

Audit & Risk Committee Meeting

Minutes for 31 October 2016

CONFIRMED



**shire of
kalamunda**

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MINUTES

1.0 OFFICIAL OPENING

The Presiding Member opened the meeting at 5.00pm and welcomed Councillors and Staff.

2.0 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

2.1 Attendance

Councillors

Andrew Waddell JP	(Shire President)	North West Ward
Sara Lohmeyer		North West Ward
Dylan O'Connor	(Presiding Member)	North West Ward
Sue Bilich		North Ward
Tracy Destree		North Ward
Simon Di Rosso		North Ward
Michael Fernie		South East Ward
John Giardina		South East Ward
Geoff Stallard		South East Ward
Allan Morton		South West Ward
Brooke O'Donnell (arrived at)		South West Ward
Noreen Townsend		South West Ward

Members of Staff

Rhonda Hardy	Chief Executive Officer
Natalie Martin Goode	Director Development Services
Dennis Blair	Director Infrastructure Services
Gary Ticehurst	Director Corporate & Community Services
Darrell Forrest	Manager Governance & PR
Rajesh Malde	Manager Financial Services
Peter Hayes	Internal Auditor
Carrie Parsons	Manager Customer & Public Relations
Donna McPherson	Executive Research Officer to Chief Executive Officer

2.2 Apologies Nil.

2.3 Leave of Absence Previously Approved Nil.

3.0 PUBLIC QUESTION TIME

A period of not less than 15 minutes is provided to allow questions from the gallery on matters relating to the functions of Council. For the purposes of Minuting, these questions and answers will be summarised.

4.0 PETITIONS/DEPUTATIONS

5.0 CONFIRMATION OF THE MINUTES OF PREVIOUS MEETING

- 3.1 That the Minutes of the Audit & Risk Committee Meeting held on 8 March 2016, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved: **Cr Andrew Waddell**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (11/0)**

6.0 CONFIDENTIAL ITEMS

- 4.1 Nil.

7.0 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*.)

- 5.1.1 Cr Destree declared an impartiality interest in Item 06 – Risk Management Framework - as she provided the Director of Corporate & Community Services advice on tools and processes for reviewing risk. However she was not active in any discussion regarding the Shire of Kalamunda review or analysis of its risk profile.

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.

8.0 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.

03. Adoption of Annual Financial Report 2015/2016

Previous Items	N/A
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	2015/2016 Annual Financial Report
Attachment 2	Local Government Operational Guidelines – Financial Ratios No 18

PURPOSE

1. To receive the Auditor's Report and the 2015/2016 Annual Financial Report (Attachment 1).
2. To consider the Auditor's Findings Report for the year ended 30 June 2016 and the Shire'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 2016 Annual Financial Report is presented for Council's acceptance.
8. The Auditors (Grant Thornton), conducted the field work in May, September and October 2016 and concluded their work on 20 October 2016. The audit certificate is provided on pages 58/59 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 issued an Audit Findings Report 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. In accordance with the requirement to implement the revaluation of assets from historical cost to fair value, the Shire engaged GHD Pty Ltd (specialists in asset infrastructure valuations) in the 2014/15 prior year to undertake the infrastructure asset revaluation.
11. During the current year, Shire staff identified that the asset revaluation calculation for kerbing had been calculated based on square metre calculations rather than linear metre calculations.
12. As a result of the asset revaluation being conducted in June 2015, there is no impact on the net result for the current financial year as the adjustment was recognized within the asset revaluation reserve.
13. The accounting treatment for the asset revaluation requires the value of the infrastructure category to be restated as part of the 2014/15 financial position.
14. This matter was brought to the attention of the Auditors and it was determined that the calculation for kerbing should be adjusted based on linear rather than a square metre calculation.

15. Although the effect of this adjustment relates to the prior year, the consequential adjustment is material and would be reflected as a prior year adjustment reducing the infrastructure asset valuation from \$241.2 million to \$160.4 million reflected in the re-stated financial position as of 30 June 2015.

Refer to Note 8(a) and 14 (a) of the 2015/16 Annual Financial Statement Report and the findings provided by the Auditors for further details.
16. Financial Ratios (Attachment 2) which cover all aspects of financial performance and sustainability, have been substantively met with the exception of the Current Ratio which is slightly below the benchmark.
17. The negative result against this ratio is largely attributable to the Shire placing a significant amount of funds in the reserves which now stand at \$18.16 million, a 60% increase from the previous year, to fund capital projects in 2016/17 and beyond.

The increase in the reserves will boost the capacity of the Shire to accelerate project design and improve delivery of large projects enabling more timely commencement and completion of projects.
18. The Asset ratios have all improved with the Asset Sustainability Ratio showing significant improvement, moving from 0.42 to 1.50 which is put down to increased expenditure on renewal capital expenditure a significant decrease in depreciation as a result of the infrastructure valuation. The Shire efforts in ensuring that investment in existing assets needs to continue for this ratio to be maintained.
19. As noted in the report, the ratios will continue to be closely monitored to ensure the continued long term financial sustainability of the Shire.

STATUTORY AND LEGAL CONSIDERATIONS

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

POLICY CONSIDERATIONS

22. There are no policy implications.

COMMUNITY ENGAGEMENT REQUIREMENTS

23. 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

24. The 2015/2016 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 2015/2016 is estimated at \$19,500.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

25. *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

26. Nil.

Economic Implications

27. Nil.

Environmental Implications

28. Nil.

RISK MANAGEMENT CONSIDERATIONS

- 29.
- | 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 | Minor | Low | Ensure the Annual Financial Report is prepared, presented and received in time to meet the legislative requirements. |

Risk	Likelihood	Consequence	Rating	Action/Strategy
Audit Certificate is qualified by the external auditor	Unlikely	Critical	High	<p>Ensure internal audit programme reviews key controls and processes.</p> <p>Ensure staff involved in the compliance area are qualified and adequate training is made available.</p> <p>Issues identified are discussed with auditors as soon as management become aware and mitigating actions are taken immediately</p>

OFFICER COMMENT

30. The 2015/2016 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

31. 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

COMMITTEE RECOMMENDATION TO COUNCIL (A&R 03/2016)

That Council:

1. Pursuant to Section 6.4 of the *Local Government Act 1995*, accepts the 2015/2016 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.
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: **Cr Andrew Waddell**

Seconded: **Cr Sara Lohmeyer**

Vote: **CARRIED UNANIMOUSLY (11/0)**

Attachment 1

SHIRE OF KALAMUNDA
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

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Principal place of business:
No 2 , Railway Road, Kalamunda

**SHIRE OF KALAMUNDA
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

**LOCAL GOVERNMENT ACT 1995
LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996**

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Shire being the annual financial report and other information for the financial year ended 30 June 2016 are in my opinion properly drawn up to present fairly the financial position of the Shire at 30th June 2016 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and the regulations under that Act.

Signed as authorisation of issue on the 20 day of October 2016


Rhonda Hardy
Chief Executive Officer

**SHIRE OF KALAMUNDA
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30TH JUNE 2016**

	NOTE	2016 \$	2016 Budget \$	2015 \$
Revenue				
Rates	24	32,769,644	32,014,510	30,592,405
Operating Grants and Subsidies	31	4,882,108	5,565,582	6,868,760
Contributions, Reimbursements and Donations		828,513	770,441	929,560
Fees and Charges	30	14,152,939	13,951,465	13,313,685
Interest Earnings	2(a)	1,160,328	896,545	1,155,674
Other Revenue	2(a)	274,798	62,641	54,602
		<u>54,068,330</u>	<u>53,261,184</u>	<u>52,914,686</u>
Expenses				
Employee Costs		(24,003,114)	(24,276,755)	(23,036,210)
Materials and Contracts		(18,133,837)	(19,532,829)	(17,422,883)
Utility Charges		(2,482,795)	(2,358,152)	(2,410,918)
Depreciation on Non-Current Assets	2(a)	(6,043,120)	(8,163,761)	(7,556,640)
Interest Expenses	2(a)	(394,480)	(418,674)	(430,780)
Insurance Expenses		(567,478)	(609,244)	(608,348)
Other Expenditure		(474,055)	(343,976)	(1,166,118)
		<u>(52,098,879)</u>	<u>(55,703,391)</u>	<u>(52,631,897)</u>
Non-Operating Grants, Subsidies and Contributions	31	5,846,078	3,250,771	3,951,296
Profit on Asset Disposals	22	2,144	386,640	25,577
(Loss) on Asset Disposals	22	(1,771,246)	(20,000)	(502,036)
Change in Equity - Joint Venture	4	1,703,629	3,600,407	2,280,458
(Loss) on Revaluation of Plant and Equipment	7(b)	(91,366)	0	0
Net result		<u>7,658,690</u>	<u>4,775,611</u>	<u>6,038,084</u>
Other Comprehensive Income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on Revaluation of Non-Current Assets - Plant and Equipment	13	(481,711)	0	0
Changes on Revaluation of Non-Current Assets - Infrastructure Assets ^(a)	14	0	0	2,586,075
Capital (Developer) Contributions		3,060,926	0	1,932,377
Revaluation of Assets of Joint Venture	4	788,568	0	0
Total Other Comprehensive Income		<u>3,367,783</u>	<u>0</u>	<u>4,518,452</u>
Total Comprehensive Income		<u>11,026,473</u>	<u>4,775,611</u>	<u>10,556,536</u>

This statement is to be read in conjunction with the accompanying notes.

^(a) Restated amounts for 2015 (see note 14 (a) 'prior years' restatements')

SHIRE OF KALAMUNDA
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30TH JUNE 2016

	NOTE	2016 \$	2016 Budget \$	2015 \$
Revenue	2(a)			
Governance		99,932	47,186	88,389
General Purpose Funding		35,605,806	35,318,701	35,638,730
Law, Order, Public Safety		556,406	361,025	480,016
Health		261,554	220,863	231,593
Education and Welfare		3,807,453	3,752,704	3,697,154
Community Amenities		11,074,136	11,129,320	10,237,400
Recreation and Culture		1,753,929	1,579,540	1,670,027
Transport		113,739	0	27,769
Economic Services		432,468	528,727	440,217
Other Property and Services		362,907	323,118	403,391
		<u>54,068,330</u>	<u>53,261,184</u>	<u>52,914,686</u>
Expenses	2(a)			
Governance		(3,445,150)	(3,003,520)	(3,124,093)
General Purpose Funding		(831,218)	(789,829)	(803,302)
Law, Order, Public Safety		(1,861,494)	(1,936,215)	(1,619,923)
Health		(1,179,673)	(1,188,709)	(1,077,962)
Education and Welfare		(4,109,766)	(4,250,801)	(4,460,315)
Community Amenities		(13,037,637)	(14,367,632)	(12,743,781)
Recreation and Culture		(17,161,135)	(19,021,740)	(17,919,375)
Transport		(8,102,694)	(8,817,528)	(8,168,074)
Economic Services		(1,062,980)	(1,107,582)	(1,051,603)
Other Property and Services		(912,652)	(801,161)	(1,232,688)
		<u>(51,704,399)</u>	<u>(55,284,717)</u>	<u>(52,201,116)</u>
Finance Costs				
Other Property and Services		(394,480)	(418,674)	(430,780)
		<u>(394,480)</u>	<u>(418,674)</u>	<u>(430,780)</u>
Non-Operating Grants, Subsidies and Contributions	31	5,846,078	3,250,771	3,951,296
Profit on Disposal of Assets	22	2,144	386,640	25,577
(Loss) on Disposal of Assets	22	(1,771,246)	(20,000)	(502,037)
Change in Equity - Joint Venture	4	1,703,629	3,600,407	2,280,458
(Loss) on Revaluation of Plant and Equipment	7(b)	(91,366)	0	0
Net result		<u>7,658,690</u>	<u>4,775,611</u>	<u>6,038,084</u>
Other Comprehensive Income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on Revaluation of Non-Current Assets - Plant and Equipment	13	(481,711)	0	0
Changes on revaluation of non-current assets - infrastructure assets ^(a)	14	0	0	2,586,075
Capital (Developer) Contributions		3,060,926		1,932,377
Revaluation of Assets of Joint Venture	4	788,568	0	0
Total Other Comprehensive Income		<u>3,367,783</u>	<u>0</u>	<u>4,518,452</u>
Total Comprehensive Income		<u>11,026,473</u>	<u>4,775,611</u>	<u>10,556,536</u>

This statement is to be read in conjunction with the accompanying notes.

^(a) Restated amounts for 2015 (see note 14 (a) 'prior years' restatements')

**SHIRE OF KALAMUNDA
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2016**

	NOTE	2016 \$	Restated ^(a) 2015 \$
CURRENT ASSETS			
Cash and Cash Equivalents	3	26,471,157	20,522,982
Trade and Other Receivables	5	2,423,363	2,082,180
Inventories	6	<u>224,274</u>	<u>498,601</u>
TOTAL CURRENT ASSETS		29,118,794	23,103,763
NON-CURRENT ASSETS			
Other Receivables	5	825,604	855,448
Inventories	6	300,707	300,707
Interest in Joint Venture	4	27,488,876	24,996,679
Property, Plant and Equipment	7	151,609,801	154,922,420
Infrastructure	8	<u>165,957,256</u>	<u>160,382,770</u>
TOTAL NON-CURRENT ASSETS		346,182,244	341,458,024
TOTAL ASSETS		<u>375,301,038</u>	<u>364,561,787</u>
CURRENT LIABILITIES			
Trade and Other Payables	9	6,424,383	6,474,817
Current Portion of Long Term Borrowings	10	629,778	593,852
Provisions	11	<u>2,992,612</u>	<u>2,619,691</u>
TOTAL CURRENT LIABILITIES		10,046,773	9,688,360
NON-CURRENT LIABILITIES			
Long Term Borrowings	10	5,664,169	6,293,947
Provisions	11	<u>688,693</u>	<u>704,550</u>
TOTAL NON-CURRENT LIABILITIES		6,352,862	6,998,497
TOTAL LIABILITIES		<u>16,399,635</u>	<u>16,686,857</u>
NET ASSETS		<u>358,901,403</u>	<u>347,874,930</u>
EQUITY			
Retained Surplus		209,020,577	205,253,254
Reserves - Cash Backed	12	18,160,388	11,208,096
Revaluation Surplus	13	<u>131,720,438</u>	<u>131,413,581</u>
TOTAL EQUITY		<u>358,901,403</u>	<u>347,874,930</u>

This statement is to be read in conjunction with the accompanying notes.

(a) Restated amounts for balances as at 30 June 2015 (see note 14(a) 'Prior years' restatements')

**SHIRE OF KALAMUNDA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016**

				RESTATED ^(a)	RESTATED ^(a)
	NOTE	RETAINED SURPLUS \$	RESERVES CASH/INVESTMENT BACKED \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2014		205,879,928	2,610,960	128,827,506	337,318,394
Comprehensive Income					
Net Result		6,038,084	0	0	6,038,084
Transfer of Developer Contributions		1,932,377	0	0	1,932,377
Changes on Revaluation of Assets ^(a)	13	0	0	2,586,075	2,586,075
Total Comprehensive Income		7,970,461	0	2,586,075	10,556,536
Transfers from/(to) Reserves		(8,597,136)	8,597,136	0	0
Balance as at 30 June 2015		205,253,254	11,208,096	131,413,581	347,874,930
Comprehensive Income					
Net Result		7,658,690	0	0	7,658,690
Transfer of Developer Contributions		3,060,926	0	0	3,060,926
Changes on Revaluation of Assets	13	0	0	(481,711)	(481,711)
Increase / Decrease in EMRC revaluation surplus		0	0	788,568	788,568
Total Comprehensive Income		10,719,616	0	306,857	11,026,473
Transfers from/(to) Reserves		(6,952,293)	6,952,293	0	0
Balance as at 30 June 2016		209,020,577	18,160,388	131,720,438	358,901,403

This statement is to be read in conjunction with the accompanying notes.

^(a) Restated amounts for 2015 (see note 14(a) 'prior years' restatements')

**SHIRE OF KALAMUNDA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2016**

	NOTE	2016 Actual \$	2016 Budget \$	2015 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		32,104,297	31,994,511	30,814,251
Operating Grants and Subsidies		4,882,108	6,189,581	6,868,761
Contributions, Reimbursements and Donations		828,513	770,441	929,560
Fees and Charges		12,301,560	13,951,459	11,503,387
Interest Earnings		1,160,328	896,545	1,155,674
Goods and Services Tax		4,181,659	1,695,947	2,420,722
Other Revenue		88,748	62,641	54,602
		<u>55,547,213</u>	<u>55,561,125</u>	<u>53,746,957</u>
Payments				
Employee Costs		(23,624,351)	(24,159,507)	(23,292,640)
Materials and Contracts		(18,222,620)	(19,502,005)	(15,844,175)
Utility Charges		(2,482,795)	(2,358,153)	(2,410,918)
Interest Expenses		(404,802)	(609,244)	(442,094)
Insurance Expenses		(567,478)	(428,987)	(608,348)
Goods and Services Tax		(2,042,345)	(1,000,769)	(959,959)
Other Expenditure		(474,055)	(343,975)	(1,166,118)
		<u>(47,818,446)</u>	<u>(48,402,640)</u>	<u>(44,724,252)</u>
Net Cash Provided by (used in)				
Operating Activities	15(b)	<u>7,728,767</u>	<u>7,158,485</u>	<u>9,022,705</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for Development of Land Held for Resale		0	(18,000)	0
Payments for Purchase of Property, Plant & Equipment		(1,777,925)	(2,014,438)	(2,177,538)
Payments for Construction of Infrastructure		(8,960,280)	(11,410,407)	(3,666,949)
Non-Operating Grants, Subsidies and Contributions		5,846,078	3,250,771	3,951,296
Proceeds from Sale of Fixed Assets / Land Held for Resale		578,387	945,000	1,760,104
Net Cash Provided by (used in)				
Investment Activities		<u>(4,313,740)</u>	<u>(9,247,074)</u>	<u>(133,087)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Borrowings		(593,852)	(593,852)	(629,037)
Proceeds from Self Supporting Loans		66,074	67,869	63,900
Proceeds from New Borrowings		0	500,000	0
Capital (Developer) Contributions		3,060,926	0	1,932,377
Net Cash Provided by (used In)				
Financing Activities		<u>2,533,148</u>	<u>(25,983)</u>	<u>1,367,240</u>
Net Increase (Decrease) in Cash Held		<u>5,948,175</u>	<u>(2,114,572)</u>	<u>10,256,858</u>
Cash at Beginning of Year		20,522,982	14,400,834	10,266,124
Cash and Cash Equivalents				
at the End of the Year	15(a)	<u>26,471,157</u>	<u>12,286,262</u>	<u>20,522,982</u>
Cash and Cash Equivalents		26,471,157	12,286,262	20,522,982
		<u>26,471,157</u>	<u>12,286,262</u>	<u>20,522,982</u>

This statement is to be read in conjunction with the accompanying notes.

**SHIRE OF KALAMUNDA
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2016**

	NOTE	2016 Actual \$	2016 Budget \$	2015 Actual \$
Net Current Assets at Start of Financial Year - Surplus/(Deficit)		<u>4,968,115</u>	<u>2,438,941</u>	<u>4,244,120</u>
		4,968,115	2,438,941	4,244,120
Revenue from Operating Activities (Excluding Rates)				
Governance		99,932	47,186	88,389
General Purpose Funding		4,677,215	7,034,275	7,326,783
Law, Order, Public Safety		556,406	361,025	480,016
Health		261,554	220,862	231,593
Education and Welfare		3,807,453	3,752,703	3,697,154
Community Amenities		11,074,136	11,515,960	10,262,977
Recreation and Culture		1,753,929	1,579,536	1,670,027
Transport		113,739	0	27,769
Economic Services		432,468	528,727	440,217
Other Property and Services		365,050	323,119	403,390
		<u>23,141,882</u>	<u>25,363,393</u>	<u>24,628,315</u>
Expenditure from operating activities				
Governance		(3,445,150)	(3,003,520)	(3,124,093)
General Purpose Funding		(831,218)	(789,829)	(803,302)
Law, Order, Public Safety		(1,861,494)	(1,936,215)	(1,619,923)
Health		(1,179,673)	(1,188,709)	(1,077,962)
Education and Welfare		(4,109,766)	(4,250,799)	(4,493,732)
Community Amenities		(14,712,637)	(14,367,632)	(13,155,310)
Recreation and Culture		(17,161,135)	(19,021,740)	(17,919,375)
Transport		(8,102,694)	(8,817,528)	(8,168,074)
Economic Services		(1,062,980)	(1,107,582)	(1,051,603)
Other Property and Services		(1,403,379)	(1,239,831)	(1,720,559)
		<u>(53,870,126)</u>	<u>(55,723,385)</u>	<u>(53,133,933)</u>
Operating Activities Excluded from Budget				
(Profit) on Disposal of Assets	22	(2,144)	(386,640)	(25,577)
Loss on Disposal of Assets	22	1,771,246	20,000	502,036
Profit from Sale of Land Classified as Inventory		(186,050)	0	0
Movement in Deferred Pensioner Rates (Non-Current)		(40,227)	(30,000)	(58,788)
Movement in Employee Benefit Provisions (Non-Current)		357,064	749,272	306,644
Interest on Deferred Loan Repayment		(316)	0	(309)
EMRC Contribution (Non-Cash)	2(a)	(1,703,629)	(3,600,407)	(2,280,458)
Depreciation and Amortisation on Assets	2(a)	6,043,120	8,163,761	7,556,640
Amount Attributable to Operating Activities		<u>(19,521,065)</u>	<u>(23,005,065)</u>	<u>(18,261,310)</u>
INVESTING ACTIVITIES				
Non-Operating Grants, Subsidies and Contributions	31	5,846,078	3,250,771	3,951,296
Proceeds from Disposal of Assets		578,387	945,000	1,760,104
Purchase of Land Held for Resale / Land Development Costs		0	(18,000)	(5,300)
Purchase of Property, Plant and Equipment	7(b)	(1,777,925)	(2,014,437)	(2,172,236)
Purchase and Construction of Infrastructure	8(b)	(8,960,280)	(11,410,407)	(3,666,949)
Amount Attributable to Investing Activities		<u>(4,313,740)</u>	<u>(9,247,073)</u>	<u>(133,085)</u>
FINANCING ACTIVITIES				
Repayment of Debentures	23(a)	(593,852)	(593,852)	(629,037)
Proceeds from New Debentures	23(a)	0	500,000	0
Proceeds from Self Supporting Loans		66,074	67,869	63,900
Capital (Developer) Contributions		3,060,926	0	1,932,377
Transfers to Reserves (Restricted Assets)	12	(11,195,189)	(5,016,343)	(10,041,259)
Transfers from Reserves (Restricted Assets)	12	4,242,897	8,151,024	1,444,123
Amount Attributable to Financing Activities		<u>(4,419,145)</u>	<u>3,108,698</u>	<u>(7,229,896)</u>
Surplus(Deficiency) before General Rates		<u>(28,253,949)</u>	<u>(29,143,440)</u>	<u>(25,624,290)</u>
Total Amount Raised from General Rates	24	<u>32,632,220</u>	<u>31,884,831</u>	<u>30,592,405</u>
Net Current Assets at June 30 c/fwd - Surplus/(Deficit)	25	<u>4,378,271</u>	<u>2,741,391</u>	<u>4,968,115</u>

This statement is to be read in conjunction with the accompanying notes.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1995 and accompanying regulations. Material accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise.

Except for cash flow and rate setting information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

Critical accounting estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The local government reporting entity

All Funds through which the Shire controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those Funds (for example, loans and transfers between Funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 21 to these financial statements.

(b) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Trade and Other Receivables

Trade and other receivables include amounts due from ratepayers for unpaid rates and service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

(e) Inventories

General

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Land held for sale

Land held for development and sale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Finance costs and holding charges incurred after development is completed are expensed.

Gains and losses are recognised in profit or loss at the time of signing an unconditional contract of sale if significant risks and rewards, and effective control over the land, are passed on to the buyer at this point.

Land held for sale is classified as current except where it is held as non-current based on the Council's intentions to release for sale.

(f) Fixed Assets

Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Mandatory requirement to revalue non-current assets

Effective from 1 July 2012, the Local Government (Financial Management) Regulations were amended and the measurement of non-current assets at Fair Value became mandatory.

During the year ended 30 June 2013, the Shire commenced the process of adopting Fair Value in accordance with the Regulations.

Whilst the amendments initially allowed for a phasing in of fair value in relation to fixed assets over three years, as at 30 June 2015 all non-current assets were carried at Fair Value in accordance with the requirements.

Thereafter, each asset class must be revalued in accordance with the regulatory framework established and the Shire revalues its asset classes in accordance with this mandatory timetable.

Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fixed Assets (Continued)

Land under control

In accordance with Local Government (Financial Management) Regulation 16(a), the Shire was required to include as an asset (by 30 June 2013), Crown Land operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of State or Regional significance.

Upon initial recognition, these assets were recorded at cost in accordance with AASB 116. They were then classified as Land and revalued along with other land in accordance with the other policies detailed in this Note.

Whilst they were initially recorded at cost, fair value at the date of acquisition was deemed cost as per AASB 116.

Consequently, these assets were initially recognised at cost but revalued along with other items of Land and Building at 30 June 2014.

Initial recognition and measurement between mandatory revaluation dates

All assets are initially recognised at cost and subsequently revalued in accordance with the mandatory measurement framework detailed above.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Shire includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework detailed above, are carried at cost less accumulated depreciation as management believes this approximates fair value. They will be subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework detailed above.

