

# Audit & Risk Committee Meeting

Minutes for 15 June 2015

**UNCONFIRMED**



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kalamunda**

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## MINUTES

### 1.0 OFFICIAL OPENING

The Presiding Member opened the meeting at 6.45pm and welcomed Councillors and Staff.

### 2.0 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

#### 2.1 Attendance

##### Councillors

Margaret Thomas JP	North Ward
Simon Di Rosso	North Ward
Noreen Townsend	South West Ward
Justin Whitten	South West Ward
Geoff Stallard	South East Ward
Frank Lindsey	South East Ward
John Giardina	South East Ward
Andrew Waddell JP	North West Ward
Bob Emery	North West Ward
Dylan O'Connor	(Presiding Member) North West Ward

##### Members of Staff

Gary Ticehurst	Director Corporate Services
Dennis Blair	Director Infrastructure Services
Warwick Carter	Director Development Services
Darrell Forrest	Manager Governance
Rajesh Malde	Manager Financial Services
Darren Jones	Manager Community Development
Nicole O'Neill	Coordinator Public Relations
Donna McPherson	Minute Secretary

#### 2.2 Apologies

##### Councillors

Sue Bilich	(Shire President) North Ward
Allan Morton	South West Ward

##### Members of Staff

Rhonda Hardy	Chief Executive Officer
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#### 2.3 Leave of Absence Previously Approved Nil.

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### **3.0 CONFIRMATION OF THE MINUTES OF PREVIOUS MEETING**

3.1 That the Minutes of the Audit & Risk Committee Meeting held on 16 March 2015 are confirmed as a true and correct record of the proceedings.

Moved: **Cr Noreen Townsend**

Seconded: **Cr Justin Whitten**

Vote: **CARRIED UNANIMOUSLY (9/0)**

### **4.0 CONFIDENTIAL ITEMS**

4.1 Nil.

### **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. (Sections 5.60B and 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. (Sections 5.70 and 5.71 of the *Local Government Act 1995*.)

5.1.1 Nil.

#### **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.

5.2.1 Nil.

### **6.0 REPORTS TO COUNCIL**

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

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

**03. Internal Audit Report May 2015**

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Internal Audit Plan
Attachment 2	Internal Audit Report May 2015
Attachment 3	Risk Audit Register

**PURPOSE**

1. To provide the Audit and 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. Details of each audit review is contained in the Internal Audit Report (Attachment 2).

**DETAILS**

**Review of Compliance Audit Return 2014**

4. Reviewed the answers provided to questions in the Compliance Audit Return and tested the responses with supporting information where necessary.

**Log Books**

5. Reviewed a number of completed log books to ascertain whether they met the Australian Taxation Office (ATO) requirements and complied with the new vehicle policy adopted by Council.

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### **Insurance Pooling**

6. Attended the Insurance Pool Meeting on 27 March 2015 with Manager Financial Services and Finance Officer responsible for insurances and prepared a paper on the strengths, weaknesses, opportunities and threats associated with the scheme.

### **Fringe Benefits Tax (FBT) Return for 2014/2015**

7. Examined the principles used and tested the calculations to determine the FBT liability for 2014/2015.

### **Novated Leasing**

8. Tested a number of quotations received by employees with the pre and post-tax deductions made to establish whether the cash savings quoted agreed with the individuals fortnightly take home pay.

### **Revaluation of Infrastructure Assets**

9. Reviewed three expressions of interest received from valuers of road infrastructure as part of a selection panel to ascertain which quotation provided the best level of service at the best price.

### **Fleet Management Steering Team**

10. Attended meetings of the Fleet Management Steering Team and prepared papers for the team which included:
  - A position paper on how to manage the light vehicle fleet and to minimise FBT,
  - Identifying those commercial vehicles which are currently used for private purposes,
  - Advice on the impact of introducing contributory private use such as the State Government process, and
  - Review of logbook data to determine whether current vehicle numbers are necessary to accommodate the business needs of the Shire.

### **Forrestfield Industrial Area Trust Account**

11. Assisted Corporate Services in the preparation of the financial statements and gathering of information to be sent to the external auditors and have these statements independently audited.

### **Increase in Local Government Guarantee Fee**

12. Ascertained the impact of the increase in the Government Guarantee Fee on all new and existing loans with the Western Australian Treasury Corporation.

### **Audit Risk Register**

13. Conducted a review of the Audit and Risk Register to ensure outstanding items are being addressed.

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## **STATUTORY AND LEGAL CONSIDERATIONS**

14. *Local Government Act 1995*  
*Local Government (Financial Management) Regulations 1996*  
*Local Government (Functions and General) Regulations 1996*  
*Australian Accounting Standards*  
*Fringe Benefits Tax Assessment Act 1986*

## **POLICY CONSIDERATIONS**

15. Purchasing Policy, Provision and Management of Light Vehicles Policy

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

16. Nil.

## **FINANCIAL CONSIDERATIONS**

17. The implementation of the audit 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**

18. *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**

19. Nil.

### **Economic Implications**

20. Nil.

### **Environmental Implications**

21. Nil.

## RISK MANAGEMENT CONSIDERATIONS

22.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Failure to complete log books correctly	Possible	Minor	Medium	Employees are reminded of their obligations to complete log books correctly and managers check log books before approval
Failure to submit an accurate FBT Return	Possible	Minor	Medium	Return is checked and staff attend regular FBT update training sessions
Failure to accurately calculate novated lease contributions	Possible	Minor	Medium	Template used to check novated leasing quotes
Failure to implement the Fleet Management Steering Recommendation Team (FMST)	Possible	Minor	Medium	Management intends to improve operational efficiency and implement the recommendations of the FMST
Failure to increase the Local Government Guarantee fee in the 2015/2016 Annual Budget	Possible	Minor	Medium	Management intends taking up these changes in the first budget review.

