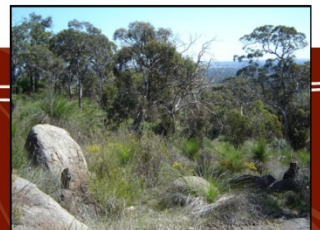


Audit & Risk Committee Meeting

Agenda for Monday 16 November 2015



**shire of
kalamunda**

NOTICE OF MEETING AUDIT AND RISK COMMITTEE

Dear Councillors

Notice is hereby given that the next meeting of the Audit & Risk Committee will be held in the Council Chambers, Administration Centre, 2 Railway Road, Kalamunda on **Monday 16 November 2015 at 6.00pm.**



Rhonda Hardy
Chief Executive Officer
12 November 2015

Our Vision and Our Values

Our Vision

The Shire will have a diversity of lifestyle and people. It will take pride in caring for the natural, social, cultural and built environments and provide opportunities for people of all ages.

Our Core Values

Service – We deliver excellent service by actively engaging and listening to each other.

Respect – We trust and respect each other by valuing our difference, communicating openly and showing integrity in all we do.

Diversity – We challenge ourselves by keeping our minds open and looking for all possibilities and opportunities.

Ethics – We provide honest, open, equitable and responsive leadership by demonstrating high standards of ethical behavior.

Our Aspirational Values

Prosperity – We will ensure our Shire has a robust economy through a mixture of industrial and commercial development.

Harmony – We will retain our natural assets in balance with our built environment.

Courage – We take risks that are calculated to lead us to a bold new future.

Creativity – We create and innovate to improve all we do.

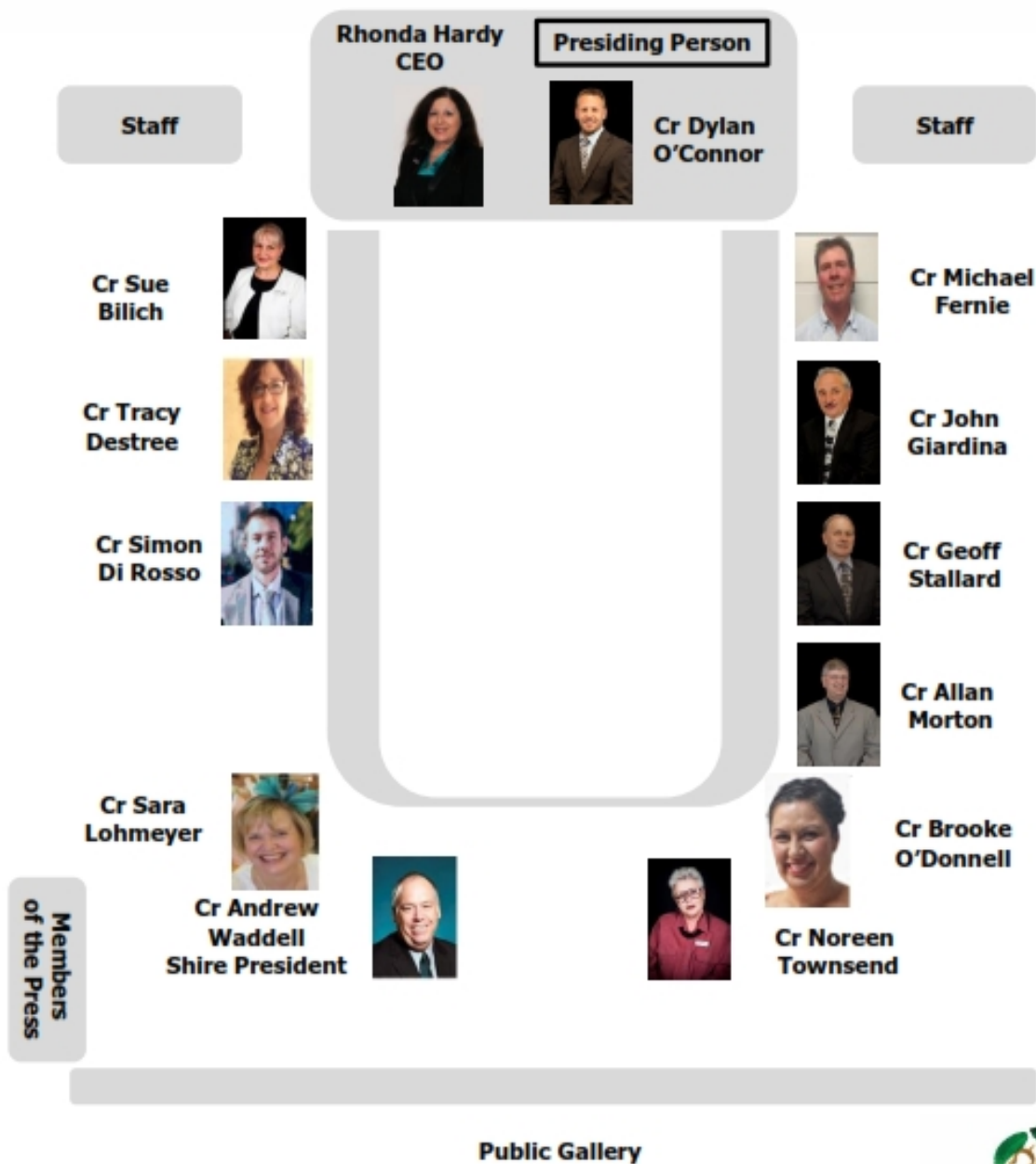


Audit & Risk Committee Meeting Procedure

1. Audit & Risk Committee is not open to the public.
2. Audit & Risk Committee has a membership of all Councillors.
3. The Committee makes recommendations only to Full Council (held on the fourth Monday of each month at 6.30pm).
4. All other arrangements are in general accordance with Council's Audit & Risk Committee Terms of Reference February 2013.

Council Chambers Seating Layout

Council Chambers



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AGENDA

1.0 OFFICIAL OPENING

2.0 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

3.0 CONFIRMATION OF THE PREVIOUS MINUTES

- 3.1 That the Minutes of the Audit & Risk Committee Meeting held on 15 June 2015, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved:

Seconded:

Vote:

- 3.2 That the Minutes of the Special Audit & Risk Committee Meeting held on 19 October 2015, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved:

Seconded:

Vote:

Statement by Presiding Member

"On the basis of the above Motion I now sign the Minutes as a true and accurate record of the meetings of 15 June 2015 and 19 October 2015".

4.0 CONFIDENTIAL ITEMS

- 4.1 **09. CONFIDENTIAL REPORT- Appointment of External Auditor -**
Provided under separate cover.
Reason for Confidentiality *Local Government Act 1995* S5.23 (d) (c) – "a contract entered into, or which may be entered into, by the local government which relates to a matter to be discussed at the meeting"

5.0 DISCLOSURE OF INTERESTS

5.1 Disclosure of Financial and Proximity Interests

- a. Members must disclose the nature of their interest in matters to be discussed at the meeting. (Section 5.65 of the *Local Government Act 1995*.)

- b. Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Section 5.70 of the *Local Government Act 1995*.)

5.2 **Disclosure of Interest Affecting Impartiality**

- a. Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee had given or will give advice.

6.0 **REPORTS TO COUNCIL**

Please Note: declaration of financial/conflict of interests to be recorded prior to dealing with each item.

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

07. Adoption of Annual Financial Report 2014/2015

Previous Items	
Responsible Officer	Chief Executive Officer
Service Area	Office of the Chief Executive Officer
File Reference	FI-SRR-005
Applicant	N/A
Owner	N/A
Attachment 1	2014/2015 Annual Financial Report
Attachment 2	Audit Findings Report for the year ended 30 June 2015
Attachment 3	Local Government Operational Guidelines – Financial Ratios No 18

PURPOSE

1. To receive the Auditor's Report and the 2014/2015 Annual Financial Report (Attachment 1).
2. To consider the Auditor's Findings Report for the year ended 30 June 2015 (Attachment 2) and the administration's response.