Revaluation

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

Land under roads

In Western Australia, all land under roads is Crown Land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in Australian Accounting Standard AASB 1051 Land Under Roads and the fact Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of AASB 1051, Local Government (Financial Management) Regulation 4(2) provides, in the event of such an inconsistency, the Local Government (Financial Management) Regulations prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Shire.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fixed Assets (Continued)

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Major depreciation periods used for each class of depreciable asset are:

Buildings	30 to 50 years
Furniture and equipment	5 to 10 years
Plant and equipment	5 to 10 years
Infrastructure	
Roads	50 years
Drains	80 years
Parks (Plant and Equipment)	10 to 40 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

Capitalisation threshold

Expenditure on items of land under \$1, IT Software under \$30,000 and all other assets under \$3,000 is not capitalised. Rather it is recorded on an asset inventory listing.

(g) Fair Value of Assets and Liabilities

When performing a revaluation, the Shire uses a mix of both independent and management valuations using the following as a guide:

Fair Value is the price that the Shire would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair Value of Assets and Liabilities (Continued)

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Shire selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Shire are consistent with one or more of the following valuation approaches:

Market approach

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach

Valuation techniques that reflect the current replacement cost of an asset at its current service capacity. Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Shire gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair Value of Assets and Liabilities (Continued)

As detailed above, the mandatory measurement framework imposed by the Local Government (Financial Management) Regulations requires, as a minimum, all assets carried at a revalued amount to be revalued at least every 3 years in accordance with the regulatory framework.

(h) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Shire becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Shire commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or at cost.

Amortised cost is calculated as:

- (a) the amount in which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments and any reduction for impairment; and
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(i) Financial assets at fair value through profit and loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Loans and receivables are included in current assets where they are expected to mature within 12 months after the end of the reporting period.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Continued)

Classification and subsequent measurement (continued)

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Shire has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Held-to-maturity investments are included in current assets, where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in current assets, where they are expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as non-current.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Impairment

A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which will have an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Continued)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Shire no longer has any significant continual involvement in the risks and benefits associated with the asset.□

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(i) Impairment of Assets

In accordance with Australian Accounting Standards the Shire's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

(j) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Shire prior to the end of the financial year that are unpaid and arise when the Shire becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

(k) Employee Benefits

Short-term employee benefits

Provision is made for the Shire's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Shire's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Shire's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee Benefits (Continued)

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Shire's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Shire does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(l) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

(m) Provisions

Provisions are recognised when the Shire has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(n) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Shire, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Investment in Associates

An associate is an entity over which the Shire has significant influence. Significant influence is the power to participate in the financial operating policy decisions of that entity but is not control or joint control of those policies. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Shire's share of net assets of the associate. In addition, the Shire's share of the profit or loss of the associate is included in the Shire's profit or loss.

The carrying amount of the investment includes, where applicable, goodwill relating to the associate. Any discount on acquisition, whereby the Shire's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Shire and the associate are eliminated to the extent of the Shire's interest in the associate.

When the Shire's share of losses in an associate equals or exceeds its interest in the associate, the Shire discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Shire will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

(p) Interests in Joint Arrangements

The Shire's interest in a joint venture has been recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the appropriate line items of the financial statement. Information about the joint venture is set out in Note 18.

The Shire's interest in joint venture entities are recorded using the equity method of accounting (refer to Note 1(o) for details) in the financial report.

When the Shire contributes assets to the joint venture or if the Shire purchases assets from the joint venture, only the portion of the gain or loss not attributable to the Shire's share of the joint venture shall be recognised. The Shire recognises the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

(q) Rates, Grants, Donations and Other Contributions

Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current reporting period.

(r) Superannuation

The Shire contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Shire contributes are defined contribution plans.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Shire's operational cycle. In the case of liabilities where the Shire does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for sale where it is held as non-current based on the Shire's intentions to release for sale.

(t) Rounding Off Figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar.

(u) Comparative Figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Shire applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statement, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

(v) Budget Comparative Figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New Accounting Standards and Interpretations for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Shire.

Management's assessment of the new and amended pronouncements that are relevant to the Shire, applicable to future reporting periods and which have not yet been adopted are set out as follows:

Title	Issued / Complied	Applicable ⁽¹⁾	Impact
(i) AASB 9 Financial Instruments (Incorporating AASB 2014-7 and AASB 2014-5)	December 2014	1 January 2016	Nil – The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Shire, it is not anticipated the Standard will have any material effect.
(ii) AASB 15 Revenue from Contracts with Customers	December 2014	1 January 2017	<p>This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.</p> <p>The effect of this Standard will depend upon the nature of future transactions the Shire has with those third parties it has dealings with. It may or may not be significant.</p>
(iii) AASB 16 Leases	February 2016	1 January 2019	<p>Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position once AASB 16 is adopted.</p> <p>Currently, operating lease payments are expensed by as incurred. This will cease and will be replaced by both depreciation and interest charges. Based on the number of operating leases held by the Shire, the impact is not expected to be significant.</p>
(iv) AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	August 2014	1 January 2016	<p>This Standard amends AASB 11: <i>Joint Arrangements</i> to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: <i>Business Combinations</i>, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting standards for business combinations.</p> <p>Since adoption of this Standard would impact only acquisitions of interests in joint operations on or after 1 January 2016, management believes it is impracticable at this stage to provide a reasonable estimate of such impact on the Shire's financial statements.</p>

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New Accounting Standards and Interpretations for Application in Future Periods (Continued)

Title	Issued / Completed	Applicable ⁽¹⁾	Impact
(v) AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & 138]	August 2014	1 January 2016	<p>This Standard amends AASB 116 and AASB 138 to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. It also clarifies the use of revenue-based methods to calculate the depreciation of an asset. Revenue is generally an appropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.</p> <p>Given the Shire currently uses the expected pattern of consumption of the future economic benefits of an asset as the basis of depreciation, it is not expected to have a significant impact.</p>
(vi) AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.	December 2014	1 January 2017	<p>Consequential changes to various Standards arising from the issuance of AASB 15.</p> <p>It will require changes to reflect the impact of AASB 15.</p>
(vii) AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101 [AASB 7, 101, 134 & 1049]	January 2015	1 January 2016	<p>This Standard amends AASB 101 to provide clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in the financial statements.</p> <p>This Standard also makes editorial and consequential amendments as a result of amendments to the Standards listed in the title column.</p> <p>It is not anticipated it will have any significant impact disclosures as they currently exist and any changes will relate to presentation.</p>
(viii) AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, 124 & 1049]	March 2015	1 July 2016	<p>The objective of this Standard is to extend the scope of AASB 124 <i>Related Party Disclosures</i> to include not-for-profit sector entities. The Standard is expected to have a significant disclosure impact on the financial report of the Shire as both Elected Members and Senior Management will be deemed to be Key Management Personnel and resultant disclosures will be necessary.</p>

Notes:

⁽¹⁾ Applicable to reporting periods commencing on or after the given date.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Adoption of New and Revised Accounting Standards

During the current year, the Shire adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.

These new and revised standards were as follows:

- (i) AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality
- (ii) AASB 2015-7 Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

2. REVENUE AND EXPENSES	2016	2015	
	\$	\$	
(a) Net Result			
The Net result includes:			
(i) Charging as an expense:			
Auditors remuneration			
Current Auditor			
- Audit of the Annual Financial Report	22,291	19,500	
- Audit and Acquittal of external funded projects	3,100	0	
Depreciation			
Buildings - non-specialised	1,704,201	1,705,367	
Furniture and equipment	469,085	500,407	
Plant and equipment	529,836	528,405	
Infrastructure - Roads	2,330,025	2,915,477	
Infrastructure - Footpaths	266,689	263,469	
Infrastructure - Drainage	234,428	398,925	
Infrastructure - Parks and Ovals	170,887	985,100	
Infrastructure - Other	337,969	259,490	
	<u>6,043,120</u>	<u>7,556,640</u>	
Interest expenses (finance costs)			
Debentures (refer Note 23 (a))	394,480	430,780	
	<u>394,480</u>	<u>430,780</u>	
Rental charges			
- Operating leases	374,727	290,796	
	<u>374,727</u>	<u>290,796</u>	
(ii) Crediting as revenue:			
Significant revenue			
Increase in Equity Value			
Eastern Metropolitan Regional Council (EMRC)	1,703,629	2,280,458	
	<u>1,703,629</u>	<u>2,280,458</u>	
Other revenue			
Other	274,798	54,602	
	<u>274,798</u>	<u>54,602</u>	
	2016	2016	2015
	Actual	Budget	Actual
	\$	\$	\$
Interest earnings			
- Loans receivable - clubs/institutions	23,628	28,692	28,031
- Reserve funds	173,613	46,784	54,977
- Municipal funds	543,644	382,000	604,048
Non-investments - Municipal	87,614	57,000	110,099
Other interest revenue	331,829	382,069	358,519
	<u>1,160,328</u>	<u>896,545</u>	<u>1,155,674</u>

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

2. REVENUE AND EXPENSES (Continued)

(b) Statement of Objective

The Shire of Kalamunda is dedicated to providing high quality services to the community through the various service oriented programs which it has established.

Shire operations as disclosed in these financial statements encompass the following service orientated activities/programs.

GOVERNANCE

Objective:

To provide a decision making process for the efficient allocation of scarce resources.

Activities:

Includes the activities of members of council and the administrative support available to the council for the provision of governance of the district. Other costs relate to the task of assisting elected members and ratepayers on matters which do not concern specific council services.

GENERAL PURPOSE FUNDING

Objective:

To collect revenue to allow for the provision of services.

Activities:

Rates, general purpose government grants and interest revenue.

LAW, ORDER, PUBLIC SAFETY

Objective:

To provide services to help ensure a safer and environmentally conscious community.

Activities:

Supervision and enforcement of various local laws relating to fire prevention, animal control and other aspects of public safety including emergency services.

HEALTH

Objective:

To provide an operational framework for environmental and community health.

Activities:

Inspection of food outlets and their control, provision of meat inspection services, noise control and waste disposal compliance.

EDUCATION AND WELFARE

Objective:

To provide services to disadvantaged persons, the elderly, children and youth.

Activities:

Provision and maintenance of home and community care programs, day care centres, youth services and other voluntary services.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

2. REVENUE AND EXPENSES (Continued)

(b) Statement of Objective (Continued)

COMMUNITY AMENITIES

Objective:

To provide services required by the community.

Activities:

Rubbish collection services, operation of rubbish disposal sites, litter control, construction and maintenance of urban storm water drains, protection of the environment and administration of town planning schemes and public conveniences.

RECREATION AND CULTURE

Objective:

To establish and effectively manage infrastructure and resource which will help the social well being of the community.

Activities:

Maintenance of public halls, civic centres, aquatic centre, recreation centres and various sporting facilities. Provision and maintenance of parks, gardens and playgrounds. Operation of library, museum and other cultural facilities.

TRANSPORT

Objective:

To provide safe, effective and efficient transport services to the community.

Activities:

Construction and maintenance of roads, footpaths, bridges, lighting and cleaning of streets.

ECONOMIC SERVICES

Objective:

To help promote the shire and its economic wellbeing.

Activities:

Tourism and area promotion, rural services and building control.

OTHER PROPERTY AND SERVICES

Objective:

To monitor and control council's overheads operating accounts.

Activities:

Private works operation, plant repair and operation costs and engineering operation costs.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

2. REVENUE AND EXPENSES (Continued)

(c) Conditions Over Grants/Contributions		Opening Balance ⁽¹⁾ 1/07/14 \$	Received ⁽²⁾ 2014/15 \$	Expended ⁽²⁾ 2014/15 \$	Closing Balance ⁽¹⁾ 30/06/15 \$	Received ⁽²⁾ 2015/16 \$	Expended ⁽²⁾ 2015/16 \$	Closing Balance 30/06/16 \$
Grant/Contribution	Function/ Activity							
State Emergency Services	Law, Order and Public Safety	15,175	55,625	(60,465)	13,335	54,044	(53,340)	14,039
SES equipment	Law, Order and Public Safety	1,460	5,700	(7,160)	0	0	0	0
Bush Fire Brigade	Law, Order and Public Safety	31,662	126,999	(125,661)	32,860	130,332	(131,200)	31,932
Healthy Community Initiative	Recreation and Culture	5,816	0	(5,816)	0	0	0	0
Kids Sport Program	Recreation and Culture	1,562	61,670	(76,440)	4,792	110,000	(114,792)	0
Hartfield Park Offset Proposal Funding	Community Amenities	69,430	0	(26,809)	40,621	0	(21,961)	18,640
Woodlupine family centre - CCTV camera	Community Amenities	0	8,966	0	8,966	0	(8,966)	0
Bronze wing Grass Weed Control	Community Amenities	4,798	0	(4,798)	0	0	0	0
Banksia Woodland Project	Community Amenities	7,250	0	(1,460)	5,790	5,500	(11,340)	0
Weed Cycle at Lower Lesmurdie	Community Amenities	6,664	0	(6,664)	0	0	0	0
Water Conservation Project	Community Amenities	10,000	0	(10,000)	0	0	0	0
Pioneer park	Community Amenities	16,333	0	(16,333)	0	0	0	0
Ray Owen Sports Centre Kiosk	Community Amenities	11,973	0	(11,973)	0	0	0	0
Ray Owen Lighting Upgrade	Community Amenities	12,017	0	(12,017)	0	0	0	0
Hartfield Park Master plan	Community Amenities	141,432	3,005,000	(601,407)	2,345,025	2,755,000	(657,555)	4,242,470
Kostera Oval redevelopment project	Community Amenities	0	500,000	(222,372)	277,628	500,000	(777,628)	0
Mobile Graffiti removal implementation project	Community Amenities	0	0	0	0	16,542	0	16,542
Hale Road	Transport	11,334	0	(11,334)	0	0	0	0
Kalamunda/Fernan/Abernethy	Transport	666,666	0	(666,666)	0	0	0	0
Lot 24 Hardey Road East	Transport	12,125	0	0	12,125	0	(12,125)	0
Lot 47 Hardey Road East	Transport	15,572	0	0	15,572	0	(15,572)	0
Metro Local Government Reform	Governance	6,232	0	(6,232)	0	0	0	0
Financial Assistance Grant - Bridges	General purpose funding	0	0	0	0	210,000	(10,000)	200,000
Total		1,049,523	3,786,960	(2,679,829)	2,756,654	3,783,768	(2,014,499)	4,525,923

Notes:

- (1) - Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous reporting period.
- (2) - New grants/contributions which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.
- (3) - Grants/contributions which had been recognised as revenues in a previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

	Note	2016 \$	2015 \$
3. CASH AND CASH EQUIVALENTS			
Cash on Hand - Unrestricted		7,190	6,940
Cash at Bank - Municipal		8,303,579	9,307,946
Cash at Bank - Restricted Reserves		18,160,388	11,208,096
		<u>26,471,157</u>	<u>20,522,982</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Reserves - Restricted			
Long Service Leave Reserve	12	1,530,051	1,060,585
Plant and Equipment Reserve	12	0	29,696
Land and Property Enhancement and Maintenance Reserve	12	1,578,059	1,354,213
Waste Management Reserve	12	787,591	232,426
EDP IT Equipment Reserve	12	542,562	139,326
Local Government Elections Reserve	12	126,009	50,000
Stirk Park Reserve	12	0	25,897
HACC Reserve	12	741,168	1,220,151
Forrestfield Industrial Area Reserve	12	119,376	117,322
Insurance Contingency Reserve	12	175,565	172,542
Light Plant Reserve	12	0	35,033
Revaluation Reserve	12	249,098	244,811
Nominated Employee Leave Provisions Reserve	12	1,135,890	525,500
Forrestfield Industrial Scheme Stage 1 Reserve	12	5,022,391	1,932,377
Asset Enhancement Reserve	12	856,713	0
Unexpended Capital Works and Specific Purpose Grants Reserve	12	5,229,908	4,003,345
Waste Avoidance and Resource Recovery Reserve	12	0	0
Environmental Reserve	12	66,007	64,872
		<u>18,160,388</u>	<u>11,208,096</u>
Municipal Cash - Restricted			
Bonds	9	1,949,970	2,029,486
Conditional Unspent Grants and Contributions	2(c)	4,525,923	2,756,654
		<u>6,475,893</u>	<u>4,786,140</u>
Total Restricted		<u>24,636,281</u>	<u>15,994,236</u>
4. INTEREST IN JOINT VENTURE			
Equity Accounted Investment		<u>27,488,876</u>	<u>24,996,679</u>
Investment in Joint Venture			
At the beginning of the year		24,996,679	22,716,221
Change in Equity			
Other property and services		1,703,629	2,280,458
Other Comprehensive Income			
Revaluation of Assets of Joint Venture		788,568	0
At the end of the year		<u>27,488,876</u>	<u>24,996,679</u>

The Shire held investments in the Eastern Metropolitan Regional Council (EMRC) as at 30 June 2016 (for details refer to Note 18)

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

	2016 \$	2015 \$
5. TRADE AND OTHER RECEIVABLES		
Current		
Rates Outstanding	1,238,207	613,087
Sundry Debtors	384,668	496,659
Prepayments	315,198	544,655
GST Receivable	414,902	361,706
Loans - Clubs/Institutions	70,388	66,073
	<u>2,423,363</u>	<u>2,082,180</u>
Non-current		
Rates Outstanding - Pensioners	554,647	514,420
Loans receivable - clubs/institutions	270,957	341,028
	<u>825,604</u>	<u>855,448</u>
6. INVENTORIES		
Current		
Fuel and Materials	138,914	111,941
Land Held for Resale - Cost		
Cost of Acquisition	85,360	335,593
Development Costs	0	51,067
	<u>224,274</u>	<u>498,601</u>
Non-current		
Land Held for Resale - Cost		
Cost of Acquisition	284,661	284,661
Development Costs	16,046	16,046
	<u>300,707</u>	<u>300,707</u>

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

	2016 \$	2015 \$
7 (a). PROPERTY, PLANT AND EQUIPMENT		
Land and buildings		
Land - freehold at:		
- Independent valuation 2014	61,426,000	63,101,000
- Additions after Valuation - Cost	2,000	0
	<u>61,428,000</u>	<u>63,101,000</u>
Land - Vested in and under the Control of Council at:		
- Independent valuation 2014	2,799,800	2,799,800
	<u>2,799,800</u>	<u>2,799,800</u>
	<u>64,227,800</u>	<u>65,900,800</u>
Buildings - non-specialised at:		
- Independent valuation 2014	83,141,844	83,141,844
- Additions after Valuation - Cost 2015	1,596,994	1,596,994
- Additions after Valuation - Cost 2016	1,560,324	0
Less: Accumulated Depreciation	(3,404,265)	(1,700,064)
	<u>82,894,897</u>	<u>83,038,774</u>
	<u>82,894,897</u>	<u>83,038,774</u>
Total land and buildings	<u>147,122,697</u>	<u>148,939,574</u>
Furniture and equipment at:		
- Cost	6,309,984	6,171,359
Less: Accumulated Depreciation	(4,905,165)	(4,436,080)
	<u>1,404,819</u>	<u>1,735,279</u>
Plant and equipment at:		
- Management valuation 2016 - level 2	3,082,285	0
- Management valuation 2013 - level 2	0	4,356,073
- Additions after Valuation - Cost 2014	0	923,763
Less: Accumulated Depreciation	0	(1,032,269)
	<u>3,082,285</u>	<u>4,247,567</u>
	<u>151,609,801</u>	<u>154,922,420</u>

The fair value of property, plant and equipment is determined at least every three years in accordance with the regulatory framework. Additions since the date of valuation are shown as cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. At the end of each intervening period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires property, plant and equipment to be shown at fair value.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Balance at the Beginning of the Year \$	Additions \$	(Disposals) \$	Revaluation Increments/ (Decrements) Transferred to Revaluation \$	Revaluation (Losses)/ Reversals Through to Profit or Loss \$	Depreciation (Expense) \$	Carrying Amount at the End of Year \$
Land - freehold	63,101,000	2,000	(1,675,000)	0	0	0	61,428,000
Land - Vested in and under the Control of Council	2,799,800	0	0	0	0	0	2,799,800
Total land	65,900,800	2,000	(1,675,000)	0	0	0	64,227,800
Buildings - non-specialised	83,038,774	1,560,324	0	0	0	(1,704,201)	82,894,897
Total buildings	83,038,774	1,560,324	0	0	0	(1,704,201)	82,894,897
Total land and buildings	148,939,574	1,562,324	(1,675,000)	0	0	(1,704,201)	147,122,697
Furniture and equipment	1,735,279	138,625	0	0	0	(469,085)	1,404,820
Plant and equipment	4,247,567	76,976	(139,346)	(481,711)	(91,366)	(529,836)	3,082,284
Total property, plant and equipment	154,922,420	1,777,925	(1,814,346)	(481,711)	(91,366)	(2,703,122)	151,609,801

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of valuation	Date of last Valuation	Inputs used
Land and buildings					
Land - freehold	2	Market approach using recent observable market data for similar assets	Independent registered valuer	June 2014	Average price for square meter / sales process of comparable properties
Land - Vested in and under the Control of Council	3	Improvements to land valued using cost approach using depreciated replacement cost	Independent registered valuer	June 2014	Improvements to land using construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Buildings - non-specialised	3	Improvements to building valued using cost approach using depreciated replacement cost	Independent registered valuer	June 2014	Improvements to building using construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Buildings - specialised	2	Market approach using recent observable market data for similar assets	Independent registered valuer	June 2014	Average price for square meter / sales process of comparable properties
Plant and equipment					
- Management valuation 2016	2	Market approach using recent observable market data for similar assets	Management valuation	June 2016	Market price per item
- Management valuation 2016	3	Cost approach using depreciated replacement cost	Management valuation	June 2016	Purchase cost and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

	2016 \$	Restated 2015 \$
8 (a). INFRASTRUCTURE		
Infrastructure - Roads		
- Independent Valuation 2015	115,916,874	193,671,293
- Additions after Valuation - Cost	3,664,334	0
- Correction on revaluation	0	(77,754,419)
Less: Accumulated Depreciation	<u>(2,330,025)</u>	<u>0</u>
	117,251,183	115,916,874
Infrastructure - Footpaths		
- Independent Valuation 2015	13,255,933	15,398,876
- Additions after Valuation - Cost	71,765	0
- Correction on revaluation	0	(2,123,602)
Less: Accumulated Depreciation	<u>(253,046)</u>	<u>0</u>
	13,074,652	13,275,274
Infrastructure - Drainage		
- Independent Valuation 2015	18,640,817	19,251,658
- Additions after Valuation - Cost	299,458	0
- Correction on revaluation	0	(607,874)
Less: Accumulated Depreciation	<u>(232,054)</u>	<u>0</u>
	18,708,221	18,643,784
Infrastructure - Parks and Ovals		
- Independent Valuation 2015	5,795,052	5,868,888
- Additions after Valuation - Cost	4,719,185	0
- Correction on revaluation	0	(29,983)
Less: Accumulated Depreciation	<u>(142,846)</u>	<u>0</u>
	10,371,391	5,838,905
Infrastructure - Other		
- Independent Valuation 2015	6,615,233	6,988,568
- Additions after Valuation - Cost	205,538	0
- Correction on revaluation	0	(280,635)
Less: Accumulated Depreciation	<u>(268,962)</u>	<u>0</u>
	6,551,809	6,707,933
	<u>165,957,256</u>	<u>160,382,770</u>

The fair value of infrastructure is determined at least every three years in accordance with the regulatory framework. Additions since the date of valuation are shown as cost. Given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. At the end of each intervening period the valuation is reviewed and, where appropriate, the fair value is updated to reflect current market conditions. This process is considered to be in accordance with Local Government (Financial Management) Regulation 17A (2) which requires infrastructure to be shown at fair value.

The Shire of Kalamunda undertook an independent valuation as at 30 June 2015 of its Infrastructure Assets. During the Financial year 30 June 2016, it was identified that the unit replacement rate (URR) used to value kerbing area of roads was incorrect. As such, the formula on kerbing needed to be updated which resulted in a \$77,754,419 reduction to the value on the roads assets.

**SHIRE OF KALAMUNDA
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8 (a). INFRASTRUCTURE (Continued)

As the revaluation for Infrastructure assets was conducted on 30 June 2015, there is no impact on the net result for the current financial year as the adjustment was recognised within the revaluation reserve.

In addition to the above adjustment there are other revaluation adjustments found in other infrastructure categories. The summary of the total decrease in value of the infrastructure category due to the valuation adjustments are as follows:

Footpaths	2,123,602
Roads	77,754,419
Drainage - Stormwater drainages	142,546
Drainage - Stormwater pits	465,328
Parks and gardens	29,983
Infrastructure - Other - bridges	280,635
	<u>80,796,513</u>

Subsequent to the above adjustments, the revaluation of infrastructure assets resulted in an overall increase of \$2,586,075 in the net value of the Shire's Infrastructure assets in 2015. It is the Council Policy in relation to accounting for revaluation movements to treat categories as one class of asset, being Infrastructure. The sub-categories have been disclosed purely for reference purposes.

As the Council deems these assets to be one class, any decrements are offset against increments within the same class of asset and the net credit/deficit is recognised in the Statement of Other Comprehensive income and the Revaluation Reserve. Should the decrements above not be netted off with the increments recognised it would result in a charge to the Statement of Comprehensive Income of \$8,801,745. The net result for 2014/2015 would therefore be (\$2,763,661) and the Other Comprehensive Income for the period would be \$13,320,297

For further details relating to the prior period adjustment refer to note 14

**SHIRE OF KALAMUNDA
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8. INFRASTRUCTURE (Continued)

(b) Movements in Carrying Amounts

Movement in the carrying amounts of each class of infrastructure between the beginning and the end of the current financial year.