## OFFICER COMMENT

23. 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.
24. The establishment of an Audit Risk Register provides the mechanism to ensure that audit findings are addressed in a satisfactory and timely manner.
25. The items reported above do not have an adverse impact on the general operations of the Shire. Systems and procedures remain effective with distinct improvements continually being made to the financial operations of the Shire.



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<b>Voting Requirements: Simple Majority</b>
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**COMMITTEE RECOMMENDATION TO COUNCIL(A&R 03/2015)**

That Council:

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

**Log Books**

All employees are periodically reminded of their obligations under the new council policy and FBT legislation to complete log books correctly.

Managers before approving and forwarding log books to Corporate Services should check them.

**Insurance Pooling**

The matter is explored further before any firm recommendation is made on whether to proceed down this path.

**FBT Return for 2014/2015**

The outcomes of the Fleet Management Steering Team on ways to reduce the Shire's FBT and Operating Expenditure on Shire vehicles is implemented in the future.

**Novated Leasing**

That all employees check with Strategy & People Services that the benefits quoted agree with the payroll determinations before signing up for a novated lease to prevent any embarrassment with the estimated benefits and take home pay.

**Fleet Management Steering Team (FMST)**

Implement the outcomes of the FMST as early as possible to improve operational efficiency in the use of the light vehicle fleet and reduce operating expenditure and FBT.

**Forrestfield Industrial Area Trust Account**

That the Reserve for the Forrestfield Industrial Area when established is internally audited when quarterly financial statements are prepared and before the financial statements are presented to Council.

At the close of the financial year, separate financial statements are prepared for the Forrestfield Industrial Area in compliance with the requirements of the Shire of Kalamunda Local Planning Scheme 3 and that these separate financial statements are independently audited by external auditors when they undertake the 30 June 2015 external audit.

### **Increase in Local Government Loan Guarantee Fee**

The increase in the Government Guarantee Fee for all new and existing loans when introduced is recognised in the 2015/2016 Annual Budget preferably in the first budget review as the anticipated increase is considered immaterial to delay the budget adoption.

### **Audit Risk Register**

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

Moved: **Cr Margaret Thomas**

Seconded: **Cr Justin Whitten**

Vote: **CARRIED UNANIMOUSLY (9/0)**





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INTERNAL AUDIT PLAN FOR 2014/2015													
Internal Auditor	Date Report to A/Comm	2014						2015					
		Sept Qtr			Dec Qtr			Mar Qtr			June Qtr		
		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
<b>Other</b>													
Review of Waste Management with suppliers invoices and number of properties being serviced													
Review Contracted Suppliers for tree lopping with tenders adopted by Council	Reported Internally												
Review and update Audit Risk Register	17/11/14												
Review of New Policies and procedures Process Improvement Guidelines/Policy													
Review of Key Control Activities													
Review of Recommended Monitoring Activities													
Review of Panel Suppliers - Tree Lopping Services													
Tendering	16/3/15												
e-Quotes	16/3/15												
Credit Card Transaction	16/3/15												
Bin Collections	16/3/15												
Charges by EMRC													
Audit of Compliance Audit Return													
Review of FBT Return for 2014/2015													
Prepared paper on Insurance Pooling after attendance of seminar													
Attendance of AIM Structured Training													
Attendance of Fleet Management Steering Team Meeting and dealt with actions													
Attendance of E-Team meetings													
Preparation of Papers for Fleet Management Steering Committee													

**Attachment 2**

Internal Audit Report May 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 CEO and the Audit and 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 CEO and the Audit and 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:

- Review of Compliance Audit Return 2014
- Log Books
- Insurance Pooling
- FBT Return for 2014/2015
- Novated Leasing
- Revaluation of Infrastructure Assets
- Fleet Management Steering Team
- Forrestfield Industrial Area Trust Account
- Increase in Local Government Local Guarantee Fee
- Audit Risk Register

## Review of Compliance Audit Return 2014

### Background

The Compliance Audit Return for 2014 (CAR) is a statutory document issued by the Department of Local Government and Communities covering the period 1 January to 31 December 2014. The return covers:

- Commercial Enterprises
- Delegation of Power/Duty
- Disclosure of Interest
- Disposal of Property
- Elections
- Finance
- Local Government Employees
- Official Conduct
- Tender for Providing Goods and Services

Council is required to adopt the return and submit it to the Department by 31 March 2015.

### Work Performed

Reviewed the answers provided to the questions in the return and tested the responses with supporting information where necessary.

### Findings

The responses provided to the questions in the CAR for 2014 appeared correct, and there were no matters of non-compliance reported by the external and internal auditor during the period required to be included in the return. The report was adopted by Council and submitted to the Department of Local Government and Communities on the 25 March 2015, well within the statutory timeframe.

### Risk

The return was completed by the Manager of Governance from information under his control and from information provided by other business units. The risk of the information being inaccurate is considered low as the information contained in the return was reviewed and tested by the external and internal auditors for the period covered by the return with no adverse findings.

### Management Response

Nil

### Recommendation

Nil



## Log Books

### Background

It is a statutory requirement under the Fringe Benefits Tax Assessment Act 1986 and Regulations to maintain of a log book for a minimum period of 12 weeks for each motor vehicles in order to substantiate the business trips and ascertain the Fringe Benefits Tax (FBT) payable. The Provision and Management of Light Vehicles Council Policy and procedures requires a log book for each shire vehicle to be maintained for the whole of the FBT year which overrides the minimum statutory provision. The policy and procedures include detailed instructions on how to complete a log book correctly in order to meet the ATO requirements.