BACKGROUND

3. *Section 6.4 (1)* of the *Local Government Act 1995* (The Act) requires a local government to prepare an Annual Financial Report for each financial year and details what the Annual Financial Report is to contain.
4. *Section 6.4 (2)* of the Act requires a local government to submit, by 30 September following each financial year or as such time as the Minister allows, to its auditor –
 - (a) The accounts of the local government, balanced up to the last day of the preceding financial year; and
 - (b) The annual financial report of the local government for the preceding financial year.
5. *Section 7.12A (3)* of the Act requires the local government to examine the report of the auditor under section 7.9 (1) and any other report prepared under section 7.9 (3) forwarded to it, and is to –
 - (a) Determine if any matters raised by the report or reports require action to be taken by the local government; and
 - (b) Ensure that appropriate action is taken in respect of those matters.

6. *Section 7.12A (4)* of the Act requires the Shire to –
- (a) Prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) Forward a copy of that report to the Minister,
- by the end of the next financial year, or six months after the last report prepared under section 7.9 is received by the local government, whichever is the latest time.

DETAILS

7. The 2015 Annual Financial Report is presented for Council's acceptance.
8. The Auditors (Grant Thornton), conducted the field work in May and September of 2015 and concluded their work on 9 November 2015. The audit certificate is provided on pages 58-60 of the Annual Financial Report. As noted by the auditors, there were no indications of significant adverse trends in the financial position or financial management practices of the Shire.
9. In accordance with standard practice the Auditors, also issue an Audit Findings Report (Attachment 2) which provides commentary on areas of:
- Audit focus summarising nature of accounts under review and work performed;
 - Recommendations on control deficiencies with a management response;
 - Assessment of risk of material misstatements and their observations;
 - Schedule of un-corrected misstatements which were individually and in aggregate immaterial to the financial report as a whole; and
 - Developments in financial reporting reflecting changes in Accounting Standards and impact it may have on the Shire.
- None of the matters identified in the Audit Findings Report are of a material nature in terms of the Shire's operations.
10. Financial Ratios (Attachment 3) which cover all aspects of financial performance and sustainability, have been substantively met with the exception of the Asset Sustainability Ratio (ASR).
11. The negative result against this ratio is largely attributable to significant delays in finalising design concepts of the Hartfield Park and Kostera Oval projects resulting from extensive community consultation. The capacity to accelerate project design will improve delivery of large projects enabling more timely commencement and completion of projects.
12. In addition, more than 70% of local governments within Western Australia are not meeting the ASR ratio reflecting the challenges faced by local government in managing ageing infrastructure. Some local authorities are arguing that this ratio should be reviewed by the Department of Local Government & Communities.

13. The Asset ratios will be further impacted by recalculations on depreciation and asset conditions with the revaluation of infrastructure assets which has been finalised in this year of audit, 30 June 2015. With lower depreciation charges, the ASR will improve provided that the Shire continues to focus primarily on asset renewal rather than building new assets.
14. As noted in the report, the ratios will need to be closely monitored to ensure the continued long term financial sustainability of the Shire.

STATUTORY AND LEGAL CONSIDERATIONS

15. Sections 6.4, 7.9, 7.12A of the *Local Government Act 1995*.
16. Regulation 51 of the *Local Government (Financial Management) Regulations 1996*.

POLICY CONSIDERATIONS

17. There are no policy implications.

COMMUNITY ENGAGEMENT REQUIREMENTS

18. Although no community engagement consultation is required in the preparation of the Annual Financial Report, Section 5.55 of the Act requires that the Chief Executive Officer give local public notice of the availability of the Annual Report as soon as practicable after the Annual Report has been accepted by the local government. The Annual Financial Report forms one part of the contents in the Annual Report.

FINANCIAL CONSIDERATION

19. The 2014/2015 Budget includes provision for the cost of having the accounts and the Annual Financial Report audited by an externally appointed registered auditor. The audit fees for 2014/2015 is estimated at \$19,500.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

20. *Kalamunda Advancing: Strategic Community Plan to 2023*

OBJECTIVE 6.8 To ensure financial sustainability through the implementation of effective financial management, systems and plans.

Strategy 6.8.4 Provide effective financial services to support the Shire's operations and to meet sustainability planning, reporting and accountability requirements.

SUSTAINABILITY

Social Implications

21. Nil.

Economic Implications

22. Nil.

Environmental Implications

23. Nil.

RISK MANAGEMENT CONSIDERATIONS

24.

Risk	Likelihood	Consequence	Rating	Action/Strategy
The Annual Financial Report is not sent to the Local Government Department within the stipulated 30 days from receipt of the auditor's report.	Unlikely	Major	Medium	Ensure the Annual Financial Report is prepared, presented and received in time to meet the legislative requirements.

OFFICER COMMENT

25. The 2014/2015 Annual Financial Report includes:

- Statement by the Chief Executive Officer
- Statement of Comprehensive Income by Nature and Type
- Statement of Comprehensive Income by Program
- Statement on Financial Position
- Statement of Changes in Equity
- Cash Flow Statement
- Rate Setting Statement
- Notes to and forming part of the Financial Report
- Independent Auditor Report
- Supplementary Ratio Information

26. Regulation 51 of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to provide a copy of the Annual Financial Report to the Department of Local Government & Communities within 30 days of the receipt by the auditor's report on that financial report.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (A&R 07/2015)

That Council:

1. Pursuant to Section 6.4 of the *Local Government Act 1995*, accepts the 2014/2015 Annual Financial Report (Attachment 1).
2. Pursuant to Section 7.12A (3) of the *Local Government Act 1995*, notes the response to the issues raised by the Auditor in the Audit Findings Report (Attachment 2).
3. Request the Chief Executive Officer to ensure the Annual Financial Statements are forwarded to the Department of Local Government & Communities before the due date required.

Moved:

Seconded:

Vote:

Attachment 1

2014/2015 Annual Financial Report

[Please click HERE to go direct to the Attachment](#)

Attachment 2

Audit Findings Report for the year ended 30 June 2015

[Please click HERE to go direct to the Attachment](#)

Attachment 3

Local Government Operational Guidelines – Financial Ratios No 18

[Please click HERE to go direct to the Attachment](#)

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

08. Internal Audit Report October 2015

Previous Items	
Responsible Officer	Director Corporate Services
Service Area	Internal Audit
File Reference	
Applicant	Nil
Owner	Nil
Attachment 1	Internal Audit Plan
Attachment 2	Internal Audit Report October 2015
Attachment 3	Risk Audit Register
Attachment 4	Recommended Monitoring Activities and Key Control Activities

PURPOSE

1. To provide the Audit & Risk Committee with assurance that:
 - The financial and statutory functions of the Shire are being undertaken in accordance with the provisions of the *Local Government Act 1995*, associated regulations, Australian Accounting Standards; and
 - The local government processes and financial systems in relation to risk management, internal control and legislative compliance are appropriate.

BACKGROUND

2. The Internal Auditor conducted a review of a number of areas for compliance with legislative requirements and accounting policies. Items noted in this review were discussed with management. The Internal Audit is guided by an Annual Internal Audit Plan (Attachment 1).
3. The Internal Audit Function reviewed a number of areas to assess their compliance with Financial and Statutory Functions and to assess the adequacy of the current control environments.
4. Details of each audit review is contained in the Internal Audit Report (Attachment 2).
5. As part of the Risk Management Review, Recommended Monitoring Activities and Key Control Activities have been prepared and documented.

DETAILS

Stock Takes 30 June 2015

6. Reviewed and conducted test counts of stock quantities at 30 June 2015 held at the Shire Depot, the Zig Zag Centre and Hartfield Park.

Papers for the Fleet Management Steering Team

7. Prepared a series of papers for the Fleet Management Steering Team on strategies to reduce operating expenditure and Fringe Benefits Tax (FBT) on Shire vehicles and increase the business use of these vehicles.