	Restated ^(a) Balance as at the Beginning of the Year	Additions	(Disposals)	Depreciation (Expense)	Carrying Amount at the End of the Year
	\$	\$	\$	\$	\$
Infrastructure - Roads	115,916,874	3,664,334	0	(2,330,025)	117,251,183
Infrastructure - Footpaths	13,275,274	71,765	(5,698)	(266,689)	13,074,652
Infrastructure - Drainage	18,643,784	299,458	(593)	(234,428)	18,708,221
Infrastructure - Parks and Ovals	5,838,905	4,719,185	(15,812)	(170,887)	10,371,391
Infrastructure - Other	6,707,933	205,538	(23,693)	(337,969)	6,551,809
Total infrastructure	<u>160,382,770</u>	<u>8,960,280</u>	<u>(45,796)</u>	<u>(3,339,998)</u>	<u>165,957,256</u>

^(a) Restated amounts for 2015 (see note 14 (a) 'prior years' restatements')

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8. INFRASTRUCTURE (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of valuation	Date of last Valuation	Inputs used
Infrastructure - Roads	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2015	Observable input based on depreciation replacement cost (Level 3)
Infrastructure - Footpaths	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2015	Observable input based on depreciation replacement cost (Level 3)
Infrastructure - Drainage	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2015	Observable input based on depreciation replacement cost (Level 3)
Infrastructure - Parks and Ovals	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2015	Observable input based on depreciation replacement cost (Level 3)
Infrastructure - Other	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2015	Observable input based on depreciation replacement cost (Level 3)

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used to determine the fair value of infrastructure using level 3 inputs.

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	2016 \$	2015 \$
9. TRADE AND OTHER PAYABLES		
Current		
Sundry Creditors	3,901,573	3,534,421
Bonds and Deposits	1,949,970	2,029,486
Accrued Expenses	409,021	748,639
Accrued Interest on Debentures	126,333	136,655
Accrued Salaries and Wages	21,885	186
Income in Advance	15,601	25,430
	<u>6,424,383</u>	<u>6,474,817</u>

10. LONG-TERM BORROWINGS

Current		
Secured by Floating Charge Borrowings		
Borrowings	629,778	593,852
	<u>629,778</u>	<u>593,852</u>
Non-current		
Secured by Floating Charge Borrowings		
Borrowings	5,664,169	6,293,947
	<u>5,664,169</u>	<u>6,293,947</u>

Additional detail on borrowings is provided in Note 23.

11. PROVISIONS

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Total \$
Opening balance at 1 July 2015			
Current provisions	1,504,662	1,115,029	2,619,691
Non-current provisions	0	704,550	704,550
	<u>1,504,662</u>	<u>1,819,579</u>	<u>3,324,241</u>
Additional provision	1,783,449	348,227	2,131,676
Amounts used	(1,740,203)	(198,220)	(1,938,423)
Increase in the discounted amount arising because of time and the effect of any change in the discounted rate	70,817	92,994	163,811
Balance at 30 June 2016	<u>1,618,725</u>	<u>2,062,580</u>	<u>3,681,305</u>
Comprises			
Current	1,618,725	1,373,887	2,992,612
Non-current	0	688,693	688,693
	<u>1,618,725</u>	<u>2,062,580</u>	<u>3,681,305</u>

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

12. RESERVES - CASH BACKED

	Actual 2016 Opening Balance \$	Actual 2016 Transfer to \$	Actual 2016 Transfer (from) \$	Actual 2016 Closing Balance \$	Budget 2016 Opening Balance \$	Budget 2016 Transfer to \$	Budget 2016 Transfer (from) \$	Budget 2016 Closing Balance \$	Actual 2015 Opening Balance \$	Actual 2015 Transfer to \$	Actual 2015 Transfer (from) \$	Actual 2015 Closing Balance \$
(a) Long Service Leave Reserve	1,060,585	469,466	0	1,530,051	883,752	126,513	(550,000)	460,265	275,403	755,182	0	1,060,585
(b) Plant and Equipment Reserve	29,696	0	(29,696)	0	29,962	0	(29,962)	0	29,066	610	0	29,696
(c) Land and Property Enhancement and Maintenance Reserve	1,354,213	223,846	0	1,578,059	466,830	3,362,561	(3,000,000)	831,411	874,069	1,421,568	(941,444)	1,354,213
(d) Waste Management Reserve	232,426	555,165	0	787,591	90,483	252,714	(50,000)	293,197	160,645	71,761	0	232,426
(e) EDP IT Equipment Reserve	139,325	403,236	0	542,561	15,960	200,479	(98,000)	118,439	136,450	2,875	0	139,325
(f) Local Government Elections Reserve	50,000	76,009	0	126,009	53,099	81,593	(126,000)	8,692	0	50,000	0	50,000
(g) Strik Park Reserve	25,897	0	(25,897)	0	19,878	0	(19,878)	0	25,364	533	0	25,897
(h) HACC Reserve	1,220,151	21,017	(500,000)	741,168	1,243,834	37,315	(500,000)	781,149	582,781	1,102,790	(465,420)	1,220,151
(i) Forrestfield Industrial Area Reserve	117,322	2,054	0	119,376	102,806	3,064	0	105,890	131,897	2,776	(17,351)	117,322
(j) Insurance Contingency Reserve	172,542	3,023	0	175,565	74,074	2,222	0	76,296	168,965	3,557	0	172,542
(k) Light Plant Reserve	35,033	0	(35,033)	0	35,346	0	(35,346)	0	34,313	720	0	35,033
(l) Revaluation Reserve	244,511	4,287	0	249,098	144,646	64,339	(60,000)	148,985	138,886	105,925	0	244,511
(m) Nominated Employee Leave Provisions Reserve	525,500	610,390	0	1,135,890	531,725	505,952	0	1,037,677	24,973	500,527	0	525,500
(n) Forrestfield Industrial Scheme Stage 1 Reserve	1,932,377	3,108,446	(18,432)	5,022,390	1,952,265	0	0	1,952,265	0	1,952,265	(19,906)	1,932,377
(o) Asset Enhancement Reserve	0	856,713	0	856,713	0	127,742	0	127,742	0	0	0	0
(p) Unexpended Capital Works and Specific Purpose Grants Reserve	4,003,345	4,660,401	(3,833,838)	5,229,908	4,003,345	240,201	(3,833,838)	609,708	0	4,003,345	0	4,003,345
(q) Environmental Reserve	64,673	1,136	0	66,009	64,718	11,608	(48,000)	28,326	28,058	36,785	0	64,673
	11,208,096	11,195,189	(4,242,897)	18,160,388	9,714,743	5,016,343	(8,151,024)	6,580,062	2,610,960	10,041,259	(1,444,123)	11,208,096

All of the reserve accounts are supported by money held in financial institutions and match the amount shown as restricted cash in Note 3 to this financial report.

**SHIRE OF KALAMUNDA
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12. RESERVES - CASH BACKED (Continued)

In accordance with council resolutions in relation to each reserve account, the purpose for which the reserves are set aside are as follows:

Name of Reserve	Purpose of the reserve
(a) Long Service Leave Reserve	To be used to provide cash-backing for all annual and long service leave entitlements. Transfers to this reserve are based on the leave liability at the end of each year.
(b) Plant and Equipment Reserve	To be used to fund future replacement of Shire's plant and associated equipment.
(c) Land and Property Enhancement and Maintenance Reserve	To be used to fund land and property purchases, upgrade and maintenance of existing properties.
(d) Waste Management Reserve	To be used to fund financing operations for the development of Shire's sanitation service.
(e) EDP IT Equipment Reserve	To be used for the upgrade/replacement of the Shire's computer hardware and software
(f) Local Government Elections Reserve	To be used to fund the cost of future elections.
(g) Stirk Park Reserve	To be used to fund improvements to Stirk Park.
(h) HACCC Reserve	To be used to fund future HACCC Service programmes and asset replacement.
(i) Forrestfield Industrial Area Reserve	To be used to fund infrastructure requirements for the Forrestfield Industrial Area.
(j) Insurance Contingency Reserve	To be used to fund insurance variations and potential call backs.
(k) Light Plant Reserve	To be used to fund future replacement of Shire's plant and associated equipment.
(l) Revaluation Reserve	To be used to fund triennial rating revaluations.
(m) Nominated Employee Leave Provisions Reserve	To be used to fund future nominated staff leave entitlements.
(n) Forrestfield Industrial Scheme Stage 1 Reserve	The reserve is established to meet the Shires' reporting obligation under clause 6.5.16 of the Shire of Kalamunda Local Planning Scheme No. 3. The funds that were managed under the Trust for the scheme were transferred to the newly established reserve on 23rd June 2015. The reserve will be maintained to reflect all transactions related to the scheme for the benefit of the scheme members.
(o) Asset Enhancement Reserve	To be used to fund future replacement of Shires' infrastructure and plant and equipment needs
(p) Unexpended Capital Works and Specific Purpose Grants Reserve	To be used to carry forward available funding for uncompleted projects and specific purpose grants, that will be completed and expended in ensuing financial years.
(q) Environmental Reserve	To be used to fund environment strategies and projects.

SHIRE OF KALAMUNDA
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13. REVALUATION SURPLUS

	Restated					Restated					Restated
	2016 Opening Balance	2016 Revaluation Increment	2016 Revaluation Decrement	2016 Total Movement on Revaluation	2016 Closing Balance	2015 Opening Balance	2015 Revaluation Increment	2015 Revaluation Decrement	2015 Total Movement on Revaluation	2015 Closing Balance	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Land	59,097,346	0	0	0	59,097,346	59,097,346	0	0	0	59,097,346	
Buildings	69,246,449	0	0	0	69,246,449	69,246,449	0	0	0	69,246,449	
Plant and Equipment	481,711	0	(481,711)	(481,711)	0	481,711	0	0	0	481,711	
Infrastructure ^(a)	2,566,075	0	0	0	2,566,075	0	83,362,566	(80,796,513)	2,566,075	2,566,075	
Infrastructure - Footpaths	0	0	0	0	0	0	0	0	0	0	
Infrastructure - Drainage	0	0	0	0	0	0	0	0	0	0	
Infrastructure - Parks and Ovals	0	0	0	0	0	0	0	0	0	0	
Infrastructure - Other	0	0	0	0	0	0	0	0	0	0	
EMRC asset revaluation	0	766,566	0	766,566	766,566	0	0	0	0	0	
	131,413,561	766,566	(481,711)	306,857	131,720,436	126,627,506	83,362,566	(80,796,513)	2,566,075	131,413,561	

Movements on revaluation of fixed assets are not able to be reliably attributed to a program as the assets were revalued by class as provided for by AASB 116 Aus 40.1.

^(a) Restated amounts for 2015 (see note 14 (a) 'prior years' restatements')

**SHIRE OF KALAMUNDA
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(14) PRIOR PERIOD ADJUSTMENT ON INFRASTRUCTURE REVALUATION

- (a) (i) During the Financial year 30 June 2015, the Shire of Kalamunda ("Shire") revalued all categories of its' infrastructure assets using the services of a specialist as an external expert. For roads assets the specialist obtained a schedule from the Shires' asset management software called myData to calculate the unit replacement rate ("URR").

During the Financial year 30 June 2016, it was identified that the URR used to value kerbing area of roads is incorrect. As such, the formula on kerbing needed to be updated which resulted in a \$77,754,419 reduction of the value on the roads assets for the year ended 30 June 2015.

- (ii) In addition to the above adjustment, subsequent to the revaluation of infrastructure assets additional adjustments were identified during the fiscal period 30 June 2016. Accordingly, the revaluation surplus was reduced by following amounts to accommodate the necessary changes in the valuation.

	\$
Footpaths	2,123,602
Infrastructure - Other - bridges	280,635
Drainage - Stormwater drainages	142,546
Drainage - Stormwater pits	465,328
Parks and gardens	29,983

The combined impact of the prior years' restatements of the Shires' individual line items in the Financial Statements can be summarised as follows:

30 June 2015 comparative year :

Statement of Financial Position (Extract)

	2015 Previously Stated \$	Decrease due to the prior period restatement \$	2015 restated \$
<u>Non-current assets</u>			
Infrastructure - Roads	193,671,293	(77,754,419)	115,916,874
Infrastructure - Footpaths	15,398,876	(2,123,602)	13,275,274
Infrastructure - Drainage	19,251,658	(607,874)	18,643,784
Infrastructure - Parks and Ovals	5,868,888	(29,983)	5,838,905
Infrastructure - Other	6,988,568	(280,635)	6,707,933
Total infrastructure	241,179,283	(80,796,513)	160,382,770
<u>Equity</u>			
<u>Revaluation surplus</u>			
Revaluation surplus on infrastructure assets	83,382,588	(80,796,513)	2,586,075

For further details relating to the impact on the Statement of Comprehensive Income refer to note 8

SHIRE OF KALAMUNDA
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15 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

	2016 \$	2016 Budget \$	2015 \$
Cash and cash equivalents	<u>26,471,157</u>	<u>12,286,262</u>	<u>20,522,982</u>
(b) Reconciliation of Net Cash Provided By Operating Activities to Net Result			
Net result	7,658,690	4,775,611	6,038,084
Non-cash flows in Net result:			
Depreciation	6,043,120	8,163,761	7,556,640
(Profit)/Loss on sale of asset	1,769,102	(366,640)	476,459
Fair value adjustments to fixed assets at fair value through profit or loss	(1,703,629)	(3,600,407)	(2,280,458)
Loss on revaluation of fixed assets	91,366	0	0
(Profit)/Loss on sale of land classified as inventory	(186,050)	0	0
Interest on deferred loans	(316)	0	309
Changes in assets and liabilities:			
(Increase)/Decrease in receivables	(377,095)	513,981	(127,997)
(Increase)/Decrease in inventories	(26,973)	2,017	(4,623)
Increase/(Decrease) in payables	(50,434)	132,662	1,008,942
Increase/(Decrease) in provisions	357,064	788,271	306,645
Grants contributions for the development of assets	(5,846,078)	(3,250,771)	(3,951,296)
Net cash from operating activities	<u>7,728,767</u>	<u>7,158,485</u>	<u>9,022,705</u>
(c) Undrawn Borrowing Facilities	2016		2015
Credit Standby Arrangements	\$		\$
Bank overdraft limit	1,500,000		1,500,000
Bank overdraft at balance date	(102,414)		0
Credit card limit	75,000		75,000
Credit card balance at balance date	(1,486)		(9,471)
Total amount of credit unused	<u>1,471,100</u>		<u>1,565,529</u>
Loan facilities			
Loan facilities - current	629,778		593,852
Loan facilities - non-current	5,664,169		6,293,947
Total facilities in use at balance date	<u>6,293,947</u>		<u>6,887,799</u>
Unused loan facilities at balance date	<u>NIL</u>		<u>NIL</u>

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16. CONTINGENT LIABILITIES

The Shire of Kalamunda has no contingent liabilities that require disclosure or adjustments in the Financial report as at 30 June 2016.

17. CAPITAL AND LEASING COMMITMENTS	2016	2015
	\$	\$
(a) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the accounts.		
Payable:		
- not later than one year	316,431	353,332
- later than one year but not later than five years	278,966	442,089
- later than five years	0	0
	<u>595,397</u>	<u>795,421</u>

(b) The Shire did not have any future capital expenditure commitments at the reporting date.

18. JOINT VENTURE ARRANGEMENTS

The Shire of Kalamunda has a share in the Net Assets in the Eastern Metropolitan Regional Council (EMRC) as a member council.

The accounting share applicable to the Shire of Kalamunda as at 30 June 2016 as disclosed in the Financial Statements of the Eastern Metropolitan Regional Council is \$27,488,876. This represents the Shire's 16.80% share of the Total Equity in the Eastern Metropolitan Regional Council.

The Shire's interest in the Assets and Liabilities to the EMRC are as follows:

	2016	2015
	\$	\$
Interest in the Joint Venture	<u>27,488,876</u>	<u>24,996,679</u>
Current Assets	15,206,585	13,403,040
Non-Current Assets	<u>14,746,573</u>	<u>13,801,751</u>
	<u>29,953,158</u>	<u>27,204,791</u>
Current Liabilities	1,219,898	1,013,679
Non-Current Liabilities	<u>1,244,384</u>	<u>1,194,433</u>
	<u>2,464,282</u>	<u>2,208,112</u>
Net Assets	<u>27,488,876</u>	<u>24,996,679</u>

19. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2016	2015
	\$	\$
Governance	8,780,575	8,657,932
General purpose funding	8,627,335	10,395,351
Law, order, public safety	1,100,824	1,149,446
Health	812,302	257,139
Education and welfare	3,844,331	4,408,470
Community amenities	70,266,656	68,008,121
Recreation and culture	99,103,601	93,322,850
Transport	175,466,245	174,504,897
Economic services	2,425	2,425
Other property and services	<u>7,296,744</u>	<u>3,855,156</u>
	<u>375,301,038</u>	<u>364,561,787</u>

**SHIRE OF KALAMUNDA
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20. FINANCIAL RATIOS	2016	2015	2014
Current ratio	0.83	1.17	1.06
Asset sustainability ratio	1.50	0.42	0.67
Debt service cover ratio	8.35	9.51	12.96
Operating surplus ratio	0.04	0.05	0.09
Own source revenue coverage ratio	0.91	0.87	0.85

The above ratios are calculated as follows:

Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expenses}}$
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$
Operating surplus ratio	$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$
Own source revenue coverage ratio	$\frac{\text{own source operating revenue}}{\text{operating expenses}}$

Notes:

Information relating to the **asset consumption ratio** and the **asset renewal funding ratio** can be found at Supplementary Ratio Information on Page 60 of this document.

Debt Service Cover Ratio / Operating Surplus Ratio

2016 and 2015 ratios disclosed above are distorted by the early receipt of half of the allocation of the 2015-16 Financial Assistance Grant on 30 June 2015.

The early payment of the grant increased operating revenue in 2015 and decreased operating revenue in 2016 by \$1,206,203.

The early payment was considered to be "one-off" and if recognised in the year to which the allocation related the calculations in the 2016 and 2015 columns above would be as follows:

	2016	2015
Debt service cover ratio	9.57	8.37
Operating surplus ratio	0.06	0.02

Current Ratio

The Current Ratio is being impacted in 2016 due to the funds received during the period which have been allocated to restricted reserves which are not offset by corresponding liabilities associated with these restricted assets. The ratio is improved significantly post balance date following the raising of rates. In addition, the Council has large construction projects underway which are, partly being funded by reserves.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

21. TRUST FUNDS

Funds held at balance date over which the Shire has no control and which are not included in the Financial Statements are as follows:

	1 July 2015	Amounts Received	Amounts Paid	30 June 2016
	\$	\$	(\$)	\$
Unclaimed Monies	20,901	5,161	4,063	21,999
Wattle grove - Cell 9	12,793,720	1,127,099	256,859	13,663,960
B.C.I.T.F Levies	19,517	216,423	206,914	29,026
B.S.L Levies	24,626	252,541	251,425	25,742
Cash in lieu of Public Open Space	2,223,524	463,476	440,000	2,247,000
	<u>15,082,288</u>	<u>2,064,700</u>	<u>1,159,261</u>	<u>15,987,727</u>

22. DISPOSALS OF ASSETS - 2015/16 FINANCIAL YEAR

The following assets were disposed of during the year.

	Actual			Budget		
	Net Book Value	Sale Proceeds	Profit / (loss)	Net Book Value	Sale Proceeds	Profit / (loss)
	\$	\$	\$	\$	\$	\$
Plant and Equipment						
Other property and services	139,346	91,037	(48,309)	185,000	165,000	(20,000)
Land & Building						
Community Amenities	1,675,000	0	(1,675,000)	393,360	780,000	386,640
Infrastructure assets						
Other property and services	45,793	0	(45,793)	0	0	0
	<u>1,860,139</u>	<u>91,037</u>	<u>(1,769,102)</u>	<u>578,360</u>	<u>945,000</u>	<u>366,640</u>

	Actual \$	Budget \$
Profit	2,144	386,640
Loss	<u>(1,771,246)</u>	<u>(20,000)</u>
	<u>(1,769,102)</u>	<u>366,640</u>

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

23. INFORMATION ON BORROWINGS

(a) Repayments - Debentures

<u>Particulars</u>	Principal 1 July 2015 \$	New Loans		Principal Repayments		Principal 30 June 2016		Interest Repayments	
		Actual \$	Budget	Actual \$	Budget \$	Actual \$	Budget \$	Actual \$	Budget \$
Community amenities									
Foothills Netball Association	80,370	0	0	3,879	3,879	76,491	76,491	5,023	5,138
Shire Depot	1,802,371	0	0	72,365	72,365	1,730,006	1,730,006	118,896	120,816
Wet'n'Wild	287,986	0	0	50,766	50,766	237,220	237,220	15,731	17,135
Land Acquisition Kalamunda Rd	925,598	0	0	148,142	148,142	777,456	777,456	47,210	49,610
Plant & Equipment Purchase	280,545	0	0	88,044	88,044	192,501	192,501	13,809	15,532
Newburn Rd Extension	432,535	0	0	62,400	62,400	370,135	370,135	23,748	23,653
Kalamunda Swimming Pool	1,655,073	0	0	63,012	63,012	1,592,061	1,592,061	91,247	92,306
Depot Waste Trucks	1,028,829	0	0	39,170	39,170	989,659	989,659	56,721	57,379
Forrestfeild North Project	0	0	500,000	0	0	0	0	0	13,551
	6,493,307	0	500,000	527,778	527,778	5,965,529	5,965,529	372,385	395,120
Self Supporting Loans									
Recreation and culture									
*Forrestfield Bowling Club	23,317	0	0	3,949	3,949	19,368	19,368	1,696	1,826
*Kalamunda Cricket Club	6,101	0	0	1,902	1,902	4,199	4,199	327	374
*Kalamunda & District Basketball	60,859	0	0	18,984	18,984	41,875	41,875	3,340	3,709
*Forrestfield United Soccer Club	108,634	0	0	5,889	5,889	102,745	102,745	5,823	5,959
*Lesmurdie Tennis Club	16,163	0	0	4,262	4,262	11,901	11,901	896	963
*Maida Vale Tennis Club	36,741	0	0	2,976	2,976	33,765	33,765	2,118	2,179
*Kalamunda Club	131,735	0	0	26,182	26,182	105,553	105,553	7,297	7,893
*Forrestfield Junior Football Club	10,943	0	0	1,930	1,930	9,013	9,013	598	651
	394,493	0	0	66,074	66,074	328,419	328,419	22,095	23,554
	6,887,800	0	500,000	593,852	593,852	6,293,948	6,293,948	394,480	418,674

(*) Self supporting loan financed by payments from third parties.
All other loan repayments were financed by general purpose revenue.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

23. INFORMATION ON BORROWINGS (Continued)

(b) New Debentures - 2015/16

The Shire did not take up any new debentures during the year ended 30 June 2016.

(c) Unspent Debentures

The Shire did not have any unspent debentures as at 30 June 2016.

(d) Overdraft

Council established an overdraft facility of \$1,500,000 in 2011 to assist with short term liquidity requirements. The balance of the bank overdraft at 1 July 2015 was nil and 30 June 2016 was \$102,414.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

24. RATING INFORMATION - 2015/16 FINANCIAL YEAR

RATE TYPE	Rate in \$	Number of Properties	Rateable Value \$	Rate Revenue \$	Interim Rates \$	Back Rates \$	Total Revenue \$	Budget Rate Revenue \$	Budget Interim Rate \$	Budget Total Revenue \$
General Rate										
Gross rental value valuations										
General GRV	0.05524	19,817	427,154,720	23,270,831	193,289	7,096	23,471,216	23,311,981	286,956	23,598,937
Commercial \ Industrial GRV	0.05666	532	116,874,254	6,594,222	122,154	(39,295)	6,677,081	6,622,095	0	6,622,095
Vacant GRV	0.07250	431	11,787,744	659,829	65,347	2,047	727,224	854,611	0	854,611
Unimproved value valuations										
General UV	0.00309	236	166,740,000	515,227	1,541	0	516,768	515,227	0	515,227
Commercial \ Industrial GRV	0.00339	60	41,191,249	138,787	1,309	0	140,096	139,638	0	139,638
Sub-Total		21,076	763,747,967	31,178,897	383,640	(30,152)	31,532,385	31,443,552	286,956	31,730,508
Minimum payment	Minimum \$									
Gross rental value valuations										
General GRV	840	1,029		946,225	0	0	946,225	82,081	0	82,081
Commercial \ Industrial GRV	980	57		55,860	0	0	55,860	14,248	0	14,248
Vacant	695	253		94,810	0	0	94,810	55,905	0	55,905
Unimproved value valuations										
Commercial \ Industrial GRV	980	3		2,940	0	0	2,940	2,088	0	2,088
Sub-Total		1,342		1,099,835	0	0	1,099,835	154,322	0	154,322
Total amount raised from general rate		22,418	763,747,967	32,278,732	383,640	(30,152)	32,632,220	31,597,874	286,956	31,884,830
Ex-gratia rates							137,424			129,680
Totals							32,769,644			32,014,510

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

25. NET CURRENT ASSETS

Composition of net current assets

	2016 (30 June 2016 Carried Forward) \$	2016 (1 July 2015 Brought Forward) \$	2015 (30 June 2015 Carried Forward) \$
Surplus/(Deficit) 1 July 15 brought forward	4,378,271	4,968,115	4,968,115
CURRENT ASSETS			
Cash and cash equivalents			
Cash on Hand - Unrestricted	7,190	6,940	6,940
Cash at Bank - Municipal	8,303,578	9,307,946	9,307,946
Cash at Bank - Restricted Reserves	18,160,389	11,208,096	11,208,096
Receivables			
Rates Outstanding	1,238,207	613,087	613,087
Sundry Debtors	384,668	496,659	496,659
Prepayments	315,198	544,655	544,655
GST Receivable	414,902	361,706	361,706
Inventories			
Fuel and Materials	138,914	111,941	111,941
Land Held for Resale - Cost			
Cost of Acquisition	85,360	335,593	335,593
Development Costs	0	51,067	51,067
LESS: CURRENT LIABILITIES			
Trade and other payables			
Sundry Creditors	(3,901,573)	(3,534,421)	(3,534,421)
Accrued Interest on Debentures	(126,333)	(136,655)	(136,655)
Accrued Salaries and Wages	(21,885)	(186)	(186)
ATO liabilities	0	0	0
Bonds and Deposits	(1,949,970)	(2,029,486)	(2,029,486)
Accrued Expenses	(409,024)	(748,641)	(748,641)
Income in Advance	(15,601)	(25,430)	(25,430)
Current Portion of Long Term Borrowings			
Secured by Floating Charge Borrowings	(629,778)	(593,852)	(593,852)
Provisions			
Provision for annual leave	(1,618,725)	(1,504,662)	(1,504,662)
Provision for long service leave	(1,373,887)	(1,115,029)	(1,115,029)
Unadjusted net current assets	19,001,630	13,349,328	13,349,328
Adjustments			
Less: Reserves - restricted cash	(18,160,389)	(11,208,096)	(11,208,096)
Less: Land Held for Resale - Cost			
Cost of Acquisition	(85,360)	(335,593)	(335,593)
Development Costs	0	(51,067)	(51,067)
Add: Secured by Floating Charge Borrowings	629,778	593,852	593,852
Add: Provision for Annual Leave	1,618,725	1,504,662	1,504,662
Add: Provision for Long Service Leave	1,373,887	1,115,029	1,115,029
Adjusted net current assets - surplus/(deficit)	4,378,271	4,968,115	4,968,115

Difference

There was no difference between the surplus/(deficit) 1 July 2015 brought forward position used in the 2016 audited financial report and the surplus/(deficit) carried forward position as disclosed in the 2015 audited financial report.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

26. SPECIFIED AREA RATE - 2015/16 FINANCIAL YEAR

The Shire did not impose any Specified Area Rates in 2015-16.

