed with the Exchange 2007 upgrade:** A very quick response to recover the email system would be to have a complete Microsoft Exchange backup environment. Effectively this duplicates the Exchange system and would kick in almost immediately should the primary system fail. With the imminent upgrade as proposed in 2007/08, which will be a major task, there is not a lot to be gained by implementing a back up environment with the current version. Notwithstanding this recent incident the mail system has been very reliable for many years. The backup environment will be included in the specifications for the Exchange 2007 upgrade.

**Financial/Budget Implications:**

There are no financial implications within the current financial year for the course of action described but there will be some issues coming out of this incident that ought to be addressed and may have some financial impacts for the 2007/08 budget.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

Not Applicable.

**Consultation:**

Information Management sought and obtained the best technical advice that they could from the various support services for the software and equipment that the City was using to assist them and advise them in relation to what had occurred and what needed to be done, to recover the email system.

## COMMENT

As mentioned, Information Management undertook a detailed debrief following the recovery of the email system and examined the impacts, issues and identified a number of recommended actions some of which are referred to in this report.

Notwithstanding this particular incident and the difficulties that it created for the organisation, the email system prior to this has a very good record of reliability. The most frustrating outcome of the debrief is that despite the external technical expertise the precise cause of the problem has not been able to be identified and unfortunately therefore it cannot be said with confidence that it will not occur again.

At this point there have been changes put in place, most of which address the issues of the recovery process. Information Management are confident that should a similar incident arise that the recovery process would be quicker and smoother without the significant loss of data that occurred on this occasion. Plans are in place to address the issue of putting in place a clustered Microsoft Exchange environment and this will be done in conjunction with the planned Exchange 2007 upgrade in the 2007/08 financial year. Under a clustered Exchange setup, two servers are deployed to share the workload. Should one of the servers fail, the second server will automatically take over the workload from the failed server. With this future planned upgrade, which will be a major exercise, and the up until now inherent reliability of the email system it is not considered that the City should go to the expense of duplicating the Microsoft Exchange environment for the current version of Exchange Server in the short term.

## ATTACHMENTS

Not Applicable.

## VOTING REQUIREMENTS

Simple Majority.

**MOVED Cr Amphlett, SECONDED Cr Currie that the Audit Committee NOTES the report into the Microsoft Exchange email system failure in December 2006.**

Discussion ensued.

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie

## **ITEM 8                    2006 COMPLIANCE AUDIT RETURN   -   [09492] [50068]**

**WARD:** All

**RESPONSIBLE  
DIRECTOR:** Mr Garry Hunt  
Office of CEO

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## PURPOSE

To present the completed 2006 Compliance Audit Return to the Audit Committee prior to its submission to the Council for final adoption.

## **EXECUTIVE SUMMARY**

The Department of Local Government and Regional Development ("the Department") Compliance Audit Return ("Return") for the period 1 January 2006 to 31 December 2006 has been completed by the City.

## **BACKGROUND**

The Department has taken the initiative to allow the 2006 Return to be completed online.

The structure of the Return has changed slightly, but the content remains the same with the Return covering the compliance categories of Local Laws, Tenders, Commercial Enterprises, Finance, Meeting Process, Local Government Employees, Disclosure of Interests, Delegations, Grants, Disposal of Property, Swimming Pools, Cemeteries, Caravans and Camping and Miscellaneous Provisions.

The 2006 Return incorporates all the statutory requirements listed in Regulation 13 of the Local Government (Audit) Regulations 1996, except those listed under Details in this report. This is intended to assist local governments to enhance or develop their internal control processes to ensure they include the statutory requirements of the legislation.

## **DETAILS**

Certain provisions (Attachment 1 refers) have been omitted from the 2006 Return as some are not applicable to the return period or require further redrafting for the next year to suit the electronic format.

### **Link to Strategic Plan:**

4.1 To manage the business in a responsible and accountable manner.

### **Legislation – Statutory Provisions:**

Regulations 14 and 15 of the Local Government (Audit) Regulations 1996 state as follows:

#### **14 Compliance audit return to be prepared**

- (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.
- (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.
- (3) A compliance audit return is to be:
  - (a) presented to the council at a meeting of the council;
  - (b) adopted by the council; and
  - (c) recorded in the minutes of the meeting at which it is adopted.

**15 Completion of compliance audit**

(1) After the compliance audit return has been presented to the council in accordance with regulation 14(3) a certified copy of the return together with:

- (a) a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and
- (b) any additional information explaining or qualifying the compliance audit;

is to be submitted to the Executive Director by 31 March next following the period to which the return relates.

(2) In this regulation:

“certified” in relation to a compliance audit return means signed by:

- (a) the mayor or president; and
- (b) the CEO.

**Risk Management considerations:**

The risk associated with the Council failing to consider Return would result in non-compliance with the legislative requirements of the Local Government Act 1995.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

Not Applicable.

**Consultation:**

Not Applicable.

**COMMENT**

The position of Internal Auditor is vacant at this time, therefore a minor review was conducted by the Director Governance and Strategy and the Acting Manager Marketing, Communications and Council Support.

**ATTACHMENTS**

- Attachment 1 Provisions, Local Government Act 1995 and Regulations  
Attachment 2 2006 Compliance Audit Return

**VOTING REQUIREMENTS**

Simple Majority

Note: It is a requirement of the Return that details of voting at the Council meeting be recorded in the Minutes.

**OFFICER'S RECOMMENDATION:** That the Audit Committee recommends that Council:

- 1 ADOPTS the completed Local Government Compliance Return for the period 1 January 2006 to 31 December 2006 forming Attachment 1 to this Report;
- 2 in accordance with Regulation 15 of the Local Government (Audit) Regulations 1996, SUBMITS the completed Compliance Audit Return to the Department of Local Government and Regional Development.

**MOVED Mayor Pickard, SECONDED Cr Magyar that the Audit Committee recommends that Council:**

- 1 **ADOPTS the completed Local Government Compliance Return for the period 1 January 2006 to 31 December 2006 forming Attachment 1 to this Report;**
- 2 **in accordance with Regulation 15 of the Local Government (Audit) Regulations 1996, SUBMITS the completed Compliance Audit Return to the Department of Local Government and Regional Development;**
- 3 **REQUESTS the Department of Local Government and Regional Development to prepare a Local Government Compliance Audit Return that lists all requirements set forth in the table to Audit Regulation 13 to assist local governments to undertake the audit.**

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Mayor Pickard, Crs McLean, Magyar, Amphlett and Currie.

*Appendix 5 refers*

**MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil.

**REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION**

Nil.

**CLOSURE**

There being no further business, the Presiding Person declared the Meeting closed at 2015 hrs; the following Elected members being present at that time:

Cr T McLean  
Cr S Magyar  
Mayor T Pickard  
Cr G Amphlett  
Cr R Currie