Accruals/Prepayments

8. Established whether significant items of accruals and prepayments had been brought to account at 30 June 2015.

Changes in Accounting Standards and Legislation

9. Reviewed newly effective accounting standard changes introduced by the Australian Accounting Standards Board (AASB) and ensured that legislative changes for the 30 June 2015 financial year have been considered and implemented.

Audit & Risk Register

10. Reviewed and updated the Audit & Risk Register.

Financial Statements for Forrestfield Industrial Area Scheme Stage 1 for Year Ended 30 June 2015

11. Reviewed and audited a draft set of financial statements for the Forrestfield Industrial Area Stage 1 for year ended 30 June 2015.

Inventory- Land Held for Resale

12. Established whether freehold land belonging to the Shire to be sold within the next 12 months needed to be recognised and disclosed as Inventory at 30 June 2015 in accordance with AASB 102.

Bank Reconciliations

13. Examined the bank reconciliations completed at 30 June 2015 to ensure they had been completed properly and reviewed.

Loan Borrowings and Accrued Interest 30 June 2015

14. Tested the outstanding loan principle schedule at 30 June 2015 with the individual debenture loan repayment schedule and checked the apportionment of loans outstanding between current and non-current liabilities.
15. Tested the accrued interest calculated at 30 June 2015 with the debenture repayment schedule.

STATUTORY AND LEGAL CONSIDERATIONS

16. *Local Government Act 1995*
Local Government (Financial Management) Regulations 1996
Local Government Functions and General) Regulations 1996
Australian Accounting Standards

POLICY CONSIDERATIONS

17. C-PP01 - Purchasing Policy, C-ADM01 -Provision and Management of Light Vehicles Policy.

COMMUNITY ENGAGEMENT REQUIREMENTS

18. Nil.

FINANCIAL CONSIDERATIONS

19. The implementation of the recommendations will reduce exposure to financial risk and any potential loss to the Shire, and ensure the Shire complies with legislative requirements.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

20. *Kalamunda Advancing: Strategic Community Plan to 2023*
- Strategy 6.3.3 Regularly review the organisations structure and procedures in response to changing circumstances.
- Strategy 6.8.4 Provide effective financial services to support the Shire's operations and to meet sustainable planning, reporting and accountability requirements.

SUSTAINABILITY

Social Implications

21. Nil.

Economic Implications

22. Nil.

Environmental Implications

23. Nil.

RISK MANAGEMENT CONSIDERATIONS

24.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Failure to bring in all stock at year end.	Possible	Minor	Medium	All stock items taken to perpetual inventory system and not expensed.
Failure to understand FBT principles resulting in payment of additional tax.	Possible	Minor	Medium	Strategies being developed to improve employees understanding of FBT principles and improve business use.
Failure of recognising major accruals and prepayments at year end.	Possible	Insignificant	Low	Tests indicate major items recognised at year end. This will be confirmed by external audit.
Failure to address outstanding items in the Audit & Risk Register.	Possible	Minor	Medium	Audit & Risk Register regularly reviewed and updated.
Failure to bring in accrued interest recoverable on self-supporting loans.	Possible	Insignificant	Low	Immaterial, management has noted for final audit.
Failure to make the correct employee deductions as per salary sacrifice requirements.	Possible	Insignificant	Low	Employee likely to bring to attention of Human Resources when they receive their fortnightly pay slip.

OFFICER COMMENT

25. The issues identified and recommendations were discussed with management to mitigate risk, strengthen the internal control practices of the Shire and ensure the Shire was compliant with legislation. The items noted will be placed in the Audit & Risk Register for monitoring and actioning.
26. The establishment of an Audit & Risk Register provides the mechanism to ensure that audit findings are addressed in a satisfactory and timely manner.
27. Recommended Monitoring Activities and Key Control Activities will continue to be reviewed and monitored on a regular basis as part of the internal audit.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (A&R 08/2015)

That Council:

1. Notes the following recommendations included in the Internal Audit Report for October 2015 (Attachment 2).

Stock Takes 30 June 2015

All purchases at the depot, whether consumables or not for use on road construction and maintenance, should be treated in a consistent manner and where practicable recorded as inventory to provide better control of all supplies for roads and improves costing of materials to jobs.

Information Paper to the Fleet Management Steering Team

The Fleet Management Steering Team to provide strategies and actions for Executive to consider in improving the business use of Shire vehicles and reducing operating expenditure and Fringe Benefits Tax.

Audit & Risk Register

There will be close monitoring of the Audit & Risk Register to ensure matters identified are being addressed.

Recommended Monitoring Activities and Key Control Activities

There is continuous review of monitoring and key control activities as part of the internal audit and these documents to form part of the Risk Management Review.

Moved:

Seconded:

Vote:

Attachment 1

SHIRE OF KALAMUNDA
 INTERNAL AUDIT PLAN FOR 2015/2016 Page 1

Internal Auditor	Date Report to A/Comm	2015						2016						
		Sept Qtr		Dec Qtr		Mar Qtr		June Qtr						
		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
Corporate Services														
Financial Management Review (4 Yearly) To be completed by Aug 2018														
Evaluation of Procedures , Key Controls and Assessment of Risk														
Conduct review of systems and controls as required under Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996														
Bank Reconciliations														
Petty Cash														
Rates														
Receipts and Receivables (front counter)														
Fees and Charges														
Investments														
Purchases, Payments and Payables														
Credit Card Procedures/Transactions														
Wages and Salaries														
Fixed Assets														
Record Keeping														
Receipting Administration Office														
Receipting Libraries														
Receipting Recreation Centres														
Receipting Health and Community Care (HACC)														
Contributions/Lessee Improvements														
Fringe Benefits Tax (FBT)														
Inventories														
Goods and Services Tax (GST) - Fees and Charges - Genesis														
Grant Aquittals - reviewed 2013/2014														
HACC														
New Fees: Cat Act November 2013														
Interest Income														
Trust Funds - Cell 9 Developers Contributions														
Reserve Funds -New Industrial Land Contributions														
Trust Funds - Bonds														
Loan Borrowings														
Employee Provisions														
Systems Improvement														
Development of New Policies														
Review of Existing Policies														
Review of Novated leases														

SHIRE OF KALAMUNDA
 INTERNAL AUDIT PLAN FOR 2015/2016

Internal Auditor	Date Report to A/Comm	2015						2016					
		Sept Qtr			Dec Qtr			Mar Qtr			June Qtr		
		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Other													
Review of Waste Management with suppliers Invoices and number of properties being serviced													
Review contracted suppliers charges with tender rates adopted by Council													
Review of New Policies and procedures Process Improvement Guidelines/Policy													
Review of Panel Suppliers - Tree Lopping Services, and Others													
Review of Tenders													
Review of e-Quotes													
Preparation of Papers for Fleet Management Steering Committee													
Bin Collections- Comparison of Qty charged to ratepayers with suppliers collections Invoiced													
Review charges by EMIRC													
Audit of Compliance Audit Return January to December each year.													
Review of FBT Return for 2015/2016													
Attendance of E-Team meetings													
Attendance of Fleet Management Steering Team Meeting and dealing with actions													
Attendance of Cell 9 Meetings													
Support to Corporate Services and other directorates as and when required													

SHIRE OF KALAMUNDA
 INTERNAL AUDIT PLAN FOR 2015/2016 Page 4

Internal Auditor	Date Report to A/Comm	2015												2016																	
		Sept Qtr			Oct			Nov			Dec			Jan			Feb			Mar			Apr			May			June		
		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June						
End of Financial Year Requirements (annually)																															
Inventories - Conduct physical counts of closing inventory																															
Review and test Bank reconciliations/ Cash on Hand																															
Review Fair Value Treatment of Non-Current Assets for compliance with legislation and Australian Accounting Standards																															
Review Creditors and Provisions for completeness and accuracy																															
Check Accrued Interest																															
Check Loan Borrowings																															
Review of draft accounts and assist with preparation of notes to accounts																															
Review cut-offs																															
Review of Grant Acquittals																															

Attachment 2

**Internal Audit Report October 2015
Financial and Risk Management Review**

Objectives and Scope of the Internal Audit

The objectives and scope of the internal audit is to provide the Chief Executive Officer and the Audit & Risk Committee with surety that the financial and statutory functions of the Shire are being undertaken in accordance with the provisions of the *Local Government Act 1995*, associated regulations, the Australian Accounting Standards, any other legislation, and that key controls have operated effectively during the financial year.