27. SERVICE CHARGES - 2015/16 FINANCIAL YEAR

The Shire did not impose any service charges in 2015-16.

**28. DISCOUNTS, INCENTIVES, CONCESSIONS, & WRITE-OFFS
- 2015/16 FINANCIAL YEAR**

Pursuant to Section 6.46 of the Local Government Act 1995, Shire offered the following incentive prizes to ratepayers who has paid their rates in full one week before the due date 17 August 2015.

9 cash prizes of \$1,000 donated by the Shire of Kalamunda.

1 cash prize of \$1,000 donated by the Commonwealth Bank of Australia.

1 \$500 passbook account donated by the Bendigo Bank -

2 double passes to a concert performed and donated by the Western Australian Symphony Orchestra.

A new rate incentive prize is also introduced in addition to the above. All ratepayers who register to have their future rates notices received electronically (eRates) by the same date as above will be eligible for ;

2 Samsung Galaxy Tab 3 lite 7" 8GB WiFi tablets

2 Apple iPad Mini 2 16GB WiFi tablets

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

29. INTEREST CHARGES AND INSTALMENTS - 2015/16 FINANCIAL YEAR

	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
Instalment Options				
Option One				
Single full payment	17-Aug-15	0	0.00%	11.00%
Option Two				
First Instalment	17-Aug-15	0		
Second Instalment	10-Dec-15	6	5.50%	11.00%
Option Three				
First Instalment	17-Aug-15	0	5.50%	11.00%
Second Instalment	12-Oct-15	6	5.50%	11.00%
Third Instalment	10-Dec-15	6	5.50%	11.00%
Fourth Instalment	08-Feb-16	6	5.50%	11.00%
Pensioner Deferred Rate Interest				2.25%

	Revenue \$	Budgeted Revenue \$
Interest on unpaid rates	88,998	203,992
Interest on instalment plan	214,174	160,292
Interest on pensioner deferred rates	\$9,195	\$17,085
ESL penalty interest	\$19,200	\$16,448
Rates interest	331,567	397,817
Charges on instalment plan	113,154	147,194
	444,721	545,011

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

30. FEES & CHARGES	2016	2015
	\$	\$
Governance	84,417	490
General purpose funding	341,146	335,365
Law, order, public safety	318,907	266,827
Health	232,756	221,839
Education and welfare	527,765	519,584
Community amenities	10,786,575	10,153,794
Recreation and culture	1,314,331	1,264,236
Transport	55,622	27,769
Economic services	432,365	440,217
Other property and services	59,055	83,564
	<u>14,152,939</u>	<u>13,313,685</u>

There were no changes during the year to the amount of the fees or charges detailed in the original budget.

31. GRANT REVENUE

Grants, subsidies and contributions are included as operating revenues in the Statement of Comprehensive Income:

By Programme:	2016	2015
	\$	\$
Operating grants, subsidies and contributions		
Governance	1,311,428	3,544,014
Law, order, public safety	184,376	185,624
Education and welfare	3,186,399	3,019,503
Community amenities	39,947	11,085
Recreation and culture	126,800	104,534
Transport	31,908	0
Other property and services	1,250	4,000
	<u>4,882,108</u>	<u>6,868,760</u>
Non-operating grants, subsidies and contributions		
Law, order, public safety	0	95,638
Health	0	8,966
Recreation and culture	3,623,239	3,616,086
Transport	2,222,839	230,606
	<u>5,846,078</u>	<u>3,951,296</u>
	<u>10,728,186</u>	<u>10,820,056</u>

32. EMPLOYEE NUMBERS

The number of full-time equivalent employees at balance date

<u>254</u>	<u>250</u>
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**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

33. ELECTED MEMBERS REMUNERATION	2016	2016	2015
	\$	Budget	\$
The following fees, expenses and allowances were paid to council members and/or the president.			
Meeting Fees	273,433	279,645	273,980
President's allowance	61,899	61,800	61,800
Deputy President's allowance	15,465	15,450	16,477
Information, Communications and Technology Allowance	41,039	42,000	41,125
Travel and Accommodation Allowance	1,556	600	588
Training and Conferences	18,426	0	5,418
	411,818	399,495	399,388

34. MAJOR LAND TRANSACTIONS

The Shire did not participate in any major land transactions during the 2015/16 financial year.

35. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

The Shire did not participate in any trading undertakings or major trading undertakings during the 2015/16 financial year.

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

36. FINANCIAL RISK MANAGEMENT

The Shire's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Shire's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Shire.

The Shire does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance area under policies approved by the Council.

The Shire held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2016	2015	2016	2015
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	26,471,157	20,522,982	26,471,157	20,522,982
Receivables	3,248,967	2,937,628	3,248,967	2,937,628
	<u>29,720,124</u>	<u>23,460,610</u>	<u>29,720,124</u>	<u>23,460,610</u>
Financial liabilities				
Payables	6,424,383	6,474,817	6,424,383	6,474,817
Borrowings	6,293,947	6,887,799	6,293,947	6,887,799
	<u>12,718,330</u>	<u>13,362,616</u>	<u>12,718,330</u>	<u>13,362,616</u>

Fair value is determined as follows: □

- Cash and cash equivalents, receivables, payables - estimated to the carrying value which approximates net market value.
- Borrowings, held to maturity investments, estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

36. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents

Financial assets at fair value through profit and loss

Available-for-sale financial assets

Held-to-maturity investments

The Shire's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance area manages the cash and investments portfolio with the assistance of independent advisers (where applicable). Council has an investment policy and the policy is subject to review by Council. An Investment Report is provided to Council on a monthly basis setting out the make-up and performance of the portfolio.

The major risk associated with investments is price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments of their issuers or factors affecting similar instruments traded in a market.

Cash and investments are also subject to interest rate risk - the risk that movements in interest rates could affect returns.

Another risk associated with cash is credit risk - the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to the Shire.

The Shire manages these risks by diversifying its portfolio and only investing in investments authorised by *Local Government (Financial Management) Regulation 19C*. Council also seeks advice from independent advisers (where considered necessary) before placing any cash and investments.

	2016 \$	2015 \$
Impact of a 1% ⁽¹⁾ movement in interest rates on cash		
- Equity	264,712	205,230
- Statement of Comprehensive Income	264,712	205,230

Notes:

⁽¹⁾ Sensitivity percentages based on management's expectation of future possible market movements.

SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Receivables

The Shire's major receivables comprise rates and annual charges and user charges and fees. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Shire manages this risk by monitoring outstanding debt and employing debt recovery policies. It also encourages ratepayers to pay rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of the Shire to recover these debts as a secured charge over the land – that is, the land can be sold to recover the debt. The Shire is also able to charge interest on overdue rates and annual charges at higher than market rates, which further encourages payment.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Shire makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subject to a re-negotiation of repayment terms.

The profile of the Shire's credit risk at balance date was:

	2016	2015
Percentage of rates and annual charges		
- Current	69%	54%
- Overdue	31%	46%
Percentage of other receivables		
- Current	76%	99%
- Overdue	24%	1%

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

Borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Shire manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon if required.

The contractual undiscounted cash flows of the Shire's Payables and Borrowings are set out in the Liquidity Sensitivity Table below:

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
<u>2016</u>					
Payables	6,424,383	0	0	6,424,383	6,424,386
Borrowings	<u>629,778</u>	<u>2,264,791</u>	<u>3,399,378</u>	<u>6,293,947</u>	<u>6,293,947</u>
	<u>7,054,161</u>	<u>2,264,791</u>	<u>3,399,378</u>	<u>12,718,330</u>	<u>12,718,333</u>
<u>2015</u>					
Payables	6,474,817	0	0	6,474,817	6,474,819
Borrowings	<u>593,852</u>	<u>2,894,568</u>	<u>3,399,379</u>	<u>6,887,799</u>	<u>6,887,799</u>
	<u>7,068,669</u>	<u>2,894,568</u>	<u>3,399,379</u>	<u>13,362,616</u>	<u>13,362,618</u>

**SHIRE OF KALAMUNDA
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2016**

36. FINANCIAL RISK MANAGEMENT (Continued)

**(c) Payables
Borrowings (continued)**

Borrowings are also subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Shire manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation.

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	<1 year \$	>1<2 years \$	>2<3 years \$	>3<4 years \$	>4<5 years \$	>5 years \$	Total \$	Weighted Average Effective Interest Rate %
<u>Year ended 30 June 2016</u>								
Borrowings								
Fixed rate								
Debentures	629,778	667,890	575,199	590,085	431,618	3,399,377	6,293,947	6.01%
Weighted average Effective interest rate	5.96%	5.96%	5.93%	5.92%	5.91%	6.07%		
<u>Year ended 30 June 2015</u>								
Borrowings								
Fixed rate								
Debentures	593,852	629,778	667,890	575,199	590,085	3,830,996	6,887,799	6.01%
Weighted average Effective interest rate	5.96%	5.96%	5.96%	5.93%	5.92%	6.06%		



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

We have audited the accompanying financial report of the Shire of Kalamunda (the "Shire"), which comprises the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information to the financial report and the statement by the Chief Executive Officer.

Responsibility of Management for the financial report

The Management of the Shire is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Local Government Act 1995 Part 6. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Shire's preparation and fair presentation of the financial report 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's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Local Government Act 1995 Part 6 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Shire's financial position and of their performance.

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 audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's Opinion

In our opinion, the financial report of the Shire of Kalamunda:

- i presents fairly, in all material respects, the Shire's financial position as at 30 June 2016 and of its performance and cash flows for the year then ended;
- ii complies with Australian Accounting Standards and;
- iii is prepared in accordance with the requirements of the Local Government Act 1995 Part 6 (as amended) and Regulations under that Act.

Statutory Compliance

I did not, during the course of my audit, become aware of any instance where the Council did not comply with the requirements of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 as they relate to financial statements.

GRANT THORNTON

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

MARt

M A Petricevic
Partner - Audit & Assurance
Perth, 24 October 2016

**SHIRE OF KALAMUNDA
SUPPLEMENTARY RATIO INFORMATION
FOR THE YEAR ENDED 30TH JUNE 2016**

RATIO INFORMATION

The following information relates to those ratios which only require attestation they have been checked and are supported by verifiable information. It does not form part of the audited financial report

	2016	2015	2014
Asset consumption ratio ^(a)	0.965	0.831	0.764
Asset renewal funding ratio	0.998	0.927	0.896

The above ratios are calculated as follows:

Asset consumption ratio	$\frac{\text{depreciated replacement costs of assets}}{\text{current replacement cost of depreciable assets}}$
Asset renewal funding ratio	$\frac{\text{NPV of planning capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$

^(a) Restated amounts for 2015 (see note 14 (a) 'prior years' restatements')

Attachment 2



Government of Western Australia
Department of Local Government and Communities

Local Government Operational Guidelines

Number 18 – June 2013

Financial Ratios

1. Introduction

This guideline is intended to provide a clear explanation of each ratio required to be included in the annual financial report under section 6.4(2) of the *Local Government Act 1995* and Regulation 50 of the *Local Government (Financial Management) Regulations 1996*.

An explanation of the purpose of each ratio is included to ensure staff and elected members are able to interpret what the ratio result means for the local government.

Definitions are included to fully describe what is meant by the terms used in the ratios.

2. Purpose

The guideline is designed to assist local government officers in preparing financial ratios, and provide elected members and officers with an understanding of each ratio.

Financial ratios are designed to provide users of annual financial reports with a clearer interpretation of the performance and financial results of a local government and a comparison of trends over a number of years.

On occasions, there have been inconsistencies in the calculation and interpretation of financial ratios. If information is to be meaningful, it should be prepared accurately and consistently. Ratios may be disclosed as a percentage or a factor of one.

These indicators provide a short term measure of the financial sustainability of local governments and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive

tool for monitoring the financial sustainability of local governments.

3. Legislation

Financial ratios are included in the notes to the annual financial report. These ratios provide users with key indicators of the financial performance of a local government and include comparisons with two prior years.

Under regulation 50 of the *Local Government (Financial Management) Regulations 1996*, the annual financial report is to include, for the financial year covered by the annual financial report and the two preceding financial years, the following:

- a) current ratio;
- b) asset consumption ratio;
- c) asset renewal funding ratio;
- d) asset sustainability ratio;
- e) debt service cover ratio;
- f) operating surplus ratio; and
- g) own source revenue coverage ratio.

As several of the ratios are to be reported for the first time in the 2012/13 financial year, local governments are expected to make reasonable efforts to calculate the ratios for the two prior years. However comparatives for 2010/11 and 2011/12 are not required for the assets consumption ratio or asset renewal funding ratio.

This guideline analyses each of these ratios according to the information they provide. The ratios are classified under the following headings:

- (i) liquidity ratio;
- (ii) debt ratio;
- (iii) coverage ratio;
- (iv) financial performance ratio; and
- (v) asset management ratios.

4. Ratios

4.1 Liquidity Ratio

Liquidity refers to how quickly and cheaply an asset can be converted into cash. A local government's liquidity is measured by the 'Current Ratio'. This ratio provides information on the ability

of a local government to meet its short-term financial obligations out of unrestricted current assets. The calculation of this ratio is explained as follows:

Current Ratio	
Current Ratio =	$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$
Purpose:	This is a modified commercial ratio designed to focus on the liquidity position of a local government that has arisen from past year's transactions.
Standards	<p>The standard is not met if the ratio is lower than 1:1 (less than 100%)</p> <p>The standard is met if the ratio is greater than 1:1 (100% or greater)</p> <p>A ratio less than 1:1 means that a local government does not have sufficient assets that can be quickly converted into cash to meet its immediate cash commitments. This may arise from a budget deficit from the past year, a Council decision to operate an overdraft or a decision to fund leave entitlements from next year's revenues.</p>
Definitions:	
'Current Assets'	Means the total current assets as shown in the balance sheet.
'Current Liabilities'	Means the total current liabilities as shown in the balance sheet.
'Restricted Asset'	Means an asset the use of which is restricted, wholly or partly, by a law made or a requirement imposed outside of the control of the local government, where the restriction is relevant to assessing the performance, financial position or financing and investment of the local government. This includes all section 6.11 cash reserves as these are restricted by the Act '... by a law made ...', unspent specific grants and other restricted cash identified by the local government, as these are restricted by '... a requirement imposed outside of the control of the local government ...'
'Liabilities Associated with Restricted Assets'	<p>Means the lesser value of a current liability or the cash component of restricted assets held to fund that liability. Commonly this is the cash reserve for long service leave, annual leave and other employee entitlements. Ideally the cash reserve amount should be the same as the provision amount but this is rarely the case.</p> <ul style="list-style-type: none"> • Only make a deduction if there is a cash reserve. • If the cash reserve is greater than the provision amount, only deduct the amount of the provision. • If the provision amount is greater than the cash reserve, only deduct the amount of the cash reserve. • If the cash reserve is for the purpose of long service leave (or other specific leave) then only adjust for that specific leave provision and not the total of all leave provisions.

4.2 Debt Ratio

A local government's ability to service debt is measured by the 'Debt Service Cover Ratio'. This is the measurement of a local government's ability to produce enough cash to cover its debt payments.

Debt Service Cover Ratio	
Debt Service Cover Ratio =	$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$
Purpose:	This ratio is the measurement of a local government's ability to repay its debt including lease payments. The higher the ratio is, the easier it is for a local government to obtain a loan.
Standards	A Basic standard is achieved if the ratio is greater than or equal to two. An Advanced standard is achieved if the ratio is greater than five.
Definitions:	
'Annual Operating Surplus Before Interest and Depreciation'	Means operating revenue minus net operating expense.
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Net Operating Expense'	Means operating expense excluding interest and depreciation.
'Interest'	Means interest expense for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.
'Depreciation'	Has the meaning given in the AAS.
'Principal and Interest'	Means all principal and interest for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.

4.3 Coverage Ratio

A local government's ability to cover its costs through its own taxing and revenue efforts is measured by the 'Own Source Revenue Coverage Ratio'.

Own Source Revenue Coverage Ratio	
Own Source Revenue Coverage Ratio =	$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$
Purpose:	<p>This ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts.</p> <p>Different standards have been established to recognise the varying revenue raising capacities across the sector, where some rural and remote local governments have limited rate bases and revenue raising capacity, whereas others such as major metropolitan and regional local governments have significant rate bases and other own source revenues.</p>
Standards	<p>A Basic standard is achieved if the ratio is between 40% and 60% (or 0.4 and 0.6).</p> <p>An Intermediate standard is achieved if the ratio is between 60% and 90% (or 0.6 and 0.9).</p> <p>An Advanced standard is achieved if the ratio is greater than 90% (or > 0.9).</p>
Definitions:	
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.

*Note: Typically local governments disclose, in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

4.4 Financial Performance Ratio

A key indicator of a local government's financial performance is measured by the 'Operating Surplus Ratio'. If a local government consistently achieves a positive operating surplus ratio and has soundly based long term financial plans showing that it can continue to do so in future, having regard to asset management and the community's service level needs, then it is considered financially sustainable.

A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt.

A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Operating Surplus Ratio	
Operating Surplus Ratio =	$\frac{(\text{Operating Revenue MINUS Operating Expense})}{\text{Own Source Operating Revenue}}$
Purpose:	This ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes.
Standards:	Basic Standard between 1 % and 15 % (0.01 and 0.15) Advanced Standard > 15 % (>0.15).
Definitions:	
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.

*Note: Typically local governments disclose in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

4.5 Asset Consumption Ratio

This ratio seeks to highlight the aged condition of a local government's stock of physical assets.

If a local government is responsibly maintaining and renewing / replacing its assets in accordance with a well prepared

asset management plan, then the fact that its Asset Consumption Ratio may be relatively low and/or declining should not be cause for concern – providing it is operating sustainably.

Asset Consumption Ratio	
Asset Consumption Ratio=	$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$
Purpose:	This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
Standards:	Standard is met if the ratio can be measured and is 50% or greater (0.50 or >). Standard is improving if the ratio is between 60% and 75% (0.60 and 0.75).
Definitions:	
'Depreciated Replacement Cost of Assets'	Has the meaning given in the AAS. AASB 136 paragraph Aus 6.2 defines depreciated replacement cost as '... the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.'
'Current Replacement Cost'	In AASB 136 paragraph Aus 32.2 'The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.' In addition, AASB 13 paragraph B8 provides 'The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).' More detailed explanation is included in AASB 13 paragraph B9.
'Current Replacement Cost of Depreciable Assets'	Means the cost of replacing assets at current prices.

Note that the values for depreciated replacement cost of depreciable assets and the current replacement cost of depreciable assets are not amounts disclosed in the annual financial statements and the calculations involved should be discussed with auditors.

4.6 Asset Sustainability Ratio

This ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on **renewal** or **replacement** of assets, relative to depreciation expense. Expenditure on new or additional assets is excluded.

Depreciation expense represents an estimate of the extent to which the assets have been consumed during that period. Measuring assets at fair value is critical to the calculation of a valid depreciation expense value.

Asset Sustainability Ratio	
Asset Sustainability Ratio =	$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$
Purpose:	This ratio indicates whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
Standards:	Standard is met if the ratio can be measured and is 90% (or 0.90). Standard is improving if this ratio is between 90% and 110% (or 0.90 and 1.10).
Definitions:	
'Capital Renewal and Replacement Expenditure'	Means expenditure to renew or replace existing assets. In other words, it is expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure. As it reinstates existing service potential it may reduce operating and maintenance costs.
'Depreciation'	Has the meaning given in the AAS. Under AASB 116 paragraph 6, 'Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.' In other words, depreciation represents the allocation of the value of an asset (its cost less its residual value) over its estimated useful life to the local government. Depreciation expense can be sourced from the audited annual financial report.
'Depreciable Amount'	Under AASB 116 paragraph 6, 'Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.'
'Residual Value'	Under AASB 116 paragraph 6, 'The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.'
'Useful Life'	Under AASB 116 paragraph 6, 'Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.'

4.7 Asset Renewal Funding Ratio

This ratio indicates whether the local government has the financial capacity to fund asset renewal as required, and can continue to provide existing levels of services in future, without additional operating income; or reductions in operating expenses.

The ratio is calculated from information included in the local government's Long Term Financial Plan and Asset Management Plan; **not** the Annual Financial Report. For the ratio to be meaningful, a consistent discount rate should generally be applied in Net Present Value (NPV) calculations.

Asset Renewal Funding Ratio	
Asset Renewal Funding Ratio =	$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$
Purpose:	This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.
Standards:	Standard is met if the ratio is between 75% and 95% (or 0.75 and 0.95). Standard is improving if the ratio is between 95% and 105% (or 0.95 and 1.05), and the ASR falls within the range 90% to 110%, and ACR falls within the range 50% to 75%.
Definitions:	
'NPV'	Means Net Present Value.
'Planned Capital Renewals'	Means capital renewal and replacement expenditure as estimated in the long-term financial plan.
'NPV of Planned Capital Renewals' is therefore	The total of all capital expenditures on renewals and replacement included in the 10-year long term financial plan, expressed in current year values.
'Required Capital Expenditure'	Means capital renewal and replacement expenditure as estimated in the asset management plan.
'NPV of Required Capital Expenditure' is therefore	The total of all required capital expenditures on renewals in the 10-year forecast period as indicated in the asset management plans or asset forecasts, expressed in current year values.

5. Ratio Calculations

Detailed calculations of each of the seven ratios are included in this section. The calculations are based on the extracts of financial information from annual financial statements or long-term and asset management plans included at section six (6) of this guideline.