In 2012 Grant Thornton were engaged to undertake a Car Fringe Benefits Compliance Review. In their report to management issued on the 4 December 2012 it was noted that log books being maintained by Shire employees at the time were not valid in terms of the FBT law and ATO logbook guidelines. From this outcome it was recommended to train all employees with a Shire vehicle on the acceptable manner for completing log books and update the Shire's vehicle use policies. The Provision of Light Vehicle Policy and Procedures were undertaken and adopted on the 22 September 2014. Internal and external training was provided to employees on the acceptable manner for completing log books.

### Work Performed

Reviewed a number of completed log books to ascertain whether they met the ATO's requirements and complied with the new policy adopted by Council in September 2014.

### Findings

There has been a marked improvement in the completion of vehicle logbooks in the past 12 months. However in a few instances log books were not being completed correctly. For example claims for business use did not include the nature and purpose of the journey. If a work related journey is not completed correctly, then a business journey can be contested as the nature is unsubstantiated.

### Risk

The administration officer completing the FBT return has relied on the information provided to ascertain the proportion of private to business use of Shire vehicles. Inaccurate log books are referred back to managers as this could expose the Shire to a disallowance of journeys for business use and potential penalties if the substantiating information is not acceptable to the ATO if a tax audit is undertaken.

### Management Response

This matter has been brought to the attention, and managers in many cases it is being addressed. This matter has also be referred to the Fleet Management Steering Team for their attention.

Recommendation

1. All employees are periodically reminded of their obligations under the new council policy and FBT legislation to complete log books correctly.
2. Managers before approving log books and forwarding them to Corporate Services should check them.

## Insurance Pooling

### Background

Fitzgerald Strategies invited a number of local governments to a seminar in Perth to consider Insurance Pooling. This form of local government insurance has occurred for many years in the Eastern States. The organisers arranged for representatives from NSW to conduct a presentation of how Insurance Pooling works in NSW, with the benefits and pitfalls of the system.

In Western Australia majority of local governments use LGIS for their insurances. The main difference between insurance pooling and using LGIS is that local governments involved in a pool scheme build up equity in the business as opposed to paying premiums each year and not having any say or control in the management of their own insurance within the LGIS scheme or the ability to build up equity in the business over time.

### Work Performed

Attended the Insurance Pool Meeting on the 27 March 2015 with the Manager of Financial Services and Finance Officer in charge of insurances. Prepared a paper for Executive on the strengths, weaknesses, opportunities and threats associated with the scheme.

### Finding

Insurance pooling has been very popular for local governments in the Eastern States and has operated for a significant period of time. It is a new concept for Western Australian local governments who would need to rely on the external expertise of Insurance Brokers to provide advice, and depending on the number of local governments in the pool, will be able to obtain lower premiums and the best coverage for members within the pool. The larger the pool the greater is the ability to negotiate lower premiums.

Workers Compensation cannot be run by Insurance Pooling and therefore this will need to be obtained separately.

### Risk

In the early years of running a pool there is often very little equity to sustain any major run on claims from the pool. Based on the NSW experience, this risk is reduced as the equity of members in the pool increases.

The pool uses its funds to provide the lowest insurance premiums with the best coverage through an external broker, while at the same time accepting certain claims for excesses payable out of the pool. For example a motor vehicle insurance pool may accept claims out of the pool for the first \$1,000 in claims and the insurance company accepting claims greater than this amount.

Management Response

To consider the advantages and risk and explore this avenue further with other local governments in the state before providing any recommendation to proceed. The floods in NSW in recent weeks apparently had little impact on the pool funds run by local governments in that state.

Recommendation

The matter is explored further before any firm recommendation is made on whether to proceed down this path.

## FBT Return for 2014/2015

### Work Performed

Examined and tested the calculations used to determine the FBT for 2014/2015. Work performed included testing the principles used, calculations, and rates applicable for 2014/2015 on grossed up amounts, flat rates and treatment for cars and non-cars.

### Findings

The determination of the FBT liability has been based on the information provided from log books and appears to have been accurately calculated. Approximately 96% of the FBT payable by the Shire relates to motor vehicles.

The FBT for the 2014/2015 fell by \$ 59,223 to \$179,387 due mainly to senior employees going onto a novated lease or providing their own vehicles for business use. The novated lease option means an employee pays their own FBT out of their own after tax salary as part of their regular lease payments.

Further work is being undertaken to find alternative solutions to reduce the future FBT liability even further. This work is being undertaken through the Fleet Management Steering Committee.

### Risk

The risk of the 2014/2015 FBT return being incorrect is considered low. Staff have attended training on FBT updates each year with Grant Thornton, and where they were unsure of unusual and one off situations these matters were referred to WALGA's tax advisors for professional advice or a tax ruling.

### Management Response

Management have analysed the reasons for the reduction in FBT between the current and previous years. As mentioned previously the predominant reason for the decline in FBT has been the take up of novated leases by senior employee which is a cost born by the employee and not the Shire.

As referred to above a Fleet Management Steering Committee is considering alternative solutions on how to manage the Light Vehicle Fleet with the view to reducing FBT and operating expenditure while still being able to deliver its services.

### Recommendation

The outcomes of the Fleet Management Steering Committee on ways to reduce the Shire's FBT and operating expenditure on Shire vehicles is implemented in the future.



## Novated Leasing

### Background

The Shire has ceased providing shire owned motor vehicles to senior staff, and as employment contracts come up for renewal, have offered the option of a novated lease or for employees to provide their own vehicles. This has resulted in an increase of senior employees opting for a novated lease.