Amendments in 2013 to the *Local Government (Audit) Regulations 1996*, now require all reports prepared for the Chief Executive Officer and the Audit & Risk Committee to examine the appropriateness of the local government's system in regard to risk management, internal control and legislative compliance.

The report covers areas examined in accordance with the Audit Plan and legislative requirements and includes:

- Stock Takes 30 June 2015
- Paper for Fleet Management Steering Team
- Accruals / Prepayments 30 June 2015
- Changes in Accounting Standards
- Audit Risk Register
- Audit of Forrestfield Industrial Area Scheme Stage 1
- Inventory Land Held for Resale
- Bank Reconciliations
- Loan Borrowings and Accrued Interest 30 June 2015
- Key Control Activities and Recommended Monitoring Activities

Stock Takes 30 June 2015

Background

Stock take instructions were issued by Corporate Services to senior staff in charge of stock takes before the 30 June 2015 to ensure stock counts were conducted correctly at the close of the financial year. Counts were conducted at the Shire Depot, Hartfield Park and High Wycombe Recreation Centres on 30 June 2015 and the Zig Zag Cultural Centre on 1 July 2015.

The depot maintains perpetual inventory records using Synergy and the Zig Zag Cultural Centre stock is controlled using the Centaman System. No perpetual inventory records are used or maintained for consumables held at the two recreation centres.

Work Performed

Physical quantities were tested with quantities recorded on stock sheets and from stock sheets with physical quantities held at the Shire Depot, the Zig Zag Cultural Centre and Hartfield Park.

Stock held at the Zig Zag Cultural Centre, Hartfield Park and High Wycombe represent consumable items expensed when purchased. This stock in keeping with prior years due to its nature and low value is identified and counted but not brought in as closing inventory.

The treatment is acceptable provided quantities and values are comparatively low and immaterial. The Zig Zag Cultural Centre held consignment stock not belonging to the Shire. This stock was counted and recorded separately from Shire owned stock.

A comparison of stock held at each location with quantities held the previous financial year to ascertain whether there was obsolete or slow moving stock was carried out.

Findings

Stock items checked were accurately recorded on the stock sheets and in the perpetual inventory records system at the depot and the Zig Zag Cultural Centre. There did not appear to be any obsolete or slow moving stock on hand at year end.

During the depot stock take, three line items were identified that were not included in inventory at 30 June 2015. These items had been expensed as consumables. In terms of value these items were insignificant, however the treatment of the items should have been consistently treated for similar items brought in as closing stock at year end and recorded through the perpetual inventory system.

The value of inventory at the Shire Depot was \$111,941 for 2015 and \$107,318 for 2014.

Stock counted at the Zig Zag Cultural Centre included Consignment Stock which was counted and recorded separately from Shire stock. The stock quantities was tested and stock sheets summarised.

The value of inventory at the Zig Zag Cultural Centre was \$27,154 for 2015 and \$17,127 for 2014.

The value of inventory at the Hartfield Park Recreation Centre was \$3,462 for 2015 and \$3,737 for 2014.

The value of inventory at the High Wycombe Recreation Centre was \$216 for 2015 and \$217 for 2014.

Risk

Allowing certain items of depot stock to be expensed and similar line items recorded as inventory reduces the control of non-stock items and affects the accurate costing to jobs.

Management Response

The items were expensed as consumables at time of purchase due to the nature of the items and value.

Recommendation

All purchases at the depot, whether consumables or not for use on road construction and maintenance, should be treated in a consistent manner and preferably recorded as inventory to provide better control of all supplies for roads. Issuing stock from inventory also improves the costing of materials to all jobs. The value of the items identified represented approximately \$880, and being less than 1% of the total value of depot stock was considered immaterial.

An Information Paper for the Fleet Management Steering Team (FMST)

Background

The Terms of Reference of the FMST is:

- To oversee the management of the Shire's plant and fleet vehicle resources in respect of acquisition, usage and disposal;
- To develop policies, plans and oversee implementation programs;
- To prepare and review the ten year Plant Replacement Program as part of the Long Term Financial Plan (LTFP);
- To review and make recommendations on request for new plant, vehicles and equipment; and
- To investigate new fleet management technology and make recommendations to executive.

Work Performed

A number of information papers were prepared by the Internal Auditor for the FMST for meetings held in June and August 2015 to consider a series of short to medium term strategies in order to reduce operating expenditure and Fringe Benefits Tax (FBT) on Shire vehicles and increase the business use of these vehicles.

Findings

Employees with Shire vehicles are to be made aware of the new Provision and Management of Light Vehicles Policy and Procedures, and to familiarise themselves with the principles of FBT.

There is a need to increase the business use of the light vehicle fleet, and where practicable reduce the operating costs and FBT.

Strategies and actions are being developed by the FMST to provide training for employees with a Shire vehicle, and look at alternative arrangements such as using pool vehicles used purely for business purposes, and altering the current arrangements of employees with limited private use of cars and non-cars/commercial vehicles.

Risk

Lack of understanding of motor vehicle FBT and the Fleet Vehicle Policy and Procedures resulting in additional FBT and operating expenditure being incurred by the Shire.

Management Response

Employees will be required to understand and conform to the new policy and procedures when they use a Shire vehicle and understand the FBT principles through a process of training or as part of the induction process for new employees.

Recommendation

The FMST to provide strategies and actions for Executive to consider in improving the business use of Shire vehicles and reducing operating expenditure and FBT.

Accruals/Prepayments

Background

Accruals and prepayments as an accounting requirement need to be recognised at the end of the financial year, especially if they have a material impact on the 30 June 2015 Financial Statements, in order to recognise income and expenditure in the correct reporting period.

The closure of June 2015 Creditors on 17 July 2015 ensures that the majority of June supplies and services are recognised in June 2015. This will also reduce the level of accruals at year end.

A reconciliation of creditor's statements for June 30 was undertaken with accruals raised for any expenses greater than \$3,000 not invoiced.

Work Performed

1. Ascertained whether an accrual or prepayment was required for the quarterly liability for FBT at 30 June 2015.
2. Ascertained whether major supplier's statements at 30 June 2015 were reconciled to ensure significant late or missing invoices pre-dated 30 June 2015 had been accrued.
3. Tested a sample of major reconciled supplier's statements to establish whether invoices greater than \$5,000 had been accrued.

Findings

1. An adjustment will be required for the prepayment of FBT at the 30 June 2015 of approximately \$61,000.
2. Major supplier's statements were reconciled at 30 June 2015 and invoices for services and goods greater than \$5,000 provided before 30 June 2015 accrued.

Risk

The risk of not recognising major supplier's invoices dated prior to 30 June 2015 and not recognising significant accruals is considered low.

Management Response

An adjustment for the prepayment of FBT will be made.

Recommendation

Nil.

Changes in Accounting Standards and Legislation

Background

The Australian Reporting Essentials Series assists financial statement preparers, auditors and those charged with governance responsibilities by highlighting key accounting and regulatory developments in the period and their impact on financial reports.

Work Performed

Reviewed newly effective accounting standards and amendments as of May 2015 issued by the Australian Accounting Standards Board (AASB) for 30 June 2015 financial reports to ensure their application is recognised for preparers of general purpose financial reports (local government financial reports) and not for profit entities.

Ensured the treatment of items during the 2014/2015 Financial Year comply with the amendments and are being treated appropriately.

Provided a copy of the AASB amendments to the preparers of the 30 June 2015 Financial Statements.