Ratio Calculations are for the year 200Y

a) Current Ratio		$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$	
	$= \frac{\frac{[1] \quad [2]}{(8,156,143 - 6,728,955)}}{\frac{[3] \quad [4]}{(2,033,690 - 644,160)}}$		$= \frac{1,427,188}{1,389,530} = \mathbf{1.03:1}$ <p>(or 103%)</p>
[Numbers taken from statement of financial position and cash and cash equivalents note]			

b) Debt Service Cover Ratio		$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$	
	$= \frac{\frac{[5] \quad [6] \quad [7] \quad [8]}{(20,707,319+44,048) - ((21,365,583+50,000 + 98,325) - (6,907,407+96,257))}}{\frac{[9] \quad [10] \quad [11]}{(70,597 + 96,257)}}$		$= \frac{6,241,123}{166,854} = \mathbf{37.4}$
[Numbers taken from statement of comprehensive income by nature or type and rate setting statement]			

c) Own Source Revenue Coverage Ratio		$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$	
	$= \frac{[12] \quad [14] \quad [15] \quad [16] \quad [18]}{(8,165,843+4,999,717+498,964+55,200+44,048)}}{\frac{[7] \quad [9] \quad [11]}{(21,365,583+98,325+50,000)}}$		$= \frac{13,763,772}{21,513,908} = \mathbf{0.64}$ <p>(or 64%)</p>
[Numbers drawn from statement of comprehensive income by nature or type]			

Ratio Calculations are for the year 200Y

d) Operating Surplus Ratio
$$\frac{(\text{Operating Revenue MINUS Operating Expense})}{\text{Own Source Operating Revenue}}$$

$$= \frac{\frac{((20,707,319+44,048) - (21,513,908))}{13,763,772}}{13,763,772} = \frac{-762,541}{13,763,772} = -5.5\% \text{ (or } -0.055)$$

[Numbers drawn from statement of comprehensive income by nature or type and Own Source Operating Revenue same as in c) above]

e) Asset Consumption Ratio
$$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$$

$$= \frac{\frac{(18,847,904+183,226,214)}{(29,284,194+283,543,863)}}{202,074,118 / 312,828,057} = \frac{202,074,118}{312,828,057} = 64.6\% \text{ (or } 0.646)$$

[Numbers drawn from notes 7a. and 8a.]

f) Asset Sustainability Ratio
$$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation Expense}}$$

$$= \frac{\frac{660,185*+2,031,457+46,798+2,976,240}{6,907,407}}{5,714,680 / 6,907,407} = \frac{5,714,680}{6,907,407} = 82.7\% \text{ (or } 0.827)$$

*Note: while described as land and building in the rate setting statement, for the purpose of this example the expenditure is assumed to all relate to buildings.
[Numbers drawn from rate setting statement]

g) Asset Renewal Funding Ratio
$$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$$

$$\frac{\text{NPV Planned from LTF Plan}}{\text{NRV Required from AM Plan}} = \frac{67,398}{73,099} = 92.2\% \text{ (or } 0.922)$$

[Numbers drawn from Long Term Financial Plan (planned renewals) and Asset Management Plan (required renewals)]

6. Extracts of Financial Information from which ratios are calculated

6.1 Annual Financial Statements Extracts

Statement Of Financial Position For The Year Ended 30 June 201Y			
	NOTE	Current Actual \$	Prior Actual \$
Current Assets			
Cash and Cash Equivalents	3	6,781,850	6,005,704
Investments	4	190,000	0
Trade and Other Receivables		527,980	594,914
Inventories		656,313	590,852
Total Current Assets		8,156,143 (1)	7,191,470
Non-Current Assets			
Receivables		475,355	461,669
Inventories		2,878,873	2,000,000
Property, Plant and Equipment		31,578,071	31,445,812
Infrastructure		183,226,214 (20)	181,334,195
Total Non-Current Assets		218,158,483	215,241,676
Total Assets		226,314,626	222,433,146
Current Liabilities			
Trade and Other Payables		1,126,295	893,304
Long Term Borrowings		83,612	64,886
Provisions	11	823,783	924,356
Total Current Liabilities		2,033,690 (3)	1,882,546
Non-Current Liabilities			
Long Term Borrowings		2,358,215	419,894
Provisions	11	459,277	648,258
Total Non-Current Liabilities		2,817,492	1,068,152
Total Liabilities		4,851,182	2,950,698
Net Assets		221,463,444	219,482,448
Equity			
Retained Surplus		113,817,172	112,717,798
Reserves - Cash/Investment Backed	12	5,162,318	3,530,196
Reserves - Asset Revaluation		102,483,954	103,234,454
Total Equity		221,463,444	219,482,448

Statement Of Comprehensive Income By Nature Or Type For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Revenue				
Rates	24	8,165,843 (13)	8,074,469	7,633,920
Operating Grants, Subsidies and Contributions	30	6,987,595	5,548,348	5,609,425
Fees and Charges	29	4,999,717 (14)	4,253,486	4,165,652
Service Charges	26	0	0	0
Interest Earnings	2(a)	498,964 (15)	385,100	413,708
Other Revenue		55,200 (16)	27,304	30,435
		20,707,319 (5)	18,288,707	17,853,140
Expenses				
Employee Costs		(8,896,802)	(8,772,958)	(7,826,475)
Materials and Contracts		(4,120,422)	(3,926,230)	(3,064,784)
Utilities		(443,972)	(435,600)	(404,245)
Depreciation	2(a)	(6,907,407) (10)	(7,100,000)	(7,435,789)
Interest Expenses	2(a)	(96,257) (11)	(399,441)	(37,753)
Insurance		(336,390)	(333,163)	(326,578)
Other Expenditure		(564,333)	(828,951)	(512,377)
		(21,365,583) (7)	(21,796,343)	(19,608,001)
		(658,264)	(3,507,636)	(1,754,861)
Non-Operating Grants, Subsidies and Contributions	30	3,494,037	5,856,328	4,933,510
Fair Value Adjustments to financial assets at fair value through profit and loss	2(a)	(50,000) (8)	0	0
Profit on Asset Disposals	21	44,048 (6)	2,333,736	96,518
Loss on Asset Disposal	21	(98,325) (9)	(49,155)	(43,985)
		3,389,760	8,140,909	4,986,043
Net Result		2,731,496	4,633,273	3,231,182
Other Comprehensive Income				
Changes on revaluation of non-current assets	13	(750,500)	0	0
Total Other Comprehensive Income		(750,500)	0	0
Total Comprehensive Income		1,980,996	4,633,273	3,231,182

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Revenue				
Governance		108,566	93,221	81,376
General Purpose Funding (Excl Rates)		4,104,679	3,970,416	3,855,332
Law, Order, Public Safety		686,829	556,802	864,126
Health		262,378	176,240	175,879
Education and Welfare		1,660,935	1,416,806	1,291,279
Housing		520	600	460
Community Amenities		1,688,168	1,803,650	1,324,894
Recreation and Culture		1,328,903	2,171,562	1,403,700
Transport		4,783,531	3,960,367	5,365,366
Economic Services		503,702	387,060	385,897
Other Property and Services		1,000,611	3,916,478	499,839
		16,128,822	18,453,202	15,248,148
Expenses				
Governance		(826,169)	(908,185)	(763,010)
General Purpose Funding		(171,816)	(158,077)	(154,898)
Law, Order, Public Safety		(1,137,630)	(1,349,794)	(928,250)
Health		(356,604)	(331,717)	(296,011)
Education and Welfare		(1,743,528)	(1,682,025)	(1,495,536)
Housing		(1,657)	(1,500)	(1,432)
Community Amenities		(2,859,238)	(3,057,906)	(2,755,017)
Recreation and Culture		(4,259,938)	(4,243,523)	(3,800,603)
Transport		(8,641,626)	(8,380,666)	(8,156,823)
Economic Services		(616,182)	(598,183)	(469,186)
Other Property and Services		(899,520)	(1,133,922)	(831,220)
		(21,513,908)	(21,845,498)	(19,651,986)
Net Result Excluding Rates		(5,385,086)	(3,392,296)	(4,403,838)
Adjustments for Cash Budget Requirements:				
Non-Cash Expenditure and Revenue				
(Profit)/Loss on Asset Disposals	21	54,277	(2,284,581)	(52,533)
Movements in Assets/Liabilities		2,077	0	104,502
Depreciation on Assets	2(a)	6,907,407	7,100,000	7,435,789
Net Non-Cash Expenditure/Revenue		6,963,761	4,815,419	7,487,758

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Capital Expenditure/Revenue				
Purchase of Land Held for Resale		(2,056,759)	(4,076,189)	(702,227)
Purchase Land and Buildings	20	(660,185)	(23) (1,787,479)	(957,226)
Purchase Plant and Equipment	20	(2,031,457)	(24) (2,686,903)	(2,165,913)
Purchase Furniture and Equipment	20	(46,798)	(25) 0	0
Infrastructure Assets	20	(2,976,240)	(26) (3,704,824)	(6,319,171)
Infrastructure Assets – New		(3,710,100)	(7,500,000)	0
Repayment of Debentures	23(a)	(70,597)	(12) (70,597)	(68,526)
Proceeds from Disposal of Assets	21	759,429	5,904,712	655,232
Proceeds from New Debentures	23	2,027,644	2,188,452	350,000
SS Loan Principal Income	23	24,393	24,393	48,098
Transfers to Reserves	12	(3,376,061)	(1,478,584)	(2,952,482)
Transfers from Reserves	12	1,743,939	2,447,854	1,883,320
ADD Surplus/(Deficit) July 1 B/F	24(b)	1,841,049	1,290,473	1,351,004
LESS Surplus/(Deficit) June 30 C/F	24(b)	1,163,514	0	1,841,049
Amount Required to be Raised from Rates	24(a)	(8,116,582)	(8,025,569)	(7,635,020)

3 Cash And Cash Equivalents			
	NOTE	201Y \$	201X \$
Cash - Unrestricted Muni		52,895	850,416
Cash - Restricted		6,728,955 (2)	5,155,288
	14(a)	6,781,850	6,005,704
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Land Purchase and Development Reserve	12	941,906	434,375
Plant Reserve	12	1,175,544	806,956
Building Reserve	12	1,777,669	1,224,785
Sanitation Services Reserve	12	623,039	406,750
Employee Entitlements	12	644,160 (4)	657,330
Total Reserves		5,162,318	3,530,196
Unspent Grants	2(d)	1,566,637	1,625,092
Total Unspent Grants and Loans		1,566,637	1,625,092
Total Restricted Cash		6,728,955	5,155,288

7a Property, Plant and Equipment (PP&E)		
	201Y \$	201X \$
Land – Fair Value	12,730,167	12,457,362
Less Accumulated Depreciation	0	0
	12,730,167	12,457,362
Buildings – Fair Value	15,081,793	14,694,413
Less Accumulated Depreciation	(3,746,056)	(3,379,285)
	11,335,737	11,315,128
Furniture and Equipment – Fair Value	895,174	1,426,495
Less Accumulated Depreciation	(638,235)	(1,115,109)
	256,939	311,386
Plant and Equipment – Fair Value	2,865,445	2,814,165
Less Accumulated Depreciation	(2,123,703)	(1,950,728)
	741,742	863,437
Plant and Equipment Under Lease	2,270,110	2,037,911
Less Accumulated Depreciation	(595,703)	(401,210)
	1,674,407	1,636,701
Road Construction Plant – Fair Value	8,171,672	7,920,130
Less Accumulated Amortisation	(3,332,593)	(3,058,332)
	4,839,079	4,861,798
Depreciated Cost of PP&E at Fair Value	31,578,071	31,445,812
Current Replacement Cost of Depreciated PP&E at Fair Value	29,284,194 (21)	28,893,114
Less Accumulated Depreciation	(10,436,290)	(9,904,664)
Depreciated Replacement Cost of Depreciated PP&E at Fair Value	18,847,904 (19)	18,988,450
Land (Non-Depreciable)	12,730,167	12,457,362
Depreciated Cost of PP&E at Fair Value	31,578,071	31,445,812

8a	Infrastructure	
	201Y \$	201X \$
Roads – Fair Value	260,058,298	253,772,740
Less Accumulated Depreciation	(88,538,837)	(83,677,423)
	171,519,461	170,095,317
Drainage – Fair Value	2,832,873	2,711,180
Less Accumulated Depreciation	(1,044,492)	(976,459)
	1,788,381	1,734,721
Bridges – Fair Value	861,642	811,414
Less Accumulated Depreciation	(285,302)	(244,299)
	576,340	567,115
Footpaths and Cycleways – Fair Value	4,701,608	4,305,552
Less Accumulated Depreciation	(1,352,095)	(1,207,616)
	3,349,513	3,097,936
Parks and Gardens – Fair Value	6,518,991	6,258,991
Less Accumulated Depreciation	(5,009,798)	(4,696,849)
	1,509,193	1,562,142
Airports – Fair Value	2,398,359	2,178,649
Less Accumulated Depreciation	(483,853)	(422,827)
	1,914,506	1,755,822
Sewerage – Fair Value	4,576,113	4,506,113
Less Accumulated Depreciation	(3,388,338)	(3,275,685)
	1,187,775	1,230,428
Other – Fair Value	1,595,979	1,461,034
Less Accumulated Depreciation	(214,934)	(170,320)
	1,381,045	1,290,714
	183,226,214	181,334,195
Current Replacement Cost of Infrastructure at Fair Value	283,543,863 (22)	276,005,673
Less Accumulated Depreciation	(100,317,649)	(94,671,478)
Depreciated Replacement Cost of Infrastructure	183,226,214 (20)	181,334,195

11	Provisions		
		201Y \$	201X \$
Current			
Provision for Annual Leave		668,540	756,421
Provision for Long Service Leave		155,243	167,935
		823,783	924,356
Non-Current			
Provision for Long Service Leave		459,277	648,258
		459,277	648,258

12f	Reserves – Cash/Investment Backed		
		201Y \$	201X \$
Employee Entitlements			
Purpose: To be used to fund Annual and Long Service Leave			
Opening Balance		657,330	427,366
Amount Set Aside /Transfer to Reserve		171,082	260,529
Amount Used /Transfer from Reserve		(184,252)	(30,565)
		644,160	657,330

6.2 Long-term Financial Plan and Asset Management Plan Extracts

Renewals / Upgrades	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Long Term Financial Plan										
Buildings	570	600	700	750	800	850	1,500	1,500	1,500	1,500
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,184	6,359	6,728	7,100	4,744	5,084	5,426	5,772	6,119	6,221
Infrastructure Other	1,235	250	350	400	750	750	800	800	850	850
Total Planned Renewals	10,056	7,794	8,283	9,400	7,334	7,309	9,031	9,132	9,284	9,901
Asset Management Plan										
Buildings	600	650	750	800	850	875	1,700	1,700	1,800	1,800
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,500	7,700	7,900	8,000	5,200	5,400	5,700	6,000	6,400	6,500
Infrastructure Other	1,250	250	380	420	800	800	850	850	900	900
Total Required Renewals	10,417	9,185	9,535	10,370	7,890	7,700	9,555	9,610	9,915	10,530

Discount Rate = 0.05
 NPV Planned Renewals 67,398 (27)
 NPV Required Renewals 73,099 (28)
 Ratio = 67,398/73,099 92.2%

These guidelines are also available on the Department's website at www.dlgc.wa.gov.au



About the Guideline series

This document and others in the series are intended as a guide to good practice and should not be taken as a compliance knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation.

All guidelines are subject to review, amendment and re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

Department of Local Government and Communities

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Translating and Interpreting Service (TIS) – Tel: 13 14 50

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

04. Internal Audit Report October 2016

Previous Items	
Responsible Officer	Director Corporate & Community Services
Service Area	Internal Audit
File Reference	
Applicant	Nil
Owner	Nil
Attachment 1	Internal Audit Plan
Attachment 2	Internal Audit Report October 2016
Attachment 3	Audit Risk Register

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 Requirements 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 Internal Audit Review, the Audit & Risk Register has been updated and reviewed

DETAILS

Review of Investment Policy and Procedures

6. Reviewed the current investment policy and procedures and made the proposed change to include the new requirements of Prudential Standard 210.

Changes in Accounting Standards

7. Reviewed and discussed the long term impact of the introduction of Operating Leases on Balance Sheet following a review by the International Accounting Standards Board of IFRS 16 – Operating Leases.

Quarterly Financial Statements for the Forrestfield Industrial Area Scheme Stage 1 for 9 months to 31 March 2016

8. Reviewed the Quarterly Financial Statements for the Forrestfield Industrial Area Stage 1 for the 9 months to the 31 March 2016.

Cell 9 Infrastructure Capital Works Program

9. Attended a series of meetings and met on site to discuss the future planned capital works program and how best to control expenditure using detailed cost centres within Synergy.

Review of Fringe Benefits Tax Return for 2015/2016

10. Checked the calculations used to determine the FBT for year ending 31 March 2016 with supporting information (log books), the current gross up rules and applicable FBT rates for the year.

Review of Tender Documentation and Evaluation

11. Reviewed tender evaluation reports for compliance with legislation, policy and procedures and the tender guideline prior to submission to Council, and provided support to the procurement and evaluation teams.

Payroll

12. Reviewed and updated the master copy of the Risk Control Assessment document for changes made since the last review and discussed and tested changes made.

Grant Acquittal – Friends of Upper Lesmurdie Falls Rehabilitation Program

13. Reviewed and audited a grant from the State NRM Program for the Friends of Upper Lesmurdie Falls.

Cell 9 Infrastructure Works, Wattle Grove – Risk Management Workshop

14. Attended a Risk Management Workshop facilitated by Estill & Associates on capital works projects for Cell 9, Wattle Grove.

Cell 9 Infrastructure Works, Wattle Grove – Risk Management Workshop

15. Reviewed General Tree Services Tenders as part of the evaluation panel.

Review of Statutory Budget for 2016/17

16. Checked the draft agenda report with the draft statutory budget for 2016/17.

Planning for Disclosure of Related Party Transactions

17. Discussed the gathering of information on related party transactions for 2016/17 with senior staff and the shire's external auditors.

Audit and Risk Register Update

18. Conducted a review and update of the Audit and Risk Register in June 2016.

STATUTORY AND LEGAL CONSIDERATIONS

20. *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 and its regulations

POLICY CONSIDERATIONS

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

COMMUNITY ENGAGEMENT REQUIREMENTS

22. Nil.

FINANCIAL CONSIDERATIONS

23. 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

24. *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

25. Nil.

Economic Implications

26. Nil.

Environmental Implications

27. Nil.

RISK MANAGEMENT CONSIDERATIONS

28.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Redeeming investments early and incurring penalty interest	Unlikely	Minor	Low	There is a good spread of investments to reduce the risk of early withdrawal, and officers aware of Prudential changes
Failure in recognising changes to accounting standards	Possible	Insignificant	Low	Staff receive regular updates and kept informed/ Matter discussed with the external auditors
Failure to address outstanding items in the Audit & Risk Register	Possible	Minor	Medium	Audit & Risk Register regularly reviewed and updated
Failure to post trust funds to correct account in Synergy	Possible	Minor	Medium	Trust ledger reviewed monthly for miscoding's and reconciled monthly with cash on hand
Failure to systems upgrade for payroll containing errors	Possible	Minor	Medium	Some testing completed and proved satisfactory

OFFICER COMMENT

29. The Internal Audit did not identify any significant non-compliance or control issues

30. The issues identified and recommendations made from the Audit 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.
31. The establishment of an Audit & Risk Register provides the mechanism to ensure that audit findings are addressed in a satisfactory and timely manner.

Cr O'Donnell joined the meeting at 6:28pm and was present for the vote on this item.

Voting Requirements: Simple Majority

COMMITTEE RECOMMENDATION TO COUNCIL (A&R 04/2016)

That Council:

1. Notes the following recommendations included in the Internal Audit Report for August 2016 (Attachment 2).

Review of Investment Policy and Procedures

The investment policy is approved and adopted to include the requirements of Basel III and Prudential Standard 210.

Changes in Accounting Standards – Operating Leases

- Ensure effects of this standard on the financial statements is discussed with the external auditors.
- Plan for future implementation of the standard and its effects on the reportable financial ratios.
- Incorporate changes in the Long term Financial Plan.
- Provide training for administration staff involved in the implementation of the standard.

Financial Statements for Forrestfield Industrial Area Scheme Stage 1 for 9 months to 31 March 2016

The quarterly financial statements continue to be reviewed by either the Manager Financial Services or the Internal Auditor before they are provided to the Planning Department.

Cell 9 Infrastructure Capital Works Program

- A separate chart of accounts is used within Synergy for the receipt and expenditure of trust funds for Cell 9.
- Trust funds in Cell 9 is monitored and controlled to ensure these funds are being properly applied.
- Quarterly financial reports are prepared for the Cell 9 Project Team.

Review of Fringe benefits Tax 2015/2016

- There continues to be close monitoring in the use of shire vehicles and completion of log books.
- The Fleet Management Steering Team continues to meet regularly to discuss improvements in strategies to reduce Fringe Benefits Tax (FBT) and operating costs on motor vehicles.
- The Light Vehicle Policy and Procedures is reviewed and updated to ensure it incorporates new strategies for controlling the use of shire vehicles.

Payroll

- There is a comprehensive check of upgraded software to ensure all functions of the upgrade provide the right results by testing all functions of the upgraded software with predetermined results.
- All master file changes are independently confirmed by persons not responsible for inputting changes or preparing the fortnightly payroll.
- An audit trail of all changes to master file information is kept and signed confirming all changes have been properly made and independently confirmed.

Cell 9 Infrastructure Works, Wattle grove – Risk Management Workshop

The risk register is regularly reviewed and kept up to date as capital works projects are rolled out.

Provision of General Tree Services Tender

- The tender guideline is reviewed and updated to include new templates for use by the evaluation panel, especially on pricing.
- The formulas set by procurement is reviewed and documented in the tender guideline to ensure there is always a consistent approach being used in the evaluation process.
- The tender guideline is updated to reflect improvements in the evaluation process to ensure all documentation and evaluation procedures are in line with practice.

Planning for Disclosure of Related Party Transactions

The Shire takes the necessary steps through the Manager of Governance to collect the information on a regular basis from Councillors and senior staff in order to compile the information each year for the annual financial statements.

Audit & Risk Register

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

Moved: **Cr Andrew Waddell**

Seconded: **Cr Noreen Townsend**

Vote: **CARRIED UNANIMOUSLY (12/0)**

Attachment 1
Internal Audit Plan

SHIRE OF KALAMUNDA

Page1

INTERNAL AUDIT PLAN FOR 2016/2017

Internal Auditor	Date Report to A/Comm	2016				2017							
		July	Sept Qtr Aug	Sept	Oct	Dec Qtr Nov	Dec	Jan	Mar Qtr Feb	Mar	Apr	June Qtr 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/ PwC													
Grant Aquittals - Audited Lesmurdie Falls													
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 2016/2017													Page2
Internal Auditor	Date Report to A/Comm	2016						2017					
		Sept Qtr	Sept	Oct	Nov	Dec	Jan	Mar Qtr	Mar	Apr	May	June	
Risk Management Review (2 yearly) To be completed by Dec 2016													
CEO of a local government is to undertake at least a biennial review of legislative compliance, internal control and risk management and present results to the Audit and Risk Committee and report to Council by the 31 December 2014 under recent amendments to the Local Government (Audit) Regulation.													
Key Control Activities													
Recommended Monitoring Activities													
Human Resources													
Review OHS Policies and Procedures													
Information Technology													
Records Management - compliance with legislation													
Existing IT Systems - Review of existing agreements													
IT Vision - Synergy													
CAMMS Products													
BMC Discontinued													
IPM Discontinued													
Interplan Retained													
PES Retained													
Risk Management Retained but not used													
New Policies													
Drafting of new policies													
Staff training													
Structured Training - AIM, WATC, ICA, LGMA, WALGA													
FBT /Log Book Training - Grant Thornton													
Governance													
Maintenance of Registers													
Compliance with Legislation:													
Agendas													
Minutes													
Other Statutory Documents - CAR 2013													
Review of Key Control Activities													
Review of Recommended Monitoring Activities													
Audit Risk Register - Review and Update													

SHIRE OF KALAMUNDA
INTERNAL AUDIT PLAN FOR 2016/2017

Page 3

Internal Auditor	Date Report to A/Comm	2016						2017					
		Sept Qtr July	Aug	Sept	Oct	Dec Qtr Nov	Dec	Jan	Mar Qtr Feb	Mar	Apr	June Qtr May	June
Other													
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 EMRC													
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													

SHIRE OF KALAMUNDA INTERNAL AUDIT PLAN FOR 2016/2017	Page 4
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Shire of Kalamunda

Attachment 2

Internal Audit Report October 2016

Internal Audit Report October 2016 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 (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 other functions required to support community groups, internal functions within the organisation and includes:

- Review of Investment Policy and Procedures
- Changes in Australian Accounting Standards – Operating Leases
- Review of 31 March 2016 Financial Statements for the Forrestfield Industrial Area Stage 1
- Cell 9 Infrastructure Capital Works Program
- Review of Fringe Benefits Tax Return for 2015/16
- Review of Tenders
- Payroll
- Grant Acquittal – Friends of Lesmurdie
- Cell 9 Infrastructure Works, Wattle Grove, Risk Management Workshop
- Review of Statutory Budget for 2016/17
- Planning for Disclosure of Related Party Transactions
- Review of Tender Guideline
- Audit and Risk Register Update

Review of Investment Policy and Procedures

Background

Prudential Standard (Basel III & Australian Prudential Standard 210) for Authorised Deposit Taking Institutions (ADI's) has come into force requiring ADI's to hold sufficient liquid assets to enable the institution to cover its net cash outflow. The current regulatory requirement is heavily focused on increasing the banking sector's resilience and preparedness to better handle future market disruptions. As a result, the new Basel III regulations consist of three pillars to be phased in between 2015 and 2018 with the current focus being the implementation of APRA's APS 201 Liquidity Standard which came into effect on 1 January 2015. These changes now affect the notice period required by investors to redeem an investment. The ADI will only allow a term deposit to be terminated early with compensation, and the compensation will be either 30 days notice or a financial compensation in excess of the interest earned. This is to encourage the placement of funds in ADI's being held to maturity and to ensure organisations plan for the redemption of their investments to meet their cash flow requirements.

Work Performed

Reviewed the current investment policy and procedures and made the proposed changes for review and adoption.

Discussed with Corporate Services staff whether they prepare projected cash flow requirements to meet the new requirements of Prudential Standard 210, and whether there were instances requiring the early redemption of investments which incurred a penalty.

Findings

Corporate Services staff are aware of the Prudential Changes and place funds in ADI's for shorter terms to meet the Shire's future cash flow requirements. There were no term deposits terminated early since the Prudential Rules came into place. There is a good spread of investments with no investment being held for longer than 180 days.

Risk

The risk of redeeming investments early is considered low as there is a spread of investments with ADI's in investments held for periods no longer than 180 days. This ensures investments reach maturity and are not redeemed early.

Management Response

The officer responsible for placement of investments in ADI's is aware of the Prudential Changes and only invests funds for periods of up to 180 days with a spread of redemptions to meet projected cash flow requirements.

Recommendation

The investment policy has been reviewed and amended to bring it up to date and in line with current practices to include the requirements of Basel III and the Prudential Standard 210 and awaits approval for adoption.

Changes in Accounting Standards – Operating Leases

Background

On the 13 January 2016 the International Accounting Standards Board (IASB) issued IFRS 16 Leases after more than a decade of consultation.