A novated lease is a structured lease agreement between an employee, the employer and a finance company that allows an employee to partly pre salary sacrifice a portion of their salary on majority of the costs associated with financing and running a motor vehicle. FBT payable under this arrangement is paid for by the employee out of their after tax income. This consequently reduces the Shire's liability for vehicle FBT on these vehicles. It benefits an employee as it provides access to a vehicle of their choice, within their taxable allowance with pre-tax savings on the running costs of the vehicle and GST savings on the purchase price vehicle.

### Work Performed

Tested a number of quotations received by employees with the pre and post-tax deductions made to establish whether the cash savings quoted agrees with the payroll calculations on an individual's fortnightly pay and their take home pay. In the past there were discrepancies between the quotes an employee received and the before and after tax savings an individual received. This has been embarrassing for both the Shire and the employee and required an adjustment to an employees pay after the individual has signed up for a novated lease.

### Findings

The before and after taxation benefits of a novated lease agreed with the quotes received except in one or two instances where the company quoting were unaware of other pre-tax contributions by the employee, such as superannuation.

### Risk

An employee finding a quotation they receive differing with their after tax benefit once the information is entered in the pay system and they have signed up for a novated lease. To avoid this they should first check with Strategy & People Services that the quotation is accurate and agrees with their after tax pay.

### Management Response

Strategy & People Services and the Internal Auditor have devised a template to confirm whether the benefits quoted by vehicle fleet providers agrees with the after tax benefits as per the payroll system.

### Recommendation

It is recommended that all employees check with Strategy & People Services that the benefits quoted agree with the payroll determinations before signing up for a novated lease to prevent any embarrassment with the estimated benefits and take home pay. There have been instances in the past where quotes have proved to be incorrect or the information provided to the novated lease company differs with an employee's contract and entitlements.

## Revaluation of Infrastructure Assets

### Background

The Department of Local Government and Communities mandated the use of fair value of non-current assets and to provide a more accurate measure of the value of community assets than historical cost. Amendments to regulations to provide for the implementation of fair value reporting in 2012/2013 allowed for the phasing in of the revaluation process over three years with full implementation required to be completed by 30 June 2015 with revaluations to then occur on a triennial basis.

The last group of asset classes to be recognised at fair value were Infrastructure Assets, to be independently revalued by independent valuers by the 30 June 2015.

### Work Performed

Reviewed three expressions of interest received as part of the selection panel made up of the Manager Financial Services, Coordinator Asset Management and Internal Auditor. Scored each quotation received averaged the individual scores to ascertain which quotation provided the best level of service at the best price.

### Findings

All three valuers provide similar services to local governments and two have been used before by the Shire in the past. The one selected from the assessment process was decided based on value for money and experience.

### Risk

Not completing the task on time. This is considered low as the provider of the valuation has indicated the task can be completed within the required timeframe specified by the Shire.

### Management Response

Nil

### Recommendation

Nil



## Fleet Management Steering Team (FMST)

### Background

The main purpose of the FMST as per the Terms of Reference (TOR) is to:

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

### Work Performed

Attended a meeting of the Fleet Management Steering Team (FMST) on the 30 April 2015. Provided information and discussions on the principles of FBT and to consider how to reduce this tax without compromising on the business needs of the organisation.

Prepared four papers for the Fleet Management Steering Committee on the outcome of the 30 April 2015 meeting which included:

- A position paper to the FMST on how to manage the light Vehicle Fleet to minimise FBT.
- Identifying those commercial vehicles which are currently used for private purposes.
- Advice on the impact of introducing contributory private use such as the State Government process.
- Review of logbook data to determine if there is an oversupply in the fleet to accommodate the business needs of the Shire.

These papers will be discussed at the next meeting of the FMST.

### Findings

The team agreed to:

- Terms of Reference Modifications as discussed
- A review of the light vehicle fleet to accommodate business needs and to minimise FBT.
- Review existing data on high vehicle use and provide recommendations on a replacement program for 2015-2016.
- Report on the use of GPS systems in the Shire's Light Vehicle Fleet, including a demonstration and trial use in operational vehicles.

Risk

The actions and recommendations of the Fleet Management Steering Team not being implemented may affect the business operation efficiency of the light vehicle fleet and increase operating costs and FBT unnecessarily.

Management Response

Management intends to improve operational efficiency and implement the recommendations that emanate from the FMST.

Recommendation

Implementing the outcomes of FMST as early as possible to improve operational efficiency in the use of the light vehicle fleet and reduce operational expenditure and FBT.

## Forrestfield Industrial Area Trust Account

### Background

The Forrestfield Industrial Area required a separate set of financial statements to be prepared under clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No 3, and for these accounts to be independently audited by the shire's external auditors.

### Work Performed

Assisted Corporate Services in the preparation of the financial statements and gathering of information to be audited. Reviewed the information prepared and sent to the external auditors.

### Findings

The external auditors completed their audit and issued their audit report (copy attached) on the 24 April 2014. The auditors noted that:

#### **Auditors Opinion**

"In our opinion the attached Statement of Comprehensive Income for the Shire of Kalamunda: Development Contribution Area 1 – Forrestfield Light Industrial Area – Stage 1 for the year ended 30 June 2014 is presented fairly, in all material respects, in accordance with the requirements of clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No 3."

#### **Emphasis on Matter**

"Without qualification to the audit opinion expressed above, we draw attention to the Statement by the Shire of Kalamunda. Clause 6.5.16.1 of the Shire of Kalamunda Local Planning Scheme No 3 requires the local government to establish and maintain a reserve in accordance with the Local Government Act 1995 for each Development Contribution Area into which cost Contributions for that Development Contribution Area will be credited and for which all payments for Infrastructure and Administrative costs within that Development Contribution Area will be paid."

The audit has highlighted the issue of not setting up a reserve for the Forrestfield Industrial Area as required by the Shire of Kalamunda Planning Scheme No 3. However the placement of funds in trust as opposed to a reserve has not affected the way these funds were managed. The funds were only used for the one purpose for which they were set up and the use is restricted.