Findings

The amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets as they apply to the disposal of assets such as the Lewis Road land and buildings previously revalued and now sold in 2014/2015 has been treated in accordance with AASB 136.

AASB Interpretations 21 – Levies as they apply for example to the Emergency Services Levy is being recognised in accordance with the new interpretation; the levy is triggered in full as soon as the entity generates revenue. The liability is taken up when rates are raised. This liability is extinguished as the levies are collected from ratepayers and paid to the Department of Fire and Emergency Services (DFES).

Infrastructure assets is the last class of assets to be recognised at fair value in accordance with legislative requirements to phase these in over three years and by 30 June 2015. Initial meetings indicates the treatment will comply with Australian Accounting Standards.

Risk

Risk is considered low as management is aware of new changes to Australian Accounting Standards and in implementing these changes in accordance with the AASB requirements. External Auditors will review the treatment of items in accordance with the standards when they complete their year-end external audit of the 30 June 2015 Financial Statements.

Management Response

Infrastructure assets have been revalued by GHD an external group of professional property valuers. The new asset valuations bringing in assets at fair value at 30 June 2015 will be booked in the subsidiary asset register held on Assetic and in the General Ledger.

The subsidiary asset register will be reconciled with Synergy (General Ledger) and the treatment confirmed with the external auditors.

Recommendation

Nil.

Audit Risk Register

Background

The Audit and Risk Register records all significant audit findings identified both through internal and external audits and actions taken to address these findings. The register is regularly updated and reviewed to ensure the items identified are in the process or have been actioned.

Work Performed

Updated the Audit and Risk Register and reviewed audit findings to establish whether the items identified in previous audit reports had been actioned or are in the process of being actioned. An updated copy of the Audit and Risk Register is attached.

Findings

Following the last review carried out and reported in June 2015, the following items have been addressed:

- Rates
 - Rates R1. There is no updating of rating documentation for new staff to prevent errors in data entry.

Action R1. There is now some documentation in place prepared internally and provided for users of the IT operating system.
 - Rates R2. There is no external training for new staff on the rates system and legislative compliance requirements.

Action R2. There is now on-line training on the use of the IT Rates System and staff have attended external training.
- Fringe Benefits Tax (FBT)
 - FBT1. Staff with commuting rights using shire vehicles for private use are subjecting the Shire to FBT.

Action FBT1. A new light vehicle policy has been introduced to address this issue which provided for an employee contribution for private use to cover operating costs and FBT. Formation of a Fleet Management Steering Team has been established to look at ways of reducing the operating costs and FBT while maintaining sufficient shire vehicles to deliver services.
- Journals
 - J1. Lack of evidence that entries have been approved prior to being entered.

Action J1. The Manager Financial Services now approves all Journal entries before they are entered. This will ensure that only authorised and approved entries are being processed through the system.

- Annual Reports and Annual Budgets
 - AR1. Failure to meet statutory compliance requirements has occurred in the past by not lodging these documents on time.

Action AR1. The Manager Financial Services has prepared compliance check lists to ensure annual audited financial statements, annual reports and annual budgets are completed and submitted to the Department of Local Government and Communities on time and in accordance with legislative time frames.

Management Response

Items in the Audit and Risk Register are gradually being addressed by management and the register updated.

Recommendation

There will continue to be close monitoring of the Audit and Risk Register to ensure matters identified are being addressed.

Financial Statements of Forrestfield Industrial Area Scheme Stage 1 for Year Ended 30 June 2015

Background

A separate set of financial statements were drafted for the Forrestfield Industrial Area Scheme Stage 1 for the year ended 30 June 2015 in accordance with clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No 3. These accounts will be required to be independently audited by the Shire's external auditors.

Work Performed

Reviewed and audited a draft set of financial statements for the Forrestfield Industrial Area Scheme Stage 1 for Year Ended 30 June 2015 for completeness and disclosure. Tested income received and expenses incurred with supporting information. Confirmed the closing cash and cash equivalents on hand at 30 June 2015 with bank reconciliations and bank statements.

Findings

A requirement to place these funds in a restricted reserve and not in trust was completed in June 2015. The funds at 30 June 2015 are now held in two separate accounts with the Commonwealth Bank of Australia titled Forrestfield Industrial Scheme Stage 1, and the Trust account has been closed.

Minor amendments were identified that need to be made to the draft. This includes additional disclosure requirements in the notes and a separate equity statement.

Risk

The risk of the financial statements being inaccurate is considered low. The financial statements were prepared on a cash basis and comply with the requirements of clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No 3, and prepared in accordance with recognised Australian Accounting Standards.

Management Response

Required amendments were brought to the attention of the preparer of the financial statements. Changes will be made to the draft financial statements before they are presented to the external auditors.

Recommendation

Nil.

Inventory – Land Held for Resale

Background

Freehold land held with the intention of future sale within the next 12 months should be recognised in accordance with Accounting Standard AASB 102 Inventory and treated as a current asset reported at the lower of cost and net realisable value.

Work Performed

Established whether freehold land belonging to the Shire to be sold in the next 12 months needed to be recognised and disclosed as Inventory at 30 June 2015 in accordance with AASB 102.

Findings

During the financial year a number of blocks of land held by the Shire were sold. Two blocks of land remain unsold and need to be treated as Inventory at 30 June 2015; these are Lot 5 Cabarita Road, Kalamunda and 514 Kalamunda Road, Kalamunda.

These are the only two blocks of land being carried forward and disclosed as closing inventory at 30 June 2015.

Two further blocks at Cygnet Court, High Wycombe and Edney Road, High Wycombe planned for sale or redevelopment in 2016/2017 have not been brought in as a current asset Inventory – Land Held for Resale.

Risk

There is the risk of the two blocks not selling within the next 12 months. However they are held with the intention of being sold in the next 12 months and consequently recognised as a current assets.

Management Response

Nil.

Recommendation

Nil.

Bank Reconciliations

Background

Bank reconciliations are conducted each month by a Finance Officer and reviewed by the Manager Financial Services.

Work performed

Examined all the monthly bank reconciliations for June 2015 to ensure bank reconciliations were completed and reviewed by the Manager Financial Services.

Ensured there were no long overdue un-presented cheques to be written back and replaced. Established if reconciling items appearing in the bank reconciliation had been put through the cash book and general ledger.

Findings

Bank reconciliations with reconciling items required to be put through the general ledger have been journalised.

Bank reconciliations of all bank accounts for June 2015 have been completed and reviewed by the Manager Financial Services.

Risk

The risk of cash at bank being materially misstated is considered low as bank reconciliations are completed each month and independently reviewed by the Manager Financial Services.

Management Response

Nil.

Recommendations

Nil.

Loan Borrowings and Accrued Interest 30 June 2015

Background

At 30 June 2014 the Shire had 18 Debenture Loans with total principle outstanding of \$7,516,836. Of these, nine loans were self-supporting for local sporting clubs and associations with total outstanding principle of \$458,393.

No new loans were raised during the 30 June 2015 Financial Year with payments of existing loan principle and interest being made during the financial year resulting in a reduction of the outstanding loan debt principle to \$6,887,800.

Disclosure and treatment of outstanding loans needs to comply with legislative requirements and recognised accounting principles. A schedule needs to be prepared of all outstanding loans at 30 June 2015 and the apportionment of the loan principle between current liability (falling due within the next 12 months) and non-current liability (falling due after 12 months). Accrued interest on loans needs to be ascertained between the last loan repayment and 30 June 2015 and taken up at year end.

Work Performed

Tested the outstanding loan principle schedule at 30 June 2015 with the individual debenture loan repayment schedules and checked the apportionment of outstanding loans between current and non-current liabilities.

Tested loan repayments debited on bank statements with the loan repayment debenture schedule for loans 220, 221 and 222 in July 2015.

Tested the accrued interest calculated at 30 June 2015 with the debenture repayment schedule.