The new standard will significantly alter how lessees account for operating leases. At present all operating leases are accounted by lessees off balance sheet and lease commitments disclosed by means of a note to the annual financial statements. The change in accounting standard effectively means that almost all leases will go on balance sheet.

In the past only finance leases were reported on balance sheet by organisations. However due to local governments in Western Australia being prohibited by legislation in granting lessors security over a local government's non-current assets, finance leases are not permitted by local governments in Western Australia. Local Governments are permitted under present arrangements and accounting standards to have an operating lease as these types of leases do not grant the lessor a lean over the non-current assets of a local government.

The impact of the change on lessees in the future, is that almost all leases will go onto balance sheet due to the accounting standard change, and the distinction between operating leases and finance leases will be removed. Under the new standard an asset (the right to use the leased asset) and a financial liability to pay rentals will be recognised on balance sheet with the only exemption being short-term and low-value leases.

The Shire of Kalamunda currently has a number of operating leases in place for motor vehicles and IT equipment.

Work Performed

Established the effect the accounting standard changes will have for the Shire and its impact on the Long Term Financial Plan and discussed this with the Manager Financial Services.

Discussed these changes with the Department of Local Government and Communities and the LGMA - Local Government Finance Professionals whom will be seeking guidance on how this will be played out as many local governments will need to consider the impact in relation to the Long Term Financial Plans and Financial Reporting Ratios.

There have been articles issued by Chartered Accountants Australia and New Zealand, PWC and Nexia Australia on this subject that have been downloaded and circulated to the appropriate staff.

Findings

The Shire of Kalamunda over the past few years has gradually replaced its fleet of Shire owned vehicles with vehicles under operating leases. The Shire has IT equipment under operating leases as this was the preferred option to owning these types of assets during periods of rapid changes in technology.

The Department of Local Government and Communities have not prepared any guidance notes, nor has the LGMA – Local Government Finance Professionals. The Department proposed that officers speak to their external auditors in relation to these changes with the view to ensuring the changes are properly planned and implemented.

The new standard will be effective from 1 January 2019 with early adoption allowed if the new revenue standard has also been applied.

Management Response

The Manager Financial Services is aware of the change and will be discussing this matter with the external auditors.

Recommendation

1. Ensure the effects of this standard on the financial statements is discussed with the external auditors.
2. Plan for the future implementation of the standard and its effects on the reportable financial ratios.
3. Incorporate changes in the Long Term Financial Plan.
4. Provide training for administration staff involved in the implementation of the standard.

Financial Statements for Forrestfield Industrial Area Scheme Stage 1 for 9 Months to 31 March 2016

Background

Quarterly financial statements have been prepared regularly for the Forrestfield Industrial Area primarily for the planning department and property owners who own land in the area. These statements are required to be audited at the end of the financial year by the Shire's external auditors.

Work Performed

Reviewed the Quarterly Financial Statements for the Forrestfield Industrial Area Scheme Stage 1 for the nine months to the 31 March 2016 for completeness, compliance with legislation, presentation and disclosure before the statements were forwarded to the Planning Department for review.

Findings

The financial statements for the nine months, although unaudited by the external auditors for this period, were found to reflect and properly disclose the movements of income and expenditure for the period and the closing balance of cash and cash equivalents at the 31 March 2016. There was proper disclosure that the quarterly financial statements are unaudited.

Financial statements included:

- A Statement of Comprehensive Income
- A Statement of Financial Position
- A Statement of Changes in Equity
- A Statement of Cash Flows
- Notes to and Forming Part of the Financial Statements

Risk

The risk of the financial statements being inaccurate is considered low as they reflect the movements in cash and cash equivalents for the period and have been prepared by a qualified accountant who understands local government accounting principles and have been independently reviewed.

Management Response

Nil.

Recommendation

The quarterly financial statements continue to be reviewed by either the Manager of Financial Services or the Internal Auditor before they are provided to the Planning Department.

Cell 9 Infrastructure Capital Works Program

Background

The Cell 9 funds are held in trust to be spent over the next five to six years on capital works. These funds represent developer's contributions for use on capital infrastructure works including new roads, drainage and footpaths to be constructed in Cell 9.

Meetings were held with operational, planning and finance staff to plan for future capital works and to discuss:

- Projected cash flow requirements
- Setting up a separate financial accounting system for control and monitoring major capital works using Synergy

- Who should be appointed members on the Scheme Project Control Group

Work Performed

Attended a series of meetings and met on site to discuss the future planned capital works and the accounting treatment of all future capital works for Cell 9 using Synergy. There will be significant expenditure commencing in 2016/17 within Cell 9 on capital works that needs regular monitoring and control. This will require Cell 9 to have its own chart of accounts in the general ledger.

Met with a specialist from IT Vision (Synergy) and finance officers on the best approach in setting up a separate cost centre using Synergy. The options being either to use Fund 1 within the Municipal Ledger or setting up a separate ledger outside Fund 1. This method of control of Trust within the Municipal Funds General Ledger (Fund 1) is being used by other local governments and has not posed an issue regarding the segregation of trust funds from municipal funds within the one general ledger.

Findings

The specialist from IT Vision recommended that a separate cost centre with its own chart of account be set up within Fund 1 and this be tested. This makes it easier to control and monitor and it would still be reported and disclosed separated from Municipal Funds. The control accounts for Trust- Cash at Bank and Trust – Liabilities will be balanced each month with expenditure either capitalised or expensed each month and payments made directly from the Trust Cell 9 Bank Account.

Risk

That items from Municipal Funds being incorrectly posted to Trust and vice versa may occur however this will be checked and monitored with regular monthly reconciliations of Trust Funds. This will ensure incorrect postings are promptly corrected.

Management Response

A new chart of accounts has been prepared with a separate cost centre in Fund 1 for Cell 9 transactions and the testing of this has been carried out before its brought online for the 2016/17 Financial Year. The treatment using Fund 1 was discussed and accepted by the external auditors provided monthly reconciliations of the trust asset and liability accounts are carried out.

Recommendation

1. A separate chart of accounts is used within Synergy for the receipt and expenditure of trust funds for Cell 9.
2. Trust funds for Cell 9 is monitored and controlled to ensure these funds are being properly applied.
3. Quarterly Financial Reports are prepared for the Cell 9 Project Team.

Review of Fringe Benefits Tax 2015/16

Background

Fringe Benefits Tax (FBT) is treated as an annual tax. Employers are required to declare the total taxable value of all relevant fringe benefits provided to their employees and to associates of their employees, in respect to employment, during the FBT Year. The 2015/16 FBT year runs from the 1 April 2015 to the 31 March 2016 and the FBT Return for 2015/16 is to be submitted by 23 May 2016. The FBT payable by the Shire is primarily for motor vehicles provided to employees with limited private use.

Work Performed

Tested the calculations used to determine the FBT for 2015/16 with supporting information, such as log books and the apportionment of travel between business and private journeys, and the current rates applicable used to calculate the FBT and complete the FBT Return.

Confirmed that the FBT payable was properly calculated using the gross up rules and applying the current FBT rate of tax to the fringe benefits taxable amount.

Compared the FBT for 2015/16 with the previous year to establish whether there were significant savings in the determination of this liability in 2015/16 due to the introduction of new strategies by the Fleet Management Steering Team such the introduction of electronic log books, novated leasing and improvements in the management of shire vehicles.

Findings

The principles used for calculating FBT on motor vehicles is based using either the operating and statutory method, whichever is the lower calculated liability, with rates applicable for the 2015/16 FBT Year. The statutory method provided the lower determination of FBT for the majority of the motor vehicles provided to employees. The FBT for 2015/16 was appropriately determined in accordance with FBT principles. In the case of motor vehicle benefits this was supported by employee entitlements and log books.

There has been a significant reduction in FBT compared with the previous year. FBT has declined by \$34,118 or 19% to \$145,270, and over the past four years saving in FBT has totalled \$ 187,514

Risk

The risk of incorrectly determining the liability for FBT is considered low. Officers undertake annual training and are aware of changes or amendments in FBT legislation. The shire uses the services of a taxation consultant on technical taxation issues and interpretations when they arise. The finance officer responsible for calculating the FBT liability maintains supporting information, such as log books, used in preparing the FBT Return. The officer preparing the FBT has had a number of years' experience and a good working knowledge of the FBT legislation. The information prepared by the finance officer is independently reviewed by the Internal Auditor and Manager Financial Services.

Management Response

Management has analysed the reasons for the reduction in FBT as being primarily due to employees being on novated leases, the use of electronic logbooks and a gradual reduction in the size of the motor vehicle fleet.

Recommendations

1. There continues to be close monitoring in the use of shire vehicles and completion of log books.
2. The Fleet Management Steering Team continues to meet regularly to discuss improvements in strategies to reduce FBT and operating costs on motor vehicles.
3. The Light Vehicle Policy and Procedures should be reviewed and updated to ensure it incorporates new strategies for controlling the use of shire vehicles.

Review of Tender Documentation and Evaluation

Background

The Director of Corporate and Community Services requested support for the procurement team by having the internal auditor review documentation prior to advertising of tenders and the review of tender evaluations for compliance with legislative requirements as there were a significant number of current tenders expiring in May, June and July 2016.

Work Performed

1. Examined the following tender evaluation report for compliance with legislation, policy, procedures and the tender guideline prior to submission to Council in May 2016:
 - RFT – 1511 Management of Developer Contribution Scheme – Forrestfield Industrial Area
 - eQuote 05-2016 – Weekly Collection and Disposal of Waste Services
2. Reviewed the selection, qualitative and price criteria of tender documentation prior to advertising of tenders and met with the operations staff to go through the draft documentation for the following:
 - General Tree Services Tender
 - Cleaning Tender

Findings

1. For RFT – 1511 the tender evaluation complies with legislation, policy and procedures and appeared to have been carried out properly. A request for further information from all tenderers was obtained following an initial assessment which determined that two elements of the tender required further information, namely the contract period and fee structure. This information was then applied in the determination of the price and overall assessment.
2. The operations team were comfortable with the draft documentation prepared by procurement. Minor changes were made to the selection criteria.

Risk

1. The risk of tenders not being transparent and complying with legislative requirements is considered low. Procedures were properly followed for the assessment and evaluation of all tenders by the evaluation panel, and undertaken in accordance with legislation.
2. The risk of the documentation and specifications not meeting the objectives of the services for general tree lopping and cleaning is considered low as the operations staff involved in the control of these services were actively involved in preparing and approving the selection criteria.

Management Response

Management reviewed and endorsed changes proposed on RFT- 1511.

Recommendations

Nil

Payroll

Background

A risk control assessment was completed to assess the internal control environment, compliance with statutory obligations and ensure payroll expenses are accurately calculated and recorded.

Work Performed

Reviewed and updated the master copy of the Risk Control Assessment document for changes made since the last review. Discussed and tested the changes to ensure the amendments are now being performed.

Findings

1. The Synergy upgrade for payroll has been tested by HR prior to the proposed upgrading on the 24 June 2016. Forms were issued by IT to be completed and returned for confirmation that the upgraded system had been tested. There were no payroll issues reported to IT on the Synergy upgrade. However a review of the forms distributed by IT for the required testing were not completely signed off confirming all items had been tested.
2. The Synergy System is able to generate a report of all master file changes on a regular basis. These reports can be independently verified for correctness before the fortnightly payroll is generated. At present the fortnightly payroll is checked by the Manager Strategy & People Services for significant changes when the payroll is approved. However no one conducts an independent check of master file changes who is independent from the payroll preparation function.

Risk

1. Without a comprehensive check of all functions within the Synergy payroll, there is a chance that the system upgrades may not provide correct and accurate payroll results.

2. Master file changes not being independently confirmed may result in errors going undetected, plus a risk of unauthorised changes being made.

Management Response

1. Testing on this upgrade was completed by HR and the results provided to IT.
2. The Manager is satisfied another officer in payroll is checked with master file changes after they were entered in Synergy.

Recommendations

1. There should always be a comprehensive check of upgraded software to ensure all functions of the upgraded software provides the right results.
2. All master file changes should be independently confirmed by persons who are not responsible for inputting the changes or preparing the payroll each fortnight.
3. An audit trail of all changes made should be kept and signed off confirming that all changes have been properly made and independently confirmed.

Grant Acquittal – Friends of Upper Lesmurdie Falls Rehabilitation Project

Background

Received a request from the Director Corporate and Community Services to assist the Friends of Lesmurdie Falls with the audit of the acquittal of a grant for the rehabilitation of a creek at Lesmurdie Falls. A grant from the State NRM Program was received to be used in the rehabilitation of the banks of Lesmurdie Creek. Contractors were engaged to spray for weeds and volunteers to assist in the revegetation of the creek.

Work Performed

Confirmed all significant receipts and payments with supporting documentation and bank statements. Requested and obtained further information from the Project Manager.

Ensured the grant was acquitted properly and in accordance with the terms and conditions of the funding program.

Findings

All major receipts and payments were supported by receipts or invoices. The grant was properly acquitted and signed by the Project Manager before the audit was signed off.

Friends of Upper Lesmurdie Falls contributed \$34,853, the Shire of Kalamunda \$10,000 and the Department of Parks and Wildlife \$42,220.

Risk

Risk is considered low as all payments of the State NRM Grant was properly acquitted and receipts of contributions banked.

Management Response

Nil

Recommendations

Nil

Cell 9 Infrastructure Works, Wattle Grove – Risk Management Workshop

Background

Estill & Associates facilitated a Risk Management Workshop on capital works projects for Cell 9, Wattle Grove on Thursday 9 June 2016. A number of significant capital projects are planned for completion over the next 5 to 6 years within Cell 9. The facilitator workshopped identifiable risks associated with the smooth delivery of these projects.

The project scope and delivery context was provided by the Project Manager and the key project risks and opportunities were delivered.

The objectives of the workshop were to:

- Raise awareness and understanding of the need for, an approach to, effective risk management in capital works projects,
- Identify the risks and opportunities associated with the planning, development, design, approvals, construction and operation of Cell 9; and
- Establish the Project Risk Register for Cell 9 Works.

Work Performed

Attended the Risk Management Workshop to discuss the identifiable risks associated with the capital works. Participants comprised a broad cross section of operations and administration staff, electrical engineers, civil engineers, consultants, to workshop and identify risks and opportunities associated with the delivery of the Cell 9 Infrastructure Works in Wattle Grove.

Findings

The Facilitator used guidelines and tables to help establish the risk rating by identifying the likelihood and consequences of the event occurring after mitigating the level of risk in accordance with the Risk Rating Matrix used by the Shire and included in the adopted Risk Management Plan (adopted by Council in May 2015).

Risk

Risk associated with rolling out the capital works program was workshopped with measures put in place on how to manage and mitigate this risk.

Management Response

A register was prepared of all identifiable risks assigned to responsible officers to be regularly reviewed and updated. Project Team members to provide ongoing comment and feedback over time to the Project Manager in order to keep the Project Risk Register up to date.

Recommendations

The Risk Register is regularly reviewed and kept up to date as capital work projects are rolled out.

Provision for General Tree Services Tender

Background

The General Tree Services Tender closed on 1 June 2016. Six complying tenders were received by the closure date. These tenders were reviewed by three staff members on the evaluation panel plus the Shires Occupational Health and Safety Officer for compliance with OH&S standards.

The tender panel consisted of two employees from operations familiar with the tree services tender specifications, selection criteria and nature of work to be undertaken, and one person from corporate services familiar with the tender and procurement procedures. A procurement and finance officer was also in attendance to coordinate the process and provide electronic details of each tender for evaluation.

Work Performed

The tenders were reviewed for compliance with applicable standards and statutory requirements for occupational safety and health, evaluated for their qualitative criteria and pricing.

The evaluation was conducted in accordance with the tender guidelines which is part of the Shires Purchasing policy and procedures. A consensus scoring approach was used by the evaluation panel for each tenderer.

Findings

The process used to arrive at the scores for each tenderer was carried out in a fair, equitable and objective manner with comparisons made between tenderers based on their responses to the selection criteria and on whether they had satisfactorily addressed all the selection criteria requirements.

The procedures used were transparent, fair and complied with the tender regulations and guidelines.

The evaluation process and scoring was undertaken on a consensus basis by panel members rather than each member scoring their own sheets and then arriving at a consensus and qualitative score.

Management Response

The consensus approach for scoring provided a better outcome as qualitative scores are compared, discussed and agreed upon at the time before a score was awarded for each selection criteria on each tender. This method allows qualitative scores to be properly compared with other tenderers and is transparent.

Comparison of prices was based on weightings using historical data for the number of services used for each category. The scores were calculated using the price for each category provided by each tenderer.

Recommendations

The tender guideline is reviewed and updated to include new templates for use by the evaluation panel, especially on pricing.

The formulas set by procurement are reviewed and documented in the tender guideline to ensure there is always a consistent approach being used in the evaluation process on pricing.

Review of Statutory Budget for 2016/17

Background

Received a request to review the draft agenda report and draft statutory budget for 2016/17 prior to distribution to councillors.

A local government under Section 6.2 of the *Local Government Act 1995* (the Act) is required to prepare and adopt a budget for its Municipal Fund between 1 June 2016 and 31 August 2016 for the 30 June 2017 Financial Year, or such extended time as the Minister allows.

The annual budget needs to be prepared and adopted in a manner prescribed for the financial year and incorporate detailed information as contained under Section 6.2(4) of the Act.

In formulating the budget a local government is to have regard to the contents of the plan for the future of its district under Section 6.2(2) of the Act and prepare detailed estimates for the current year.

The adopted budget under Part 3 of the *Local Government (Financial Management) Regulations 1996* is required to submit a copy of the annual budget to the Department of Local Government and Communities within 30 days of its adoption.

Work Performed

Compared the information contained in the draft agenda report with the draft statutory budget.

Checked and cross referenced information contained in the budget with the notes to the budget and between key financial budget statements.

Ensured the budget for the year ended 30 June 2017 contained all the statutory financial statements and supporting notes.

Findings

The information contained in the draft agenda report agree with the detailed information contained in the draft statutory budget financial statements.

The statutory budget for 2016/17 contained all the key statutory financial statements and notes to the schedules.

Notified the Corporate services team to ensure the adopted budget is submitted to the Department of Local Government and Communities within 30 Days of its adoption.

Management Response

The annual budget for 2016/17 was adopted by Council on the 20 June 2016 and will be submitted within 30 days of adoption to the Department of Local Government and Communities.

Recommendations

Nil

Planning for Disclosure of Related Party Transactions

Background

The Australian Accounting Standards Board issued a standard in March 2015 which extends the scope of AASB 124 *Related Party Disclosures* to include the application by not-for-profit entities. This will now require local governments to disclose related party transactions from 1 July 2016 (effectively for the year ended 30 June 2017). The knowledge of related party transactions, outstanding balances and relationships is considered important in understanding and assessing an entity's operations. A local government will need to consider the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationships on the financial statements.

The standard will include:

- Close members of the family of a person
- Compensation
- Key Management Personnel – for local government it will include all councillors and senior staff

Work Performed

The Department of Local Government and Communities were contacted to ascertain whether they had or intended issuing guidance notes in relation to this standard. Spoke to the external auditors regarding the application of the standard for local governments.

Findings

The external auditors at a meeting on the 16 June 2016, acknowledged the application of the standard for local government. The Shire will need to plan on gathering of information for proper disclosure in the 2016/17 Financial Statements.

Management Response

Senior staff have attended training on an update to Financial Reporting with Moore Stevens (WA) Pty Ltd which included guidance notes on this standard and the reporting requirements.

Recommendations

The Shire takes the necessary steps through the Manager of Governance to collect the information on a regular basis from Councillors and senior staff in order to compile the information each year for the annual financial statements.

Review of Tender Guideline and Management of Tenders

Background

The tender guideline was prepared in June 2012 to strengthen the procurement procedures and develop a uniform practice for the evaluation of tenders and to be compliant with the provisions of the *Local Government Act 1995* and the *Local Government (Functions & General) Regulations 1996*.

Regulation now requires tenders to be publicly invited for goods or services expected to be more than \$150,000 with anti-avoidance provisions in place to avoid the calling of tenders by entering into two or more contracts.

Work Performed

After sitting on panels assessing and reviewing tenders for compliance with the guideline, there is room to improve and streamline the tender process by reviewing the tender guideline in order to make it easier to understand, and ensure all tenders are evaluated and scored in a consistent manner.

Findings

The tender guideline requires a clear description of the scoring procedures to be used for pricing, and templates updated with built in formulas for scoring of tenders. There are templates within the guideline, however there is insufficient description on how scores are calculated as part of the assessment process. Improvements in this area is essential so that pricing is carried out in a consistent manner.

As tenders are confidential documents, the assessment and scoring should always be kept confidential and preferably in one location held by Procurement with restricted access. The procurement officers controls all tenders and ensures they are kept in a secure location before tenders are awarded, and restricts the access to electronic copies of tenders held on the computer hard drive.

Management Response

Additional information that documents pricing information will be adopted by the procurement section as this is considered good practice and provides a consistent approach to the scoring of pricing to be used in the final evaluation report.

Recommendations

The Tender Guideline is updated to reflect improvement in the evaluation process to ensure all documentation and evaluation procedures are in line with practice.

Audit and Risk Register Update

Background

Included as part of the internal audit plan is a regular review and update of the Audit and Risk Register.

Work Performed

Conducted a review of the Audit and Risk Register in June 2016 to establish whether items identified have been addressed or actioned.

Findings

Following the last review in February 2016, the following items have or are now being addressed:

- **Asset Management Plans**
Assets A1 Asset Management Plans are being phased in over the next three years i.e. between 1 July 2016 and 30 June 2019
- **Accounting Standard Changes**
AASB 124 – Related Party Transactions
The new changes have been referred to the external auditors and senior employees have attended the Moore Stephens Financial Reporting workshop where these changes were discussed and included in their guidelines. Workings will now be based on these guidelines and information gathered.

- Confirm Permitted use of Shire Vehicles – P 5

HR are in the process of reviewing and updating personnel files to ensure there is a letter of authority confirming the use of a shire vehicle.

Management Response

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

Recommendations

The Audit and Risk Register continues to be reviewed every quarter to ensure matters identified and recorded are being addressed.

Attachment 3
Audit Risk Register

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	Completed 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	Subject to monitoring. Pending outcome of ICT Strategy
Assets A1	Asset management plans are up to date and support the Long Term Financial Plan (LTFF)	Unlikely	Minor	Medium	Asset management plans brought up to date in support of LTFF	Manager Operations	30-Jun-16 to 30-Jun-19	Being phased in over the next three years
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	Completed
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 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 persons accrued entitlement. However to avoid disputes managers should check a persons entitlement with HR before approving leave entitlement forms	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	Completed External training with WALGA and inhouse training

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 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	Being monitored by the procurement team New threshold now \$150,000 Procurement function now centralised
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	Completed Ongoing monitoring to ensure compliance
Journals J 1	Lack of evidence that entries have been approved prior to being entered.	Possible	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 not 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
Financial								
Financial Statement FS 1	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	Low	This will be undertaken and funds placed in a restricted reserve by	Manager Financial Services	Jul-15	Completed Draft Financial Statements Prepared and funds placed in a restricted reserve
Log Books LG 1	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 staff who use a Shire vehicle	Sep-15	Completed Subject to ongoing monitoring
LG 2	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	Completed Subject to ongoing monitoring
MA & KCA	Regular monitoring required of Monitoring Activities and Key Control Activities	Unlikely	Minor	Low	There is continuous review of Monitoring Activities and Key Control Activities as part of the Internal Audit	Internal Auditor	Jun-16	Completed each Quarter
A & R Register A&RR 1	There is regular review of the Audit and Risk Register	Unlikely	Minor	Low	The audit and risk register is regularly reviewed and updated	Internal Auditor	Quarterly	Completed each Quarter
Credit Card Trans CRT 1	Failure to identify non business credit card transactions	Possible	Minor	Medium	There are regular independent checks of all credit card statements	Manager Financial Services and Internal Auditor	Quarterly	Completed every quarter

Internal Audit Plan - Audit Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								
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	Possible	Major	High	This will be addressed with unbound minutes being placed in the fireproof strongroom	Corporate Information Coordinator	Feb-16	Completed. Now placed in strongroom
Accounting Standard Changes ASC 1	Failure in recognising changes to accounting standards	Possible	Insignificant	Low	The application of AASB 124 - Related Party Transactions will be discussed with the external auditor	Manager Financial Services	Jun-16	Referred to external auditor Staff have been on training on this subject
Confirm Permitted Use of a Shire Vehicle P 5	The personnel files for all employee allocated a shire vehicle are reviewed to confirm whether there is a letter on file approving the allocation of a shire vehicle, and where there is no letter an assessment is made to continue granting a shire vehicle to the person in accordance with policy	Possible	Minor	Medium	The matter will be referred to the Fleet Steering Committee for direction	Fleet Steering Committee	Jun-16	HR are reviewing and updating personnel files
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	Jun-16	Being reviewed with other policies

Internal Audit Plan - Audit Risk Register								
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned	Current Status
Financial								
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	Training as required has been provided
Stock S 1	All consumable purchases used for road construction and road maintenance not being brought in as inventory	Possible	Minor	Medium	Will be reviewed	Operations Manager	Jun-16	Now recognised as inventory and confirmed at year end stock take
Fleet Mgmt FM 1	Failure to understand the 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	Operations Manager	Jun-16	Close monitoring of Log Books by Corporate Services
FM 2	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 FBT	Possible	Minor	Medium	Papers have been prepared for Fleet Management Steering Committee to consider and develop a strategy	Director Infrastructure	Jun-16	In progress

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

05. Risk Management Review 2016

Previous Items	
Responsible Officer	Director Corporate & Community Services
Service Area	Internal Audit
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Risk Management Review 2016
Attachment 2	Recommended Monitoring Activities
Attachment 3	Key Control Activities

PURPOSE

1. To review the Risk Management Report (Attachment 1) and recommend the results of the review to Council.

BACKGROUND

2. The *Local Government (Audit) Regulations 1996* requires the Chief Executive Officer (CEO) to carry out at least a biennial review of legislative compliance, internal control and risk management, and present the results of the review to the Audit and Risk Committee for their consideration. The Audit and Risk Committee is to consider the CEO's review and report the results of the review to Council.
3. This is the second review required to be completed by the CEO, and reviewed by the Audit and Risk Committee, with the results of the review reported to Council by the 31 December 2016.