### Risk

Not complying with the requirement of clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No 3 by placing developer's funds in reserves results in the funds not forming part of Municipal Funds administered under the Local Government Act 1995 and

forming part of the Shires total municipal funds. By placing these funds in Trust they administered under the Trustee Act 1962.

Management Response

Management is currently in the process of creating a restricted reserve account as required under the Local Government Act 1995 and in compliance with clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No 3 and transferring these funds from Trust.

Recommendation

1. That the Reserve for the Forrestfield Industrial Area when established is internally audited when quarterly financial statements are prepared and before the financial statements are presented to Council.
2. At the close of the financial year, separate financial statements are prepared for the Forrestfield Industrial Area in compliance with the requirements of the Shire of Kalamunda Local Planning Scheme 3 and that these separate financial statements are independently audited by external auditors when they undertake the 30 June 2015 external audit.



### Increase in Local Government Loan Guarantee Fee

#### Background

Attended a Western Australian Treasury Corporation (WATC) Federal Budget Meeting in May 2015 when we were informed that the State Government had decided to pass on an increase in the Government Guarantee Fee on loans to all local governments in WA. This will apply to all new and existing loans with the WATC.

The impact will be an increase of 0.6% on all new and existing loans with the WATC with this cost being passed on to existing and new self-supporting loans.

#### Work Performed

Ascertained whether this has a significant impact and has been factored into the annual budget for 2015/2016.

#### Findings

WALGA has been lobbying on behalf of all local governments as it is estimated to cost an extra \$4 million to all local governments in next year's annual budget.

WATC have not provided revised debenture loan schedules at this point in time, but based on the level of current loans it is anticipated to cost an additional \$40,000 per year with part of this cost being passed on for self-supporting loans.

When the information is finally quantified by the WATC it will be reflected as a budget review item as part of the first term budget review.

#### Risk

The risk of this not being reflected in the budget for 2015/2016 is considered low as further information has been requested from the WATC including a revision of Debenture Loan Repayment Schedules.

#### Management Response

The Manager of Financial Services is across this matter and liaising with the WATC to provide the Shire with new Debenture Loan Repayment Schedules incorporating the changes so that repayments can be made accurately and passed on for self-supporting loans.

When the information is received estimated to cost an additional \$40,000 gross and \$20,000 net with self-supporting loans, this will be amended as part of the first budget review during 2015/2016.

#### Recommendation

The increase in the Government Guarantee Fee for all new and existing loans when introduced is recognised in the 2015/2016 Annual Budget preferably in the first budget review as the anticipated increase is considered immaterial to delay the budget adoption.

## 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

Conducted a review of audit findings in the Audit and Risk Register to establish whether the items identified had been actioned or were 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 March 2015, the following items have been addressed:

- Rates

Rates R 1. There is no updating of rating documentation for new staff to prevent errors in data entry.

Action R 1. There is some documentation in place prepared internally and provided for users of the IT operating system.

Rates R 2. There is no external training for new staff on the rates system and legislative compliance requirements.

Action R 2. There is now on line training on the use of the IT Rates System and staff have attended external training.

- Fringe Benefits Tax (FBT)

FBT 1. Staff with commuting rights are using shire vehicles for private use and subjecting the Shire to FBT

Action FBT 1. A new light vehicle policy has been introduced that will address this issue and seek an employee contribution for private use to cover operating costs and FBT. Formation of a Fleet Management Steering Team has also been established to look at ways of reducing the operating costs and FBT while having sufficient shire vehicles to deliver shire services.

- Journals

J 1. Lack of evidence that entries have been approved prior to being entered.

Action J 1. 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

AR 1. Failure to meet statutory compliance requirements has occurred in the past by not lodging these documents on time.

Action AR 1. The Manager Financial Services has prepared compliance check lists to ensure annual audited financial statements, annual reports and annual budgets are completed and submitted with the Department of Local Government and Communities on time and in accordance with legislative requirements.

#### Management Response

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

#### Recommendation

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

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								Page 1
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 externally
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	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								Page 2
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 persons leave entitlement with Strategy & People Services before granting approval on the leave application form.	Possible	Minor	Medium	System will not allow the processing of a leave application greater than a persons accrued entitlement. However to avoid disputes managers should check a persons entitlement before approving leave entitlement forms with Strategy & People Services.	All Managers	Dec-14	Completed
Purchases Tendering PU 1	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 arranged in Jun-15

Internal Audit Plan - Audit Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								Page 3
Purchases Tendering PU 2	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	Regularly monitored when invoices approach the \$100,000 threshold and are then blocked
FBT on Motor Vehicles FBT 1	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 J 1	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
Annual Reports and Annual Budgets AR 1	Failure to meet statutory compliance requirements has occurred in the past by lodging these documents on time	Unlikely	Minor	Low	Having check lists to ensure statutory compliance in completing annual audited financial statements, annual reports and annual budgets on time and submitted on time with the Department	Manager Financial Services	Jun-15	Completed Check lists in place

Internal Audit Plan - Audit Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Records								Page 1
Records R 1	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
Unbound Minutes R 2	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								Page 1
Policy PO 1	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 Governance	Dec-14	Outstanding
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	Outstanding

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

**04. Sundry Debtor Write-Off 2014/2015**

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Finance
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Sundry Debtors write off 2014/15