Examined new debenture repayment schedules applicable from 1 July 2015 provided by the Western Australian Treasury Corporation. These schedules now reflect an increase in the Loan Guarantee Fee from 0.1% to 0.7% applicable retrospectively on all existing and future loans.

Findings

Outstanding loan principle at 30 June 2015 agrees with the debenture loan repayment schedules and the treatment of the loans principle falling due within 12 months being treated as current liabilities and loan principle falling due after 12 months as non-current liabilities.

Loan repayment directly debited on bank statements agreed with the debenture loan repayment schedules.

Accrued interest on debenture loans at 30 June 2015 has been correctly calculated. The recoverable portion of the amount from self-supporting loan of the accrued interest has not been recognised. The amount of approximately \$3,800 is considered immaterial.

Risk

The risk of errors being made is considered low, as there are proper procedures in place and being applied for the take up of the repayment of the debt each month. The year-end recognition and treatment conforms to recognised accounting principles and accounting standards.

Management Response

The recoverable amount of accrued interest on accrued interest for self-supporting loans has been noted by management and will be taken up if required by the external auditors. At this stage the amount is considered immaterial.

Recommendations

A notation is made of the recoverable portion of the accrued interest on self-supporting loans and this was brought to the attention of the external auditors in case they wish to include it as part of the audit final adjustments. On its own the amount is immaterial.

Key Control Activities and Recommended Monitoring Activities

Background

As part of the risk management review, Key Control Activities and Recommended Monitoring Activities have been prepared.

Work Performed

Key Control Activities and Recommended Monitoring Activities were reviewed and updated for each risk area.

Findings

Majority of controls remain in place and appear to be operating effectively except for items noted which will be monitored and reviewed.

Risk

Payroll deductions need to be periodically checked and reviewed to ensure that salary sacrifice deductions and changes to taxation rates are pertinent and accurate. The risk is that employees are not receiving the correct salary sacrifice and other deductions in accordance with their terms and conditions of employment.

Management Response

This matter is being addressed.

Recommendations

That this area is monitored and tested as part of the next internal audit review to ensure information on the payroll is being independently reviewed.

Attachment 3

Internal Audit Plan – Audit & Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								
Rates R1	Regular updating of rating documentation procedures for new staff to prevent errors in data entry.	Possible	Minor	Medium	Proper documentation of rates systems and procedures will be updated for new staff.	Manager Financial Services	30-Jun-15	Being addressed. There is user IT documentation.
Rates R2	No external training for new staff on rates system and legislative compliance requirements.	Possible	Minor	Medium	External training on the use of the Synergy rates system and on compliance with legislation will be conducted after completion of probation period of new rates officers.	Manager Financial Services	30-Jun-15	Actioned, staff undertaking rates training online and external.
Rates R3	Front counter having access to master file information and making unauthorised changes.	Possible	Minor	Medium	IT controls established to restrict front counter staff to master file information.	Manager Technology & Corporate Support	Sep-14	Currently being investigated by IT.
Assets A1	Asset management plans are up to date and support the Long Term Financial Plan (LTFP).	Unlikely	Minor	Medium	Asset management plans brought up to date in support of LTFP.	Manager Operations	30-Jun-15	Outstanding.
Payroll P1	There is no independent review performed when a person is entered in the payroll system to ensure information is entered accurately.	Likely	Minor	High	The proposed appointment of a new independent person to undertake this work will address this matter.	Manager Strategy & People Services	Oct-14	Completed.

Internal Audit Plan – Audit & Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								
Payroll P2	Not accurately calculating novated lease contributions.	Possible	Minor	Medium	Template to be used to check quotes for pre and post-tax benefits.	Manager Strategy & People Services	Dec-15	Used by HR.
Payroll P2	There is no independent review of audit trails for changes to master file information.	Likely	Minor	High	The proposed appointment of a new independent person to undertake this work will provide the independent support, and the manager will check and approve all changes to the master file.	Manager Strategy & People Services	Oct-14	Completed.
Payroll P3	There is only one person in payroll that has a full understanding of the IT system. There is a risk if this person leaves there is no other person who fully understands the payroll system.	Likely	Minor	High	A second person is being taught on how to use the payroll system. A proposal has been developed to have an officer from Financial Services trained in how to use the Synergy payroll system.	Manager Strategy & People Services / Manager Financial Services	Dec-14	Completed.
Payroll P4	Not all managers confirm a person's leave entitlement with HR before granting approval on the leave application form.	Possible	Minor	Medium	System will not allow the processing of a leave application greater than a person's accrued entitlement. However to avoid disputes managers should check a person's entitlement with HR before approving leave entitlement forms.	All Managers	Dec-14	Completed.

Internal Audit Plan – Audit & Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								
Purchases Tendering PU1	Training is required for all staff involved in the procurement of goods and tendering to prevent breaches in legislation.	Likely	Minor	High	Suitable training will be organised.	Manager Financial Services	Sep-14	Training has been completed for procurement staff.
Purchases Tendering PU2	Despite controls being in place to monitor purchases from one supplier not exceeding the \$100,000 threshold, there were a small number of suppliers that exceeded this threshold.	Likely	Minor	High	Management considers the development of computer system blocks to prevent the raising of purchase requisitions once they get near to reaching the \$100,000 threshold to prevent the raising of a purchase order. Centralising the raising of purchase orders will reduce the risk of this happening.	Manager Financial Services	Sep-14	Being monitored by the procurement team.
FBT on Motor Vehicles FBT1	Staff with commuting rights are using shire vehicles for private use subjecting both commuting and private use to FBT.	Likely	Minor	High	All staff with commuting rights are made aware of their employment obligations when using a shire vehicle. The review and update of the Light Vehicle Policy will largely address this issue.	Manager Financial Services	Sep-14	Staff made aware of new vehicle policy and required to sign letter.
Journals J1	Lack of evidence that entries have been approved prior to being entered.	Likely	Minor	Medium	Carried out but not always being signed as evidence of approval. Reconciliation of accounts and budget reviews will pick up misallocations.	Manager Financial Services	Sep-14	Completed. Journals now approved.

Internal Audit Plan – Audit & Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								
Annual Reports and Annual Budgets AR1	Failure to meet statutory compliance requirements has occurred in the past by not lodging these documents on time.	Unlikely	Minor	Low	Having checklists to ensure statutory compliance in completing annual audited financial statements, annual reports and annual budgets and submitted on time with the Department.	Manager Financial Services	Jun-15	Completed. Check lists in place.
Financial Statement FS1	Separate Financial Statements to be prepared for external audit for the Forrestfield Industrial Area at 30 June 2015 and every quarter thereafter and funds placed in a restricted reserve.	Unlikely	Minor	Medium	Funds now placed in a restricted reserve in June 2015.	Manager Financial Services	Jul-15	Completed a separate set of annual Financial Statements and funds placed in a restricted reserve.
Log Books LG1	All staff with a Shire vehicle are reminded to complete their log books correctly.	Possible	Minor	Medium	Employees are reminded to complete their log books correctly.	All Managers will advise staff who use a Shire vehicle.	Sep-15	Regular reminders being sent by Corporate Services.
LG2	Managers before approving and forwarding log books to Corporate Services should check them.	Possible	Minor	Medium	Managers checking log books before approving and forwarding them to Corporate Services.	All Managers with staff who use a Shire vehicle.	Sep-15	In progress.

Internal Audit Plan - Audit & Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Records								
Records R1	Record Keeping Plan to be reviewed and submitted to the State Records Office by 2nd October 2014.	Unlikely	Minor	Low	Record Keeping Plan will be reviewed by records and submitted to Council for approval before the due date for submission.	Corporate Information Coordinator	Aug-14	Completed, submitted to Council and lodged with State Records Office by due date.
Unbound Minutes R2	Unbound minutes not placed in fireproof strongroom with potential for loss during a fire.	Possible	Major	High	This will be addressed with unbound minutes being placed in the fireproof strongroom.	Corporate Information Coordinator	Mar-15	Outstanding.