DETAILS

4. The Shire of Kalamunda provides an effective operating environment by ensuring it has the necessary resources, expertise and skills to deliver services to the community and discharge its obligations under law. This is achieved through its corporate governance framework which enhances the organisational performance, improves the internal control environment and through managing and mitigating risk while ensuring that its legal and ethical obligations are met.
5. There are a number of strengths in the governance and organisational management practices of the Shire which ensures it has internal control processes designed to assist the Shire in addressing risk of fraud and error, and improving reliability of financial reporting and compliance with legislation and policies. These strengths include:
 - An Integrated Planning and Reporting Framework adopted by Council and recommended by the Department of Local Government and Communities.

- A high level of reporting and information content in Council Agendas and Minutes which includes risk management considerations.
- High level of reporting information and content in the Annual Report.
- A Risk Management Policy and an Integrated Risk Management Plan.
- An Audit Risk Register to address and monitor management's responses to Audit issues.
- A Business Continuity Plan.
- Regular review of existing policies and adopting new policies.
- A Code of Conduct.
- Internal auditor who provides regular reports to the Audit and Risk Committee.
- A Record Keeping Plan.
- Maintaining Statutory Registers including:
 - A Gift Register
 - Financial Interest Register
 - Tender Register
 - Delegated Authority Register
 - Other statutory and good practice documents

Improvement Opportunities:

- Complete documentation of operational procedures for rates and payroll.
- Comprehensive induction training required for new employees.

STATUTORY AND LEGAL CONSIDERATIONS

6. *Part 7 of the Local Government Act 1995*
Regulation 17 of the Local Government (Audit) Regulations 1996

POLICY CONSIDERATIONS

7. Code of Conduct (ADM5)
Purchasing Policy (PUR 1)
Risk Policy
Records Policy
Business Continuity Policy

COMMUNITY ENGAGEMENT REQUIREMENTS

8. Nil.

FINANCIAL CONSIDERATION

9. Nil.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

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

Delivery of all elements of the Strategic Community Plan to 2023.

SUSTAINABILITY

Social Implications

11. Nil.

Economic Implications

12. Nil.

Environmental Implications

13. Nil.

RISK MANAGEMENT CONSIDERATIONS

14.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Rates – Failure to provide adequate documentation and training in rates.	Possible	Minor	Medium	Ensure documentation and training for new staff.
Failure to provide comprehensive training required for new employees	Possible	Minor	Medium	Suitable training will be provided as part of training program.

OFFICER COMMENT

15. The Risk Management Review illustrates that the Shire's legislative compliance, internal control environment and management of risk is sound. Notwithstanding, improvement opportunities identified within the Risk Management Review will enhance the Shire's governance and control environments.

Motion

That Council suspend Standing Orders to discuss matter contained in this report.

Moved: **Cr Tracy Destree**

Seconded: **Cr Sue Bilich**

Vote: **CARRIED UNANIMOUSLY (12/0)**

Standing Orders were suspended at 6:45pm.

Motion

That Council resume Standing Orders following discussing matter contained in this report.

Moved: **Cr Sara Lohmeyer**
Seconded: **Cr Sue Bilich**
Vote: **CARRIED UNANIMOUSLY (12/0)**

Standing Orders were resumed at 6:56pm.

Voting Requirements: Absolute Majority

COMMITTEE RECOMMENDATION TO COUNCIL (A&R 05/2016)

That Council:

1. Receives the findings and recommendations contained in the Internal Auditors Risk Management Review (Attachment 1).

Moved: **Cr Geoff Stallard**
Seconded: **Cr Michael Fernie**
Vote: **CARRIED UNANIMOUSLY (12/0)**

Attachment 1

Risk Management Review 2016

Shire of Kalamunda
Risk Management Review 2016

October 2016

Background

Under the *Local Government (Audit) Regulations 1996*, the Chief Executive Officer (CEO) of a local government is to carry out a Risk Management Review every two years covering legislative compliance, internal control and risk management, and present the results of the review to the Audit and Risk Committee for their consideration. This is the second review to be presented to the Audit and Risk Committee for their consideration with the results to be reported to Council and the Department of Local Government and Communities by 31st December 2016.

The first review was completed by the CEO, the report presented to the Audit and Risk Committee in November 2014 and reported to Council and the Department of Local Government and Communities by the 31 December 2014.

There are many similarities between the Risk Management Review and the Financial Management Review. The Risk Management Review is more comprehensive than the Financial Management Review and includes specific items for inclusion in the report as required by the Local Government Operational Guideline Number 09 – “Audit in Local Government” issued by the Department of Local Government and Communities and Section 7 – “Internal Control Framework” of the Western Australian Local Government Accounting Manual.

Legislative Compliance

Audit and Risk committee practices in regard to monitoring compliance programs include:

- Monitoring compliance with legislation and regulations.

Executive and the management team receive and examine regular publications issued by the Department of Local Government and Communities, from professional associations and the Australian Accounting Standards Board on accounting standards and legislative changes. Senior staff regularly attend professional development seminars to keep them informed and updated on matters affecting local government.

Significant changes introduced or proposed in the past two years include:

- The full recognition of all non-current assets at fair value, a legislative requirement that was to be completed by 30 June 2015.
- An increase in tender thresholds from \$100,000 to \$150,000 which took effect on 1 July 2015 requiring a review and update of the purchasing policy and procedures.
- Changes in the application of Australian Accounting Standard – “Related Party Transactions” (AASB 124) effective from 1 July 2016 to be planned in order to collect information for financial reporting disclosure.
- Proposed changes in the treatment of operating leases will require officers to gather information, undertake training and plan for the future treatment of operating leases effective after 1 January 2019 as a result of changes to International Financial Reporting Standard

(IFRS) 16 – “Leases” requiring operating leases previously disclosed off balance sheet to be recognised on balance sheet. Long Term Financial Plans will need to include this change and be updated.

- Proposed changes for Not for Profit (NFP) entities on Income recognition effective January 1 2017. ED 260 applies to grants, donations, taxes and other receipts that are outside the scope of accounting standards and includes guidance assisting NFP entities in applying AASB 15.

The Manager of Governance, Manager Financial Services and Internal Auditor have a good working knowledge of the Local Government Act 1995 and associated regulations with many years’ experience working for local governments and on local government matters. They regularly attend training seminars on legislative and Australian Accounting Standard changes. To ensure there is proper compliance with legislation a review is undertaken every two years of statutory documents and good practice documentation to ensure the information is current and regularly reviewed.

- Reviewing the annual Compliance Audit Return

The internal auditor reviewed the Compliance Audit Return prepared by the Manager of Governance for years ending 31 December 2014 and 2015. The returns were received by the Audit and Risk Committee, adopted by Council, and submitted to the Department of Local Government and Communities by the 31 of March the following year.

There were no items of non-compliance detected with respect to the Compliance Audit Returns for 2014 and 2015.

- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints

The Shire has a Complaints Handling Policy and Procedures. All complaints are required to be registered in a Complaints Data Base in Synergy, acknowledged within five working days and wherever possible resolved within 10 working days. Where a complainant requests their identity and complaint details to remain confidential; the Shire will ensure that disclosure of any personal information to third parties is not made.

The Shire is considering the use of new software to track all complaints using a separate data base of registered complainant’s details to ensure all complaints are actioned promptly as part of its Information and Communications Technology Strategy 2016 -2017 (ICT Strategy) to deliver enhancements to customer service and improvements in efficiency and information management.

- Financial Reporting and Identifying Adverse Trends

Monthly Statements of Financial Activity identify significant adverse trends reported to council. At least one budget review plus a Statutory Budget Review is undertaken each financial year to ensure adverse trends are identified and actioned early with all budget amendments presented to Council for approval. The Statutory Budget Review after adoption by Council is submitted to the Department of Local Government and Communities within 30 days.

Further controls include regular budget reviews in order to identify unusual types of transactions and major variances of income and expenditure. This is in addition to a statutory budget review of all line item of income and expenditure with all significant variances properly investigated. Budget reviews and amendments are approved and adopted by Council.

Monthly Statements of Financial Activity are prepared in accordance with legislative requirements and presented to Council. Significant variances in income and expenditure in these monthly statements are identified and included in the monthly report to Council.

There are controls in place for payment of accounts to ensure supplier's payments do not exceed the tender threshold. A list of all payments are presented to Council each month with the name of the payee, amount and nature of the payment.

- Staying Informed of Compliance Changes – Employee Training

WALGA training was undertaken in February 2016 for all employees involved in raising of purchase requisitions, eQuotes and tendering to make them aware of the legislative changes and requirements under the *Local Government Act 1995* and the *Local Government (Functions and General) Regulations 1996*.

Employees involved in preparation of the Annual Budget and Annual Financial Statements attended workshops organised by Moore Stephens in 2015 and 2016 to make them aware of legislative and Australian Accounting Standard requirements and changes.

Grant Thornton provided workshops on Fringe Benefits Tax (FBT) updates in 2015 and 2016 attended by finance officers involved in preparation and review of the shires liability for FBT.

Finance officers attended training on the proposed changes to the new lease standard provided by Nexia Solutions in July 2016. The new standard IFRS 16 – Leases, and the AASB equivalent will be effective for annual reporting periods beginning on or after 1 January 2019 bringing all operating leases, with minor exceptions, on balance sheet and have an impact on the Long Term Financial Plans of the Shire and its key financial ratios.

- Financial disclosure and significant compliance issues.

All disclosures in management financial reports are reviewed by the management team and executive to ensure they comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996, and Australian Accounting Standards before they are presented to Council. Effects of significant changes such as the recognition of assets at fair value, are reviewed by the financial management team and the external auditors to ensure the recognition, treatment and disclosure complies with legislation.

- Audit Planning and Independence

The Shire has developed a risk based internal audit plan. Areas of significant identifiable risks are reported to the Audit and Risk Committee and placed in an Audit Risk Register. The Audit Risk Register is regularly reviewed and updated to ensure timely resolutions of issues.

Internal and external auditors have considered conflicts of interest and independence very seriously as part of their own ethics and considered the ethics of others in their audit plans. The external auditors as part of their rigorous quality control and client acceptance procedures have ensured they are independent and do not engage in actions or appointments that will compromise this independence.

- Managing Compliance and Ethics

The internal auditor ensures the financial interest register, disclosure of gifts register and other statutory registers are being maintained by the Manager of Governance in accordance with legislation when the Compliance Audit Return is reviewed each year.

Councillors and staff are made aware of their public duty and private interests. Councillors and staff with delegated authority are required to submit primary and annual returns every year. Councillors and staff were instructed on how to complete their returns to ensure all returns are completed correctly and submitted on time.

Newly elected members are provided with guidance and external training arranged by the Manager of Governance.

- Understanding Local Government Compliance and Regulatory Framework

The internal auditor regularly reviews publications issued by the Department of Local Government and Communities, the Chartered Accountants Australia and New Zealand and the Department of Local Government and Communities for changes to legislative requirements, and amendments to Australian Accounting Standards to ensure new changes are properly implemented. The external auditor discusses new legislative requirements with the Manager Financial Services and the Internal Auditor to ensure changes have been properly implemented.

▪ Committee Roles and Responsibilities

Committee members are aware of their obligations not to misuse their positions for financial gain and to disclose their financial interest on all matters to go before committees. Members have been provided with a copy of the Local Government Operational Guideline – Number 9 “Audit in Local Government” revised in September 2013 which outlines their function and responsibilities and have been provided with a copy of the Code of Conduct.

Internal Control

The Shire of Kalamunda has adopted a contemporary approach based on a pro-active, risk awareness culture which identifies the key business risks that the Shire of Kalamunda faces in today’s environment and has implemented a framework based on these foundations. By taking this approach the Shire is able to meet its statutory obligations to ensure it has appropriate policies, practices and procedures of internal control in place and being maintained in order to assist the Shire to carry out its activities in an efficient and orderly manner. This enables the Shire to achieve its objectives, of adherence to management policies, safeguarding the Shire’s assets, and to secure as far as possible the accuracy and reliability of its records.

▪ Integrity and ethics of the organisation.

The Shire adopted a new Code of Conduct in November 2014 as required by Section 5.103 of the *Local Government Act 1995* to provide guidance to Council members, committee members and employees of the Shire in regard to their duties and responsibilities, and to outline the standard of conduct expected of them. There are separate Codes of Conduct for elected members and employees. The Code of Conduct was distributed to councillors and employees and signed declarations returned to the Executive Research Officer by the 30 June 2015.

The Code of Conduct is on the Shire’s intranet and forms part of a new employees induction training.

The guiding principles of the Code of Conduct for Shire of Kalamunda employees, council members and committee members fulfilling their duties is to:

- Act with reasonable care and diligence;
- Act with honesty and integrity;
- Act lawfully;
- Avoid damage to the reputation of the local government;
- Be open and accountable to the public;
- Base decisions or advice on relevant and factually correct information;
- Treat others with respect and fairness; and
- Not be impaired by mind affecting substances.

The Code of Conduct includes the use of:

- Confidential Information;
 - Intellectual Property;
 - Information to be Provided to Council Members;
 - Improper and Undue Influence;
 - Use of Local Government Resources;
 - Role of Council Members and Employees;
 - Disclosure of Interest;
 - Gifts;
 - Personal Behaviour;
 - Corporate Obligations;
 - Internal and External Communication;
- Complaints Handling

There is a Complaints Handling Council Policy and procedures adopted on 22 September 2014, with all complaints registered and actioned by appropriate business units in a timely fashion. A register is maintained of all complaints logged onto the computer system and actioned. Management receive regular reports on the number of complaints received and actioned each month.

- Policies and delegated authority.

A register is maintained of all Council Policies and Procedures. Policies and procedures are regularly reviewed and updated. There is a delegations register that is kept up to date and reviewed regularly.

- Levels of responsibility and authority.

There is a documented corporate structure for the organisation headed by 12 Councillors, the CEO, three directors and fifteen managers with delegated authority. Powers are delegated in writing and the delegations register is kept up to date.

- Audit practices.

The Shire has an Audit and Risk Committee that meets during the year to review the internal and external auditor's reports and recommendations before they are presented to Council. The Audit and Risk Committee complies with the appointment, function and responsibilities under the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*.

The internal auditor regularly reviews and tests the financial management systems of the Shire and prepares regular reports to the Audit and Risk Committee of his findings, with management's comments and recommendations on the appropriateness and effectiveness of the systems in relation to risk management, internal control and legislative compliance.

Maintaining an effective and transparent internal control environment is vital to enable the Shire to operate effectively. The internal control reviews have centred on

the separation of roles, control of approvals, and restricted access to assets and master file records, approval of financial payments, physical inventory counts, regular reconciliation of accounts and more than one budget review each year. Internal audit review activities have been conducted in the following areas:

- Cash Floats and Petty Cash.
- Rates and Rate Rebates, Concessions, Discount and Interest.
- Assets- Fixed Assets.
- Records/ Storage of Information.
- Expenses – Payroll.
- Liabilities – Employee Provisions.
- Liabilities – Loan Borrowings
- Bank Reconciliation.
- Home and Community Care (HACC).
- Cell 9 – Trust Funds (Capital Works)
- Adoption of Fair Value Accounting.
- Tendering.
- Procurement and Accounts Payable.
- Investments.
- Fringe Benefits Tax (FBT).
- Contributions by Lessees/Asset Additions.
- Expenses – Corporate Credit Card Policy.
- Review of Compliance Audit Returns for 2014 and 2015.
- Mail Remittances and Cash Receipts.
- Fees and Charges.
- Budget Reviews.
- Monthly Statement of Financial Activity.
- Long Term Financial Plan 2026
- Annual Budget 2016/2017.
- Registers
- Delegations
- Insurance
- Credit Card Transaction and Procedures
- Forrestfield Industrial Area Stage 1 (Quarterly Financial Statements)

During the past two financial years no significant non-compliance issues were identified.

The audit findings requiring attention have either been actioned or entered in an Audit Risk Register with an estimated date for the items to be actioned (Refer Appendix 2). These items are monitored for a timely resolution.

- Information systems and access

There are proper controls in place restricting access to computer information systems and records. In October 2009 the State Records Commission approved the Recordkeeping Plan on the control and storage of information held by the Shire. This plan has been reviewed and updated. It was approved for submission by Council in September 2014, and submitted to the State Records Commission on the 26th September 2014.

The Shire uses a fully integrated local government financial accounting system (Synergy) for its budgeting, financial reporting and records management. The system provides restricted access to various levels of information by employees for the protection and integrity of data. Appropriate access controls are operating effectively.

- Managements operating style.

Management provides professional advice and well researched agenda reports for councillors. These reports are prepared by management, reviewed by the Manager for Governance and examined by the Executive team made up of the CEO, Directors and Manager of Governance before they are accepted, signed off and circulated to Councillors. Management conveys its reports in a compliant and transparent manner with an officer's recommendation based on all the information provided.

- Human resource management and practices.

There are proper controls and procedures in place in Human Resources for the control and protection of employee's confidential information. There are policies and procedures for Occupational Health and Safety, Staff Training and other operational matters affecting employees. Management practices includes a regular review of leave entitlements to ensure this is being regularly taken by all employees and does not exceed certain levels.

- Reviewing the effectiveness of the local government's internal control systems with management and the internal and external auditors.

A review of Key Control Activities and Recommended Monitoring Activities were conducted by the internal auditor and the findings summarised in the following attachments presented to the Audit and Risk Committee:

- Key Control Activities (Attachment 3)
- Recommended Monitoring Activities (Attachment 2)

The key control and recommended monitoring activities formed part of the internal audit plan for 2014/15 and 2015/16 and is regularly reviewed and the results reported to the Audit and Risk Committee.

Risk Management

▪ Risk Management in Local Government

Risk management in local government is about the systematic identification, analysis, evaluation, control and monitoring of risk within the organisation. While risk cannot be totally eliminated, the Shire is strongly committed towards establishing robust structures, processes and controls that are cost effective in reducing the risk profile, thereby protecting the interests of the Shire, the public and other key stakeholders.

Risk management is an integral part of the management style of the Shire of Kalamunda embedded in the culture and business processes, and is applied at all levels and functions within the organisation.

The Chief Executive Officer (CEO), Directors and Managers are primarily responsible for managing strategic and operational risk on a day to day basis which forms a critical first line of defence for Council. The powers are delegated in writing to the CEO by Council and by the CEO to staff.

Management establishes an appropriate control environment which includes the relevant financial internal controls for addressing the underlying accounting financial systems and processes along with legislative requirements.

The Shires Governance framework establishes the policies and procedures which govern organisational activities and processes. This is established through monitoring activities such as self-assessments, regular reviews, management evaluation and process monitoring and improvement..

The internal audit function is charged with the responsibility to perform an objective assessment on the evaluation of performance of internal control activities and business processes. The internal audit includes an evaluation of key operational and financial internal controls, an assessment of risk, and compliance with legislation. Internal audit findings, management responses and recommendations are regularly reported to the CEO and the Audit and Risk Committee.

The external audit function is independent and provides management with an audit opinion on whether the Shire's accounts are properly kept, and whether its financial report is presented fairly in accordance with the requirements of the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996 (as amended)* and other professional reporting requirements. The external auditor conducts an interim audit on financial processes and procedures to substantiate the accuracy of information reported in the annual financial statements, and issues an interim management report with management's responses, and a final audit report on the annual financial statements. These reports are presented to the Audit and Risk Committee for consideration. During the past two financial years the interim management reports issued by the external auditors have provided minor recommendations to improve procedural matters which have or are being addressed by management and have been included in the Audit risk Register. The Audit Report on the annual financial statements for years ending 30 June 2015 and 30 June 2016 have both been unqualified reports.

The Interim Audit Report on the Financial Statements for the years ending 30 June 2015 and 30 June 2016 were presented to the Audit and Risk Committee with items being addressed by management.

- Providing an Effective Risk Management System

Council noted and adopted a Risk Management Policy in March 2012 to establish a consistent, efficient and effective assessment of risk within the organisation and Risk Management procedures on application of the policy. The Shire has developed an integrated Risk Management Plan documenting the Risk Management process and identifying the systems and processes used in the management of risk.

The risk management processes are an integral part of management and the Shire is committed to continuing to improve its business and risk management priorities.

All risks identified by the internal and external auditors are included in an Audit Risk register for actioning and monitoring by management and executive. These risks are regularly reviewed, updated and reported to the Audit and Risk Committee.

- Implement a Business Continuity Plan and Disaster Recovery

The Shire has developed a Business Continuity Framework comprised of a Business Continuity Policy, Procedures and Business Continuity Plan. The Framework enables the Shire to respond to major incidents that have the potential to significantly impact on the ability of the Shire to deliver its key business activities and primary services. A major incident may also result in casualties, property damage, business interruption, financial loss and damage to the Shire's reputation and image.

The plan incorporates the prevention, preparedness, response and recovery framework which aims to return the Shire to a timely resumption of business activity before the business interruption critically impacts service delivery.

The Shire also has an IT Disaster Recovery Plan. The primary focus of this plan is to enable an effective response to a disaster that destroys or severely cripples the Shires central computer system operated by the Technology and Corporate Support Group. The intent being to restore operations as quickly as possible with the latest and most up-to-date data available.

A new Information Communications Technology Strategy 2016 - 2020 was adopted by Council on the 27 June 2016 with one of its priority actions being regular reviews, testing and refinements of the Business Continuity Plan and Disaster Recovery Plan.

▪ Managing and Assessing Risk, and Raising Awareness of Risk.

The Shire manages Risk at the strategic operational and project levels. Strategic level risks are reported through the Audit and Risk Register.

A Risk Management Workshop was held in June 2016 on proposed capital works projects for Cell 9, Wattle Grove planned for completion over the next five to six years. The objective of the workshop was to:

- Raise an awareness and understanding of effective risk management in capital work projects
- Identify the risks and opportunities associated with the planning, development, design, approvals, construction and operation of Cell 9; and
- Establish a Project Risk Register for Cell 9 capital works rated on likelihood and consequences of the risk event occurring using the matrix in the Risk Management Plan adopted by Council in May 2015.

▪ Effective Management of Insurable Risk

Every year the Local Government Insurance Service (LGIS) presents to Council the renewal report of all the Shire's Insurance Policies. Renewal terms and conditions of all its policies are based on the risk information provided by the Shire of Kalamunda.

As a full member of the Scheme, i.e. participating in all Scheme segments and as a WALGA member, the Shire of Kalamunda receives all the benefits associated as a full member.

The Shire is covered for the following insurance classes:

- Corporate Practices Liability
- Councillors and Officers Liability
- Journey Injury
- Marine Cargo
- Motor Vehicle
- Personal Accident and Travel
- Casual Hirers Liability
- Fidelity Guarantee
- Bushfire Injury
- Property
- Liability (Public Liability and Products Liability)
- Work Care (Workers Compensation)

The Shire annually reviews its insurance coverage so that risk can be effectively managed. Particular attention is focused on assessing activities that may present the Shire with an unacceptable level of risk. For example, in the case of major land development projects a business plan is required in

order to comply with legislation for proposed major land transactions, and in support of officer's reports and recommendation.

- Assessing procurement compliance to ensure probity and transparency of policies and procedures/processes.

As referred to before, policies and procedures in relation to procurement and tendering have been reviewed and strengthened following two Forensic Audits. New procedures on purchases and tendering were introduced that conform with legislative requirements to ensure tenders are properly advertised, recorded and evaluated in accordance with the Local Government Act 1995 and the Local Government (Functions and General) Regulations 1996. The internal auditor conducted regular tests on processes in relation to procurement and tendering to ensure policies and procedures were followed and processes comply with legislation. Management has centralised the procurement process within Corporate Services to strengthen internal control and compliance with legislation. Staff underwent internal training on tendering and procurement in January 2016 and external training with WALGA in February 2016.

All policies are under review and new policies introduced where required. All Council approved policies are listed on the Shires web site.

- Managing changes to the changes in the local government's control environment.

The Audit and Risk Committee meets during the year to review reports issued by the internal and external auditors and make its recommendation to Council.

Detailed planning has been carried out to ensure the Shire complies with the introduction of Fair Value Asset Accounting and increasing the tender threshold from \$100,000 to \$150,000.

- Managing Fraud and Misconduct Risk

Following the completion of forensic audits in 2012 and 2013, a significant review of existing policies was undertaken. Additionally, new policies were established including:

- A Corporate Credit Cards Policy;
- Payment and Reimbursement of Expenses Policy;
- Travel Policy
- Whistle-blower (Public Interest Disclosure) Policy

The Whistle-blower (Public Interest Disclosure) Policy and procedures were prepared to encourage employees, elected members, contractors and consultants to report unlawful and unethical, or undesirable conduct that they genuinely believe has occurred or been committed by a person or persons in breach of the Shire of Kalamunda's Code of Conduct, policies or the law.

The internal auditor conducts regular risk assessments of financial management systems and procedures, to ensure internal controls are in place and operating effectively, and that there is compliance with legislation and policies. Regular internal audit reports with management's responses and recommendations are presented to the Audit and Risk Committee. This has strengthened the corporate governance processes and the internal control environment.