**PURPOSE**

1. To consider the write off of sundry debts for the period 2014/15 identified as uncollectable.

**BACKGROUND**

2. The Shire has a clear process for dealing with overdue debts which includes, the raising of invoices, electronic and postal reminders. The timeline of recovery of overdue debtors is as follows:
  - Three to five days after the due date, a courtesy email notification is sent to email recipients and a reminder invoice is sent.
  - Between 30 and 60 days the Accounts Receivable (AR) Officer will telephone the debtor to discuss the outstanding debt.
  - If after 60 days the debt is still outstanding, the AR Officer sends out a statement for the debt to be paid. This is marked with an "Urgent" sticker and followed up by a phone call.
  - After 90 days, a final notice is sent for the debt to be paid within seven days of the notice being issued. If payment is still outstanding after 14 days from the date of issue, the AR Officer will consult the Manager Financial Services to authorise the debt to be sent to a Collection Agency. The debtor is advised that no further services will be provided by the Shire unless the outstanding debt is paid.
  - The Shire's collection agency, Dunn & Bradstreet (D&B) will send a Letter of Demand and follow up via telephone.
  - If after 60 days, the debt is still outstanding, D&B will contact the AR Officer to discuss options or either pursuing the matter via legal action or recommending a write off.
  - Debtors with a minor balance that are considered uneconomical to pursue are recommended to Council for a write off at the end of the financial year.

3. In cases where the debt is being disputed, the matter is referred back to the operational unit that raised the charge to resolve the matter. If the supporting documentation to prove the debt is considered to be inadequate or if legal is considered unlikely to succeed, then the matter is considered for write off.
4. In some rare occurrences, if a debt is owed by a community group that has since closed or is no longer operational, the Shire would consider the amount to be written off.

#### **DETAILS**

5. A total write off amount of \$4,817.97 has been identified (Attachment 1).

#### **STATUTORY AND LEGAL CONSIDERATIONS**

6. As these debtors are related to monies owed to the Shire, the provision of section 6.12(1)(c) of the *Local Government Act 1995* is applicable.

#### **POLICY CONSIDERATIONS**

7. Strategic Community Plan to 2023 - Kalamunda Advancing  
  
*6.8.4 Provide effective financial services to support the Shires operations and to meet sustainability planning, reporting and accountability requirements.*

#### **COMMUNITY ENGAGEMENT REQUIREMENTS**

8. Nil.

#### **FINANCIAL CONSIDERATIONS**

9. The total budget allocation for doubtful and bad debts for 2014/15 is \$3,737.

#### **STRATEGIC COMMUNITY PLAN**

##### **Strategic Planning Alignment**

10. *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**

11. Nil.

**Economic Implications**

12. Nil.

**Environmental Implications**

13. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

14.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Debts owing could become larger if not managed and closely monitored	Possible	Minor	Medium	<ul style="list-style-type: none"> <li>Closely monitor outstanding debts and follow up using both internal and external resources.</li> <li>Discontinue providing further services until debt is paid in full.</li> </ul>

**OFFICER COMMENT**

15. The debts requested for write off are considered to be either:
- In dispute where the details and supporting documentation are inadequate to pursue further; and
  - The community impact of collecting the debt is considered to outweigh the benefits of pursuing further action.

**Voting Requirements: Simple Majority**

**COMMITTEE RECOMMENDATION TO COUNCIL(A&R 04/2015)**

That Council:

1. Authorises the write off of sundry debts totalling \$4,817.97 as detailed in (Attachment 1).

Moved: **Cr Margaret Thomas**

Seconded: **Cr Simon DiRosso**

Vote: **CARRIED UNANIMOUSLY (9/0)**

## Attachment 1

### Sundry Debtors write off schedule - 2014/15

Debtor Name	Description of service provided	Amount due \$	Reasons for write - off
High Wycombe Cricket Club	Recovery of operational expenses - Scott Reserve Pavilion DMC Cleaning costs for the period January to March 2015 - cleaning and consumable costs	3253.33	Amount is being disputed by the Club. They had provided instructions for the service to be cancelled for 2015 onwards. The service was cancelled in April 2015
High Wycombe Junior Football Club	Recovery of operational expenses - Scott Reserve Pavilion DMC Cleaning costs for the period 1/4/2015 to 14/04/2015 - cleaning and consumable costs	130.02	Amount is being disputed by the Club. They had provided instructions for the service to be cancelled for 2015 onwards. The service was cancelled in April 2015
High Wycombe Amateur Football Club	Recovery of operational expenses - Scott Reserve Pavilion DMC Cleaning costs for the period 1/4/2015 to 14/04/2015 - cleaning and consumable costs	252.40	Amount is being disputed by the Club. They had provided instructions for the service to be cancelled for 2015 onwards. The service was cancelled in April 2015
R M Walker	Contributions - capital works - installation and maintenance of three juvenile trees	337.50	Amount is being disputed by the debtor in the value being charged was regarded as too excessive. The details of the work provided would be difficult to resolve legally.
The Lions Club of Forrestfield & High Wycombe	Trading in thoroughfares and public spaces for the period 14/15	843.70	The Forrestfield markets was not successful and was disbanded in October 2014. The organisation has requested that the amount be written off as they have incurred more costs running it than what was recovered from the setup of stalls.
Telstra	Licence Fee - communications tower at 2 Railway Rd, Kalamunda	0.02	Amount uneconomical to follow up.
<b>Total</b>		<b>4,817.97</b>	



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

**05. Miscellaneous Debtor Write-Off 2014/2015**

Previous Items	OCM 150/2013 OCM 191/2013
Responsible Officer	Director Corporate Services
Service Area	Finance
File Reference	CN-11/GEN
Applicant	N/A
Owner	N/A

**PURPOSE**

1. To consider the write off of miscellaneous debts totalling \$10,000 owed by the Kalamunda Chamber of Commerce (KCC) for the period 2014/15 identified as uncollectable.