Internal Audit Plan - Audit & Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Governance								
Policy PO1	The Record Keeping and Councillor Record Keeping Policy has not been reviewed in over 5 years.	Unlikely	Minor	Low	These policies will be reviewed with other policies.	Manager of Information Technology and Corporate Support	Dec-14	Being prepared for review first quarter 2016.
New Code of Conduct	Training required for elected members and employees on new Code of Conduct.	Unlikely	Minor	Low	Training will be arranged.	Manager of Governance	Mar-15	Completed.

Attachment 4

Risk Area	Internal Audit Plan - Key Control Activities	In Place (Yes)	Not in Place (No)	Comments Page 1
1. Financial Report Preparation	a) Employees responsible for financial report preparation are competent and adequately trained. b) All journal entries require supporting documentation. Any non-routine entries require documented approval prior to being posted. c) Accounting software used contains application controls that prevent or detect errors from occurring.	Yes		Three qualified accountants with local government experience and training.
		Yes		By Manager Financial Services
		Yes	No	Items can be overridden without a budget allocation or creditors processed if they exceed \$100,000 Procurement monitors expenditure to prevent creditors exceeding the tender threshold.
2. Payroll	a) Payroll staff are competent for their assigned tasks, adequately trained and supervised. b) Persons processing payroll are independent of other payroll functions, such as hiring/firing of staff, timekeeping and EFT payment. c) Approval in writing is obtained before adding new employees to payroll. d) Signed and dated approval of each employee's pay rate is documented on employee file. e) Timesheets and total hours worked are approved before being processed for payment. f) Procedures exist to ensure terminated employees are immediately removed from payroll. g) Payroll register is reconciled to the general ledger and reviewed by a senior officer independent of payroll. h) Costs by sub program, are compared to budget.	Yes		There is a need for additional support staff in the area of payroll preparation and appropriate training
		Yes		
		Yes		
		Yes		
		Yes		
		Yes		Only Operations and Home and Community Care (HACC) employees complete time sheets.
		Yes		
		Yes		
		Yes		Budget reviews conducted line by line for each a/c more than once per year.
3. Revenue	a) Rates/debtors officers are competent for their assigned tasks, adequately trained and supervised. b) Monthly statements are issued to trade debtors. c) Rates are raised in line with the approved budgeted rate in the dollar. d) The rate record is updated and reconciled monthly to the Valuer Generals Office (VGO) records.	Yes		There is ongoing on the job training and online training in the use of the Synergy IT Rates System.
		Yes		
		Yes		
		Yes		This forms basis for interim rating.

Risk Area	Internal Audit Plan - Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
	e) Documented procedures are in place to ensure the VGO is informed of any building works approved. f) The rates ledger is reconciled to the General Ledger. g) The approved schedule of Fees and Charges is used for invoice preparation. Exceptions require documentation and approval. h) Automatic or manual checks are performed on serial continuity of invoice documents. i) Credit note approvals are independent of accounts receivable.	Yes Yes Yes Yes Yes		Fees and Charges approved when budget adopted Automatic Approvals are either by Business Unit managers or Manager Financial Services.
4. Receivables /Receipting	a) Staff handling cash receipts and managing receivables are competent for their assigned tasks, adequately trained and supervised. b) Bank reconciliation is prepared monthly (with statements from bank) and management approval documented. c) Customers are informed (signs, etc.) that they should obtain receipts. d) Pre-numbered cash receipts are issued for every cash sale. Serial continuity is reviewed periodically and checked against cash deposit data. e) Staff required to take their leave entitlements annually. f) When opening mail, cheques are stamped "for deposit only with the local government bank account number. Cheques received are listed, totalled and reviewed before deposit. g) All receipts cash/cheques are deposited on a regular and timely basis. h) Reconciliation of daily deposit total to receivable posting and cash sales is prepared and reviewed. i) A reconciliation of aged receivables to control accounts is prepared monthly and management approval documented. j) Procedures exist to ensure receipts are recorded in the correct period. k) Significant overdue customer accounts are investigated by management and actions taken documented.	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	No	Front counter, four cashiers and one supervisor. Prepared by Finance Officer and approved by Manager Financial Services. It is an option they have by ticking the appropriate box. Serial numbers are generated by computer. No independent checks carried out. Constantly reviewed and monitored by management. Two to three times a week by a security contractor. Sealed cash bag countersigned by SOK staff and CBA. Signed off by Manager Financial Services. Cut off procedures are in place. Aged analysis reviewed at month end and any > 60 day accounts are followed up. A report to Council is prepared each month.

Risk Area	Internal Audit Plan - Key Control Activities	In Place (Yes)	Not in Place (No)	Comments	Page 3
5. Purchases, payables, payments	<p>a) Personnel responsible for the purchasing, shipping, receiving and payable functions are competent, adequately trained and supervised.</p> <p>b) Management reviews outstanding cheques on period – end bank reconciliations.</p> <p>c) Pre-numbered cheques are used EFT's are allocated a sequential number for each creditor payment and details for every number is documented. Spoilt cheques are clearly marked "VOID" and cancelled.</p> <p>d) The purchasing policy clearly defines who can raise purchase requisitions/orders and to what dollar limit.</p> <p>e) Access to purchasing, receiving, account payable, and inventory records is restricted to authorised personnel.</p> <p>f) Spending limits are set by budget or individual levels of authority. These limits are monitored by the system or manually.</p> <p>g) A list of preferred suppliers is maintained and used where possible.</p> <p>h) Controls exist to ensure corporate buying/credit cards are only issued to authorised staff, and personal purchases are not allowed.</p> <p>i) Pre-numbered purchase orders and receiving reports are used and exceptions are approved and documented.</p> <p>j) Period -end procedures exist to detect and account for unprocessed goods/service receipts.</p> <p>k) Personnel receiving goods do not perform any accounting functions.</p> <p>l) An aged accounts payable listing is reconciled to general ledger each month and exceptions investigated by management.</p> <p>m) Aged report of open orders is reviewed each month and old/unusual items are investigated.</p> <p>n) Unit prices on invoices received are checked against price lists, quotes or approved purchase orders. Invoices are checked for correct calculations, discounts, taxes and freight before payment.</p> <p>o) System has checks to prevent duplicate payments on the same order.</p> <p>p) A list of accounts for payment is prepared in line with the legislation and authorised by council or a person with delegated authority before cheques are signed or EFT is authorised.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p>	<p>Manager Financial Services.</p> <p>A register of cheques issued is now maintained.</p> <p>In policy and procedures</p> <p>Monitored by regular budget reviews</p> <p>Strict control and review by Manager Financial Services</p> <p>Orders are generated by computer in sequential number via purchase requisition.</p> <p>Outstanding position at year end are reviewed and those not required are purged.</p> <p>Goods normally received at depot or on work site if a construction job. Goods received note signed.</p> <p>A report to Council is prepared at each month end.</p> <p>One copy of order is matched to invoice.</p>	

Risk Area	Internal Audit Plan - Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
	q) Signing officers examine supporting documentation to payments and document approval. r) All cheques must be made out to authorised vendors and cannot be made out to cash. s) A reconciliation of the accounts payable sub ledger to the general journal is prepared monthly and approved by management. t) Suppliers' statements are reconciled to accounts payable monthly and reviewed by management. u) Procedures exist to ensure payments are recorded in the correct period. v) Procedures exist to ensure all bank accounts and signatories are authorised by council. w) The accounting policy for when goods should be capitalised is documented and clearly understood by accounting personnel. x) Management regularly compares actual purchases (costs and expenses) to budgeted purchases and investigates and documents variances. y) Management follows up creditors queries on a timely basis. z) Management addresses the reasons for debit balances on creditors' accounts on a timely basis.	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	No	Two officers each time. Except for endorsed please pay cash for petty cash and till floats Only done in May and June before year end other months if a statement is received by AP staff. Through powers conferred on the CEO and delegations. Reviewed by accounting staff who make corrections via journal. Monthly and during budget reviews. Monthly review.
6.Monthly BAS Returns	a) BAS statements are prepared monthly and submitted on time with the ATO. b) Variances between GL and BAS statements are investigated regularly and adjusted.	Yes Yes		Monthly
7. FBT Returns	a) The information used to prepare and support the FBT Return is received and summarised on a regular basis. b) Log books are regularly approved and submitted to the preparer of the FBT Return c) FBT Returns are independently checked to ensure the information is correct before the return is submitted. d) A report is prepared for management on changes in FBT compared with the previous year	Yes Yes Yes Yes		Mainly log book information. Now looking at introducing electronic log books on a trial basis. By Internal Auditor and Manager Financial Services. In 2015 there has been a significant decrease in FBT due in part to Novated leasing and reduction in number of shire vehicles used privately.

Risk Area	Internal Audit Plan - Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments Page 1
1. Annual Budget	a) Monthly actuals are compared to budget and significant variances fully investigated and explained	Yes		Management reports reviewed by relevant managers at end of each month and during budget reviews.
2. Financial Reporting	a) Through the presentation of the Monthly Statement of Financial Activity (SFA) to council actual results are compared to budget each month; management reviews investigated and significant variances explained. b) Through a Statutory Budget Review conducted between January and March significant variances are investigated, reviewed and explained.	Yes Yes		Reported at Ordinary Council Meetings under Chief Executive Officers Report. These reports now conform with the minimum statutory reporting requirements. First budget review for 3 months to September 2015 completed. Statutory review to be completed.
3. Grants	a) Management regularly reviews all grant income and monitors compliance with both the terms of grants and council's grant policy (including claiming funds on a timely basis). b) Through the SFA grant revenue is compared to budget; management reviews, investigates and explains significant variances.	Yes Yes		Monitor and report to Council on a quarterly basis.
4. Receipting	a) Income is compared to budget regularly in the SFA; management reviews, investigates and explains significant variances. b) Statements of accounts receivable are sent to customers enabling review.	Yes Yes		Management reports reviewed by each business unit manager at month end. Rate debtors depending on their election of payment. A reminder notice is issued prior to instalment due date. Sundry debtors reminder notices issued on >60 day accounts.
5. Rates	a) Management reviews rates ageing profile on a monthly basis and investigates any outstanding items. b) Actual rate revenue is compared to budget; management reviews, investigates and explains significant variances. c) Annual valuation update is balanced prior to the generation of rates; this is reconciled to the rate record and reviewed. d) Interim valuation updates are balanced prior to the generation of interim rates; this is reconciled to the rate record and reviewed.	Yes Yes Yes Yes		Included with monthly reporting of Statement of Financial Activity. KPI targets in interplan which is reviewed monthly and provided with monthly reports to Council. Reconciled prior to issue of rate notices for 2015/16 Financial Year. Each schedule is balanced by the rates reconciliation debt.

Risk Area	Internal Audit Plan - Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
6. Receivables	a) Receivables and revenues are compared to budget monthly, management reviews, investigates and explains significant variances. b) Management reviews provision for doubtful debts on a regular basis. c) Management reviews debtors ageing profile on a monthly basis and investigates any outstanding items. d) Trade receivables age reconciliation to the general ledger is reviewed at least monthly.	Yes Yes Yes	No	As per above, management reports reviewed by Business Unit Manager at month end. Only at year end. At end of each month, considered during Audit & Risk Committee at year end for those considered for write off. By Manager Financial Services.
7. Bank accounts and banking	a) Management reviews journal transactions to the bank account. b) Management reviews bank reconciliations monthly to confirm large outstanding items are adequately explained and subsequently resolved.	Yes Yes		By Manager Financial Services. Signed off by Manager Financial Services.
8. Investments	a) Review the council investment performance regularly. b) Actual investment income compared to budget on a regular basis; management reviews, investigates and explains significant variances. c) Investment register maintained in accordance with regulations and investment policy. d) Reconciliations of investment register to general ledger routinely prepared and reviewed.	Yes Yes Yes Yes		By Manager Financial Services. Report to Council as part of month end financial reporting cycle. Reviewed on an annual basis and updated when necessary.
9. Payroll	a) Management reviews employee costs against budget on a monthly basis and investigates any outstanding items. b) Each department manager performs a regular review of reports detailing all employees listed on payroll master file; all unusual items are investigated. c) Salary and hourly payroll reports (inc. compensation and withholding information) are reviewed and approved by management before payments are approved. d) The payroll deduction table data is periodically reviewed by management for accuracy and ongoing pertinence. e) Management reviews a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements; identified errors are promptly corrected.	Yes Yes Yes	No No	Management reports are reviewed by the manager on a monthly basis. Refer above and as part of budget reviews Manager Financial Services also does an actual review at month end.

Risk Area	Internal Audit Plan - Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
	f) Each pay run is reviewed prior to authorisation for payment for consistency with prior pay runs and for abnormal items such as overtime.	Yes		
10. Purchasing, procurement and payments	a) Actual expenditure is compared to budget monthly; management reviews, investigates and explains significant variances. b) A list of all payments is prepared and presented monthly to the council; management reviews, investigates and explains any unusual or large payments. c) Management reviews supporting documentation before approving payments.	Yes		Purchasing is now centralised within finance, which has strengthened the control further. Manager Financial Services and in his absence the Internal Auditor.
11. Trade Payables	a) Management reviews trade payables ageing profile on a monthly basis and investigates any outstanding items. b) Trade payables age reconciliations to the general ledger is reviewed at least monthly.	Yes		Part of monthly end reporting to Council. By Manager Financial Services.
12. Fixed Assets	a) Management compare actual fixed asset balance to budget; management reviews, investigates and explains significant variances. b) Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget. c) Management regularly reviews valuation of fixed assets (i.e. methodology and useful lives of assets) to ensure that assets' valuation is appropriate and in accordance with Australian Accounting Standards. d) Management reviews depreciations rates and methodology (at least annually) to ensure rates and remaining useful lives are reasonable. e) Fixed asset register to the general ledger reconciliation is prepared and reviewed routinely.	Yes		Part of the Financial Activity Statement and reporting to the Council each month. As part of phasing in and treatment of assets at Fair Value Plant and Equipment completed 20 June 2013 Land and Buildings completed 30 June 2014. Infrastructure completed 30 June 2015. Now calculated by Assetic in asset register. Reviewed and signed off by Systems and Financial Accountant.
13. Borrowings	a) Borrowings actual and interest charges are compared to budget monthly; management reviews investigates and explains significant variances.	Yes		Part of monthly reporting to Council.

Risk Area	Internal Audit Plan - Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
14. Journals	a) All journals are independently reviewed (including check to ensure correct account allocation) and contains sufficient support information.		No	Not being independently reviewed and not always backed by supporting information.
15. General IT Risks	a) Regular IT audits performed focusing on data accuracy, retention and security. Results of these IT audits reviewed by management and action plan promptly implemented.	Yes		With the recent upgrades to the computer system, audits were carried out by Datacom and Microsoft.

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

09. CONFIDENTIAL REPORT - Appointment of External Auditor

Reason for Confidentiality Local Government Act 1995 S5.23 (d) (c) – “a contract entered into, or which may be entered into, by the local government which relates to a matter to be discussed at the meeting”

Previous Items	
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	
Applicant	Nil
Owner	Nil
Confidential Attachment 1	Summary of Audit Fees Quoted and Certification/Grant Acquittal Quoted Hourly rates
Confidential Attachment 2	Qualitative Comparative Assessment of Audit Practices – Perth
Confidential Attachment 3	Estimated Time to be Spent (Hours)
Confidential Attachment 4	Insurances
Confidential Attachment 5	Grant Thornton Quotation
Confidential Attachment 6	Moore Stephens Quotation

This report has been circulated to Councillors under separate cover

**7.0 URGENT BUSINESS APPROVED BY THE PERSON PRESIDING OR BY
DECISION**

8.0 CLOSURE