**BACKGROUND**

2. An amount of \$10,000 was made to the KCC on 28 April 2009 as seed capital with the agreement that it would be repaid after one year.
3. The debt has been outstanding since and was raised as a matter outstanding in audit for 2012/13. The Shire investigated this outstanding balance and concluded that no payment had been received from KCC.
4. A follow up with KCC indicated that the Shire's former Chief Executive Officer (CEO), had advised the then President of KCC that there would be no expectation to repay the loan as he would waiver the loan by offsetting it against discretionary funds within the Shire's budget.
5. The former CEO, did not have the delegated authority to waiver or write off a debt, or make donations greater than \$1,000, from the Shire's Municipal's funds. Write offs or donations greater than \$1,000 require a resolution from Council.
6. At the Ordinary Meeting of Council held on 23 September 2013, it was resolved:  
  
*That Council (OCM 150/2013)*
  1. *Request the Chief Executive Officer to advise the Kalamunda Chamber of Commerce the loan is not waived and they will be required to repay the Shire the full amount.*
  2. *Agrees to a schedule of payment arrangement with the Kalamunda Chamber of Commerce in order to assist in the repayment of the loan over a two year period.*
7. Further correspondence was received from KCC's legal representative which was forwarded to the Shire's solicitors for advice.
8. The Shire's solicitors reviewed the claim made by KCC and concluded that there did not appear to be any reasonable prospect of success in pursuing

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KCC for repayment of the loan given their reliance on the decision made by the former CEO.

9. At the Ordinary Meeting of Council held on 25 November 2013, it was resolved (OCM 191/2013):

*That Council*

*Revoke resolution OCM 150/2013*

- 1. Request the Chief Executive Officer to advise the Kalamunda Chamber of Commerce the loan is not waived and they will be required to repay the Shire the full amount.*
- 2. Agrees to a schedule of payment arrangement with the Kalamunda Chamber of Commerce in order to assist in the repayment of the loan over a two year period.*

## **DETAILS**

10. A total write off amount of \$10,000 has been identified for 2014/15 relating to a loan to KCC. The amount in question is regarded as un-recoverable considering the supporting documentation available which would support KCC view that the loan had been converted into a sponsorship arrangement and was therefore no longer required to be repaid.
11. The Shire's Auditors, Grant Thornton, will be reviewing all debts which remain uncollected for a period of more than three months during the Final Audit commencing on 31 August 2015. The Auditors will need to be satisfied that whilst the long outstanding debtors are not significant, no further action can be taken to recover the amounts.

## **STATUTORY AND LEGAL CONSIDERATIONS**

12. As these debtors are related to monies owed to the Shire, the provision of section 6.12(1)(c) of the *Local Government Act 1995* is applicable.

## **POLICY CONSIDERATIONS**

13. Strategic Community Plan to 2023 - Kalamunda Advancing
- 6.8.4 Provide effective financial services to support the Shires operations and to meet sustainability planning, reporting and accountability requirements.*

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

14. Nil.

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## FINANCIAL CONSIDERATIONS

15. Should Council accept the amount owed to be written off or waive the debt, it will result in a reduction in the Shire's miscellaneous debtors and increase in expenditure of \$10,000 as a write off of a debtor.

## STRATEGIC COMMUNITY PLAN

### Strategic Planning Alignment

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

Strategy 1.8.2 Identify and partner funding opportunities to support the financial sustainability of local community groups.

Strategy 5.3.2 Proactively engage and partner with local and regional businesses to support further economic development.

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 Shires operations and to meet sustainability planning, reporting and accountability requirements.

## SUSTAINABILITY

### Social Implications

17. Nil.

### Economic Implications

18. Nil.

### Environmental Implications

19. Nil.

## RISK MANAGEMENT CONSIDERATIONS

- 20.
- | Risk   | Likelihood     | Consequence | Rating | Action/Strategy   |
|--|----------------|-------------|--------|---|
| The Shire will lose its case against the KCC | Almost certain | Minor       | High   | Write off the debt and advise KCC of the decision taken |

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**OFFICER COMMENT**

21. The debt requested for write off is considered to be unrecoverable mainly due to the representations made by the former CEO which KCC have relied upon.

<b>Voting Requirements: Simple Majority</b>
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**COMMITTEE RECOMMENDATION TO COUNCIL(A&R 05/2015)**

That Council:

1. Authorises the write off of miscellaneous debts totalling \$10,000 owed by the Kalamunda Chamber of Commerce.
2. Advises Kalamunda Chamber of Commerce of the decision to write off the debt owing.

Moved: **Cr Frank Lindsey**

Seconded: **Cr Margaret Thomas**

Vote: **CARRIED UNANIMOUSLY (9/0)**

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

**06. Change of Fund and Establishment of Reserve Account –  
Forrestfield Industrial Scheme Stage 1**

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Finance
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Auditors Report 2013/14

**PURPOSE**

1. To consider and approve a change in the Fund through which the accounting for the Forrestfield Industrial Area Scheme Stage 1 is undertaken and to establish a Reserve Account for this purpose.

**BACKGROUND**

2. The Forrestfield Industrial Area Scheme Stage 1 (the Scheme), commenced in 2013/14. At this time the Shire opened and has managed all transactions related to the scheme through a Trust Account and a bank account titled "Trust- F/Field Industrial".
3. All transactions, developer contributions, interest income and expenses directly related to the Scheme were treated as a Trust transaction for the benefit of the members. The amounts in the Trust Account held by the Shire on behalf of the members have always been fully cash backed as confirmed by the auditors, Grant Thornton (the Auditor). The Shire has managed the transactions related to the Scheme under the provisions of the *Trustees Act 1962*.
4. During the audit of the 2013/14 financial transactions, the Auditor drew the Shire's attention via an "Emphasis of Matter" (Attachment 1) that the scheme regulations under Clause 6.5.16.1 require that any monies collected and costs undertaken be managed through a "reserve" account.
5. In normal situations a reserve account would be managed under the provisions of the *Local Government Act 1995* and not the *Trustees Act 1962*.

**DETAILS**

6. The Scheme balance as of 8 June 2015 is \$1,952,284.95. It is proposed that this amount and any other transactions related to the Scheme after this date be transferred to the Municipal Fund and a new Reserve account - "Forrestfield Industrial Area Scheme Stage 1" be established.
7. The general reserves bank account managed by the Shire will not be used to manage the Scheme transactions but a new account will be opened.

---

This will ensure clear separation of the Scheme transactions from other Shire related reserve transactions.

## **STATUTORY AND LEGAL CONSIDERATIONS**

8. Section 6.11 of the *Local Government Act 1995* provides for the establishment and management of "Reserve" accounts.

## **POLICY CONSIDERATIONS**

9. Strategic Community Plan to 2023 - Kalamunda Advancing

*6.8.4 Provide effective financial services to support the Shires operations and to meet sustainability planning, reporting and accountability requirements.*

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

10. Nil.

## **FINANCIAL CONSIDERATIONS**

11. The change proposed by this report will have no financial impact on the scheme.

## **STRATEGIC COMMUNITY PLAN**

### **Strategic Planning Alignment**

12. *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**

13. Nil.

### **Economic Implications**

14. Nil.

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## Environmental Implications

Nil.

## RISK MANAGEMENT CONSIDERATIONS

16.	<b>Risk</b>	<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>	<b>Action/Strategy</b>
	The Scheme transactions are mixed up with other Reserves managed for the Shire's projects	Rare	Major	Medium	Establish and maintain a separate Reserve account to manage the Scheme's transactions.

## OFFICER COMMENT

17. The creation of the new reserve account will comply with the Scheme's regulations Clause 6.5.15.1 of the Shire of Kalamunda Local Planning Scheme no. 3 and will be managed under the *Local Government Act 1995*.

<b>Voting Requirements: Absolute Majority</b>
---

## COMMITTEE RECOMMENDATION TO COUNCIL(A&R 06/2015)

That Council:

1. Authorises the transfer of the current balance of \$1,952,284.95 in the Trust Fund - F/Field Industrial Account to the Municipal Fund.
2. Approves the establishment of a new Reserve account - "Forrestfield Industrial Area Scheme Stage 1", with the purpose of managing and recording all transactions related to the scheme.

Moved: **Cr Frank Lindsey**

Seconded: **Cr Andrew Waddell**

Vote: **CARRIED UNANIMOUSLY/ABSOLUTE MAJORITY (9/0)**

Attachment 1



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**Independent Auditor's Report  
To the Council of the Shire of Kalamunda**

**Report on the statement of comprehensive income**

We have audited the accompanying Statement of Comprehensive Income of the Shire of Kalamunda: Development Contribution Area 1 – Forrestfield Light Industrial Area – Stage 1 (the DCA) for the year ended 30 June 2014 (the Statement).

**The Council's responsibility for the statement of comprehensive income**

The Council of the Shire of Kalamunda are responsible for the preparation of the Statement for the DCA. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Statement in accordance with clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No.3.

**Auditor's responsibility**

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to the audit engagement and plan and perform the audit in order to express an opinion on the preparation and presentation of the Statement of the DCA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of the DCA. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement of the DCA, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Shire of Kalamunda's preparation and fair presentation of the Statement of the DCA in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire of Kalamunda's internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our review, we have complied with the independence requirements of the Accounting Professional and Ethical Standards Board.

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**Auditor's opinion**

In our opinion, the attached Statement of Comprehensive Income for the Shire of Kalamunda: Development Contribution Area 1 – Forrestfield Light Industrial Area – Stage 1 for the year ended 30 June 2014 is presented fairly, in all material respects, in accordance with the requirements of clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No.3.

**Emphasis of Matter**

Without qualification to the audit opinion expressed above, we draw attention to the Statement by the Shire of Kalamunda. Clause 6.5.16.1 of the Shire of Kalamunda Local Planning Scheme No.3 requires the local government to establish and maintain a reserve account in accordance with the Local Government Act 1995 for each Development Contribution Area into which Cost Contributions for that Development Contribution Area will be credited and for which all payments for Infrastructure and Administrative costs within that Development Contribution Area will be paid.

Our audit procedures indicated that a reserve account was not created for the DCA during the year ended 30 June 2014. We did however note that the Shire of Kalamunda created and maintained a separate trust account titled "Trust – F/Field Industrial", ensuring that all transactions, income and expenditure were recorded. As required under the Local Planning Scheme, interest earned on funds received was also credited to the account to the benefits of the DCA members. The funds are classified as restricted and are fully cash backed. We understand that the Shire of Kalamunda is currently in the process of creating a reserve account as required under the Local Government Act 1995.

**Basis of accounting and Restriction on Distribution**

Without modifying our opinion, we draw attention to Notes 1 to 3 to the Statement of Comprehensive Income, which describes the basis of accounting and preparation. The Statement has been prepared to meet the Shire of Kalamunda's reporting obligation under clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No.3. Our report is intended solely for the Shire of Kalamunda and should not be distributed to parties other than the Shire of Kalamunda.

*GRANT THORNTON*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

*MAREK*

M A Petricevic  
Partner – Audit & Assurance

Perth, 24 April 2015

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

7.1 Nil.

**8.0 CLOSURE**

7.1 There being no further business, the Presiding Member declared the meeting closed at 6.52pm.

I confirm these Minutes to be a true and accurate record of the proceedings of this Committee.

Signed: \_\_\_\_\_  
Presiding Member

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2015