Conclusion

The Risk Management Review illustrates that the Shire's legislative compliances, internal control environment is satisfactory. Notwithstanding, improvement opportunities identified within the review will enhance the Shire's control environment

Whilst a number of areas have been identified for improvement, the overall effectiveness of the financial management systems and procedures of the Shire of Kalamunda in relation to legislative requirements, internal control and risk management remains sound and appropriate for the current level of operations and meet the requirements of regulation 17 of the Local Government (Audit) Regulations 1996. The strengths and weaknesses of the risk assessment review of legislative compliance, internal control is summarised as follows:

In Governance and Organisational Management Strengths

- The Shire has adopted a governance framework which provides guidance and strategies for the development of critical operational and compliance documentation.
- A high level of reporting and information content in Agendas and Minutes.
- A high standard of reporting information and content in the Annual Report.
- Adoption of a Risk Management Policy and Risk Management Plan.
- Developed a Risk Register for addressing and monitoring risks.
- Risk Management integrated into all levels of planning and reporting to Council.
- A robust disaster recovery arrangement in place for IT systems and electronic records
- Council policies and procedures reviewed, updated and new policies adopted by Council.
- Council and Management addressing the recommendations emanating from two forensic audits in 2012 and 2013.
- Content and structure of Agendas and Minutes includes a comprehensive index which meets the requirements of the Act and includes all information to be considered by Council, with a comprehensive officer's report and

recommendation. Each individual report also tests risk management considerations.

- There is an Effective Business Continuity Plan in place.
- Regular internal audit reports prepared for the Audit and Risk Committee which identify areas requiring attention in order to strengthen the internal control structure to improve operations and mitigate potential exposure to risk.
- Management addressing the internal control deficiencies and have introduced an audit risk register to record all risks and assign these risks to responsible managers for regular review.
- Councillors and staff understand their obligations under the Code of Conduct relating to corruption and acceptance of gifts by disclosing all gifts in the gift register.
- Regular Audit and Risk Committee Meetings are held to review internal and external auditor's reports, new policies and other information and provide its recommendations to Council.
- A detailed customer service policy and customer service complaints handling process
- A well-managed and operated records keeping system.

Weaknesses / Best Practice

- Proper documentation of operational procedures within a number of areas to enable new employees to understand systems especially in the rates and payroll areas.
- Comprehensive induction training required for new employees.
- There is limited workforce succession planning.

In Financial Management

Strengths

- Adopting and implementing the Integrated Planning and Reporting Framework which included the Strategic Community Plan and Corporate Business Plan, Asset Management and Long Term Financial Plans and submitting these documents to the Department of Local Government and Communities.
- High level of reporting information and content in the Annual Budget
- High level of reporting information and content in the Annual Financial Statements.
- Phasing in of assets at Fair Value in accordance with legislative requirements.
- Meeting majority of the preferred benchmarks for Key Performance Indicators (KPI's) for long term financial sustainability.
- Improvements in the Shire's liquidity and cash backed reserves.
- Undertaking more than one budget review during the financial year.

- Preparing regular internal audit reports for the Audit and Risk Committee on financial, operational and procedural matters on internal control, risk and legislative compliance.

Weaknesses / Best Practice

- Lack of good procedural documentation for staff working in certain areas to prevent errors being made in data entry. This has been placed on the audit risk register for attention by management and is gradually being addressed.

Appendix

1. Information and Communications Technology Strategy 2016 – 2020
2. Audit and Risk Register
3. Key Control Activities
4. Recommended Monitoring Activities
5. Risk Management Policy
6. Risk Management Procedures

Attachment 2
Recommended Monitoring Activities

Risk Area	Internal Audit Plan - Recommended Monitoring Activities (ATTACHMENT 2)	In Place (Yes)	Not in Place (No)	Comments
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.	Yes		Reported at Ordinary Council Meetings under Chief Executive Officers Report. These reports conform with the minimum statutory reporting requirements.
	b) Through a Statutory Budget Review conducted between January and March significant variances are investigated, reviewed and explained.	Yes		First budget review for 3 months to September 2016 completed. Statutory review 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)	Yes		Monitor and report to Council on a quarterly basis.
	b) Through the SFA grant revenue is compared to budget; management reviews, investigates and explains significant variances.	Yes		
4. Receipting	a) Income is compared to budget regularly in the SFA; management reviews, investigates and explains significant variances.	Yes		Management reports reviewed by each business unit manager at month end.
	b) Statements of accounts receivable are sent to customers enabling review.	Yes		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

Risk Area	Internal Audit Plan - Recommended Monitoring Activities (ATTACHMENT 2)	In Place (Yes)	Not in Place (No)	Comments
5. Rates	a) Management reviews rates ageing profile on a monthly basis and investigates any outstanding items	Yes		Included with monthly reporting of Statement of Financial Activity
	b) Actual rate revenue is compared to budget; management reviews, investigates and explains significant variances.	Yes		KPI targets in interplan which is reviewed monthly and provided with monthly reports to Council
	c) Annual valuation update is balanced prior to the generation of rates; this is reconciled to the rate record and reviewed.	Yes		Reconciled prior to issue of rate notices for 2016/2017 Financial Year
	d) Interim valuation updates are balanced prior to the generation of interim rates; this is reconciled to the rate record and reviewed.	Yes		Each schedule is balanced by the rates reconciliation clerk.
6. Receivables	a) Receivables and revenues are compared to budget monthly, management reviews, investigates and explains significant variances.	Yes		As per above, management reports reviewed by Business Unit manager at month end.
	b) Management reviews provision for doubtful debts on a regular basis.		No	Only at year end
	c) Management reviews debtors ageing profile on a monthly basis and investigates any outstanding items.	Yes		At end of each month and considered during Audit and Risk Committee at year end for those considered for write off.
	d) Trade receivables age reconciliation to the general ledger is reviewed at least monthly.	Yes		By Manager Financial Services
7. Bank accounts and banking	a) Management reviews journal transactions to the bank account.	Yes		By Manager Financial Services
	b) Management reviews bank reconciliations monthly to confirm large outstanding items are adequately explained and subsequently resolved.	Yes		Signed off by Manager Financial Services.

Risk Area	Internal Audit Plan - Recommended Monitoring Activities (ATTACHMENT 2)	In Place (Yes)	Not in Place (No)	Comments
8. Investments	a) Review the council investment performance regularly.	Yes		By Manager Financial Services
	b) Actual investment income compared to budget on a regular basis; management reviews, investigates and explains significant variances.	Yes		Report to Council as part of month end financial reporting cycle.
	c) Investment register maintained in accordance with regulations and investment policy.	Yes		Reviewed on an annual basis and updated when necessary.
	d) Reconciliations of investment register to general ledger routinely prepared and reviewed.	Yes		
9. Payroll	a) Management reviews employee costs against budget on a monthly basis and investigates any outstanding items.	Yes		Management reports are reviewed by the Manager Financial Services on a monthly basis.
	b) Each department manager performs a regular review of reports detailing all employees listed on payroll master file; all unusual items are investigated	Yes		Refer above and as part of budget reviews Manager Financial Services also does an actual review at month end.
	c) Salary and hourly payroll reports (including compensation and withholding information) are reviewed and approved by management before payments are approved.	Yes		
	d) The payroll deduction table data is periodically reviewed by management for accuracy and ongoing pertinence.		No	
	e) Management reviews a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements; identified errors are promptly corrected.	Yes		Tested by Internal Auditor mainly for Novated Leases
	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		

Risk Area	Internal Audit Plan - Recommended Monitoring Activities (ATTACHMENT 2)	In Place (Yes)	Not in Place (No)	Comments
10. Purchasing, procurement and payments	a) Actual expenditure is compared to budget monthly; management reviews, investigates and explains significant variances.	Yes		Purchasing is now centralised within finance, which has strengthened the control further.
	b) A list of all payments is prepared and presented monthly to the council; management reviews, investigates and explains any unusual or large payments.	Yes		
	c) Management reviews supporting documentation before approving payments	Yes		
11. Trade payables	a) Management reviews trade payables ageing profile on a monthly basis and investigates any outstanding items.	Yes		Part of month end reporting to Council.
	b) Trade payables age reconciliations to the general ledger is reviewed at least monthly.	Yes		By Manager Financial Services
12. Fixed Assets	a) Management compare actual fixed asset balance to budget; management reviews, investigates and explains significant variances.	Yes		Part of the Financial Activity Statement and reporting to the Council each month
	b) Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget.	Yes		
	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	Yes		As part of phasing in and treatment of assets at Fair Value Plant and Equipment completed 30 June 2013 Land and Buildings completed 30 June 2014 Infrastructure completed 30 June 2015. Adjustment 2016
	d) Management reviews depreciation rates and methodology (at least annually) to ensure rates and remaining useful lives are reasonable.	Yes		Now calculated by Assetic in asset register.
	e) Fixed asset register to the general ledger reconciliation is prepared and reviewed routinely.	Yes		Reviewed and signed off by Systems and Financial Accountant

Risk Area	Internal Audit Plan - Recommended Monitoring Activities (ATTACHMENT 2)	In Place (Yes)	Not in Place (No)	Comments
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.
14. Journals	a) All journals are independently reviewed (including check to ensure correct account allocation) and contains sufficient support information.	Yes		Checked and approved by Manager Financial Services
15. General IT Risks	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.

Attachment 3
Key Control Activities

Risk Area	Internal Audit Plan - Key Control Activities (ATTACHMENT 3)	In Place (Yes)	Not In Place (No)	Comments
1. Financial Report Preparation	a) Employees responsible for financial report preparation are competent and adequately trained.	Yes		Three qualified accountants with local government experience and training
	b) All journal entries require supporting documentation. Any non-routine entries require documented approval prior to being posted.	Yes		By Manager Financial Services
	c) Accounting software used contains application controls that prevent or detect errors from occurring.	Yes	No	Items can be overridden without a budget allocation or creditors processed if they exceed \$150,000 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.	Yes		
	b) Persons processing payroll are independent of other payroll functions, such as hiring/firing of staff, timekeeping and EFT payment.	Yes		More staff appointed in this area has improved the segregation of functions
	c) Approval in writing is obtained before adding new employees to payroll.	Yes		
	d) Signed and dated approval of each employee's pay rate is documented on employee file.	Yes		
	e) Timesheets and total hours worked are approved before being processed for payment.	Yes		Only Operations and Home and Community Care (HACC) employees complete time sheets.
	f) Procedures exist to ensure terminated employees are immediately removed from payroll.	Yes		
	g) Payroll register is reconciled to the general ledger and reviewed by a senior officer independent of payroll.	Yes		
	h) Costs by sub program, are compared to budget.	Yes		Budget reviews conducted line by line for each a/c more than once per year

Risk Area	Internal Audit Plan - Key Control Activities (ATTACHMENT 3)	In Place (Yes)	Not in Place (No)	Comments
3. Revenue	a) Rates/debtors officers are competent for their assigned tasks, adequately trained and supervised.	Yes		There is ongoing on the job training and online training in the use of the Synergy IT Rates System
	b) Monthly statements are issued to trade debtors	Yes		
	c) Rates are raised in line with the approved budgeted rate in the dollar.	Yes		
	d) The rate record is updated and reconciled monthly to the Valuer Generals Office (VGO) records.	Yes		This forms basis for interim rating
	e) Documented procedures are in place to ensure the VGO is informed of any building works approved.	Yes		
	f) The rates ledger is reconciled to the General Ledger.	Yes		
	g) The approved schedule of Fees and Charges is used for invoice preparation. Exceptions require documentation and approval.	Yes		Fees and Charges approved when budget adopted
	h) Automatic or manual checks are performed on serial continuity of Invoice documents.	Yes		Automatic
	i) Credit note approvals are independent of accounts receivable.	Yes		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.	Yes		Front counter, four cashiers and one supervisor
	b) Bank reconciliation is prepared monthly (with statements from bank) and management approval documented	Yes		Prepared by Finance Officer and approved by Manager Financial Services.
	c) Customers are informed (signs, etc) that they should obtain receipts.	Yes		It is an option they have by ticking the appropriate box .
	d) Pre-numbered cash receipts are issued for every cash sale. Serial continuity is reviewed periodically and checked against cash deposit data.		No	Serial numbers are generated by computer No independent checks carried out.

Risk Area	Internal Audit Plan - Key Control Activities (ATTACHMENT 3)	In Place (Yes)	Not in Place (No)	Comments
3. Purchases, payables, payments	e) Staff required to take their leave entitlements annually	Yes		Constantly reviewed and monitored by management
	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.	Yes		
	g) All receipts cash/cheques are deposited on a regular and timely basis	Yes		Two to three times a week by a security contractor. Sealed cash bag countersigned by SOK staff and CBA
	h) Reconciliation of daily deposit total to receivable posting and cash sales is prepared and reviewed.	Yes		
	i) A reconciliation of aged receivables to control accounts is prepared monthly and management approval documented.	Yes		Signed off by Manager Financial Services
	j) Procedures exist to ensure receipts are recorded in the correct period.	Yes		Cut off procedures are in place.
	k) Significant overdue customer accounts are investigated by management and actions taken documented.	Yes		Aged analysis reviewed at month end and any > 60 day accounts are followed up. A report to Council is prepared each month.
	a) Personnel responsible for the purchasing, shipping, receiving and payable functions are competent, adequately trained and supervised.	Yes		
	b) Management reviews outstanding cheques on period - end bank reconciliations.	Yes		Manager Financial Services
	c) Prenumbered 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.	Yes		A register of cheques issued is now maintained
	d) The purchasing policy clearly defines who can raise purchase requisitions/orders and to what dollar limit.	Yes		In policy and procedures
	e) Access to purchasing, receiving, accounts payable, and inventory records is restricted to authorised personnel.	Yes		
	f) Spending limits are set by budget or individual levels of authority. These limits are monitored by the system or manually.	Yes		Monitored by regular budget reviews

Risk Area	Internal Audit Plan - Key Control Activities (ATTACHMENT 3)	In Place (Yes)	Not in Place (No)	Comments
	g) A list of preferred suppliers is maintained and used where possible.	Yes		
	h) Controls exist to ensure corporate buying/credit cards are only issued to authorised staff, and personal purchases are not allowed.	Yes		Strict control and review by Manager Financial Services
	i) Pre-numbered purchase orders and receiving reports are used and exceptions are approved and documented.	Yes		Orders are generated by computer in sequential number via purchase requisition.
	j) Period -end procedures exist to detect and account for unprocessed goods/service receipts.	Yes		Outstanding position at year end are reviewed and those not required are purged.
	k) Personnel receiving goods do not perform any accounting functions.	Yes		Goods normally received at depot or on work site if a construction job. Goods received note signed.
	l) An aged accounts payable listing is reconciled to general ledger each month and exceptions investigated by management.	Yes		A report to Council is prepared at each month end.
	m) Aged report of open orders is reviewed each month and old/unusual items are investigated.	Yes		
	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.	Yes		
	o) System has checks to prevent duplicate payments on the same order.	Yes		One copy of order is matched to invoice
	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.	Yes		
	q) Signing officers examine supporting documentation to payments and document approval.	Yes		Two officers each time.
	r) All cheques must be made out to authorised vendors and cannot be made out to cash.	Yes		Except for endorsed please pay cash for petty cash and till floats
	s) A reconciliation of the accounts payable sub ledger to the general journal is prepared monthly and approved by management.	Yes		
	t) Suppliers' statements are reconciled to accounts payable monthly and reviewed by management.		No	Only done in May and June before year end other months if a statement is received by AP staff.
	u) Procedures exist to ensure payments are recorded in the correct period.	Yes		

Risk Area	Internal Audit Plan - Key Control Activities (ATTACHMENT 3)	In Place (Yes)	Not in Place (No)	Comments
6 Monthly BAS Returns	v) Procedures exist to ensure all bank accounts and signatories are authorised by council.	Yes		Through powers conferred on the CEO and delegations.
	w) The accounting policy for when goods should be capitalised is documented and clearly understood by accounting personnel.	Yes		Reviewed by accounting staff who make corrections via journal
	x) Management regularly compares actual purchases (costs and expenses) to budgetd purchases and investigates and documents variances.	Yes		Monthly and during budget reviews
	y) management follows up creditors queries on a timely basis.	Yes		
	z) Management addresses the reasons for debit balances on creditors accounts on a timely basis.	Yes		Monthly review
	a) BAS statements are prepared monthly and submitted on time with the ATO	Yes		
	b) Variances between GL and BAS statements are investigated regularly and adjusted	Yes		Monthly
7. FBT Returns	a) The information used to prepare and support the FBT Return is received and summarised on a regular basis.	Yes		Mainly log book information
	b) Log books are regularly approved and submitted to the preparer of the FBT Return	Yes		Electronic log books introduced and being monitored and compared with manual log books
	c) FBT Returns are independently checked to ensure the information is correct before the return is submitted	Yes		By Internal Auditor and Manager Financial Services
	d) A report is prepared for management on changes in FBT compared with the previous year	Yes		There has been a significant decrease in FBT due in part to Novated leasing and reduction in number of shire vehicles used privately, and use of electronic log books

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

06. Risk Management Framework

Previous Items	N/A
Responsible Officer	Director Corporate & Community Services
Service Area	Financial Services
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Integrated Risk Management Plan
Attachment 2	Strategic Risk Register
Attachment 3	Shire of Kalamunda Risk Management Policy – Revised Management Procedures

PURPOSE

1. That Council endorses the Integrated Risk Management Plan (Attachment 1).
2. That Council reviews and endorse the Strategic Risk Register (Attachment 2).
3. That Council notes the Shire of Kalamunda Risk Management Policy - Revised Management Procedures (Attachment 3).

BACKGROUND

4. The Shire of Kalamunda (Shire) is committed to organisation wide risk management principles, policies, systems and processes that ensure efficient and effective assessment of risk in all planning, decision making and operational processes.
5. The Shire has developed an Integrated Risk Management Plan (the Plan) that documents the Risk Management process and identifies the systems and processes used in the management of risk.
6. The Strategic Risk Register (the Risk Register) has been reviewed and updated identifying the key risks likely to prevent the Shire meeting its objectives in the Corporate Business Plan.
7. Procedures supporting the Councils Risk Management Policy have been reviewed and updated providing the Framework through which risk is managed.

DETAILS

8. Risk Management refers to the coordination of activities that directs and controls the organisation with regard to risks. It is acknowledged that risk management involves both the management of potentially adverse effects as well as the realisation of potential opportunities. Risk management is part of the Shire's strategy to promote accountability through good governance and robust business practices, contributing to the strategic objective of creating a

sustainable organisation to effectively manage resources and operations in order to strengthen service delivery.

9. The Shire's approach to Risk Management is aligned to the AS/NZS 31000:2009 Risk Management Principles and guidelines (the Standard).
10. The benefits of embedding risk management in all aspects of management are:
 - Effective management of adverse events or opportunities that impact on our purpose and objectives
 - Ability to make informed decisions regarding management of potential negative effects of risk and take advantage of opportunities
 - Improved planning and performance management processes enabling a strong focus on core business service delivery and implementation of business improvements
 - Ability to direct resources to risks of greatest significance or impact
 - Improvement in organisational culture enhancing staff capacity to understand their role in contributing to the achievement of objectives
 - Improved organisational efficiency
11. The Australian Standard for Risk Management – Principles and guidelines (AS/NZ ISO 31000:2009) is based on 11 best practice principles. These principles underpin the Plan and guide how to effectively and efficiently manage risk at all levels.
 - 1. Creating and protecting value** – risk management contributes to the achievement of the Shire's objectives and improves performance in areas such as corporate governance, program and project management, and employee health and safety.
 - 2. An integral part of all organisational processes** – risk management is not a stand-alone activity performed in isolation. Rather, it is an integral part of our governance and accountability framework, performance management, planning and reporting processes.
 - 3. Part of decision making** – risk management aids decision-makers to make informed choices, prioritise activities and identify the most effective and efficient course of action.
 - 4. Explicitly addressing uncertainty** – risk management identifies the nature of uncertainty and how it can be addressed through a range of mechanisms, such as sourcing risk assessment information and implementing risk controls.
 - 5. Systemic, structural and timely** – risk management contributes to efficiency and to consistency.
 - 6. Based on the best available information** – risk management should draw on diverse resources of historic data, expert judgement and stakeholder feedback to make evidence-based decisions.
 - 7. Tailored** – risk management aligns with the internal and external environment within which the Shire operates, and in the context of its risk profile.
 - 8. Human and cultural factors** – risk management recognises that the capabilities, perceptions and aims of people (internal and external) can aid or hinder the achievement of objectives.
 - 9. Transparent and inclusive** – risk management requires appropriate and timely involvement of stakeholders to ensure that it stays relevant

and up to date. Involving stakeholders in decision making processes enables diverse views to be taken into account when determining risk criteria.

10. Dynamic, interactive and responsiveness to change – risk management responds swiftly to both internal and external events, changes in the environmental context and knowledge, results of monitoring and reviewing activities, new risks that emerge and others that change or disappear.

11. Continual improvement of the organisation – risk management facilitates continuous improvement of our operation by developing and implementing strategies to improve risk management maturity.

12. The Shire is committed to continuous improvement in the Risk Management and ongoing monitoring and review will increase the Shire's risk management maturity. Within the Risk Registers, each risk contains details of risk treatment plans which will be subject to ongoing monitoring and review.

STATUTORY AND LEGAL CONSIDERATIONS

13. Local Government (Audit) Regulations Amendment.
Amendments to the *Local Government (Audit) Regulations 1996* came into effect on 9 February 2013. Specifically, clause 17 which states:

"17. CEO to review certain systems and procedures

(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –
(a) risk management; and
(b) internal control; and
(c) legislative compliance

(2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.

(3) The CEO is to report to the audit committee the results of that review."

In addition to the requirement for the CEO to prepare a report as outlined in clause 17, the Regulation also stipulates an additional responsibility for the Audit Committee as detailed in clause 16(c) which states:

"(c) is to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to –
(i) report to the council the results of that review; and
(ii) give a copy of the CEO's report to the council."

POLICY CONSIDERATIONS

14. Risk Management Shire Policy.

COMMUNITY ENGAGEMENT REQUIREMENTS

15. Nil.

FINANCIAL CONSIDERATIONS

16. Nil.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

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

OBJECTIVE 6.9: To provide a risk minimised and safe working environment in every aspect of the Shire's business.

SUSTAINABILITY

Social Implications

18. Nil.

Economic Implications

19. Nil.

Environmental Implications

20. Nil.

RISK MANAGEMENT CONSIDERATIONS

- 21.
- | Risk | Likelihood | Consequence | Rating | Action/Strategy |
|--|-------------------|--------------------|---------------|--|
| The Shire's Risk Management framework fails to adequately manage risk. | Possible | Minor | Medium | Council endorsed Risk Management Plan.

Monitoring and review of Risk Registers. |

OFFICER COMMENT

22. Risk Management is a core element of the Shire's Corporate Governance Framework and is an integral element of contemporary management practices. It provides stakeholders with assurance that the Shire is proactively managing its risk exposure.
23. The Risk Management Plan and Strategic Risk Register provide an integrated and effective framework for the Shire to manage risk. The Risk Management Plan and the Strategic Risk Register will be subject to ongoing review and will contribute to continuous improvement within the Shire's operations.

Motion

That Council suspend Standing Orders to discuss matter contained in this report.

Moved: **Cr Tracy Destree**
Seconded: **Cr Sue Bilich**
Vote: **CARRIED UNANIMOUSLY (12/0)**

Standing Orders were suspended at 6:57pm.

Motion

That Council resume Standing Orders after discussing matters contained in this report.

Moved:	Cr Noreen Townsend	
Seconded:	Cr Simon Di Rosso	
Vote:	<u>For</u>	<u>Against</u>
	Cr Allan Morton	Cr Michael Fernie
	Cr Noreen Townsend	Cr John Giardina
	Cr Simon Di Rosso	Cr Geoff Stallard
	Cr Sue Bilich	Cr Brooke O'Connell
		Cr Andrew Waddell
		Cr Sara Lohmeyer
		Cr Dylan O'Connor
		Cr Tracy Destree
	LOST (4/8)	

Standing Orders remained suspended at 7.20pm.

Motion

That Council resume Standing Orders after discussing matters contained in this report.

Moved: **Cr Geoff Stallard**
Seconded: **Cr Sue Bilich**
Vote: **CARRIED UNANIMOUSLY (12/0)**

Standing Orders resumed at 7.30pm.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (A&R 06/2016)

That Council:

1. Endorses the Integrated Risk Management Plan (Attachment 1).
2. Reviews and endorse the Strategic Risk Register (Attachment 2).
3. Notes the revised Shire of Kalamunda Risk Management Council Policy – Revised Management Procedures (Attachment 3).

Moved:

Seconded:

Vote:

COMMITTEE RECOMMENDATION TO COUNCIL (A&R 06/2016)

That Council:

1. Notes the Integrated Risk Management Plan (Attachment 1).
2. Reviews and notes the Strategic Risk Register (Attachment 2).
3. Notes the revised Shire of Kalamunda Risk Management Council Policy – Revised Management Procedures (Attachment 3).

Moved: **Cr Tracy Destree**

Seconded: **Cr Sue Bilich**

Vote: **CARRIED UNANIMOUSLY (12/0)**

Attachment 1

Integrated Risk Management Plan



**shire of
kalamunda**



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Introduction

Intent

Risk Management is a core component of corporate governance and an integral part of contemporary management practices. The aim of the plan is to ensure that the Shire makes informed decisions in terms of its strategies and operations ensuring that risks and opportunities are appropriately considered.

Purpose

The Risk Management Plan identifies the manner in which the Shire manages risk to ensure that strategic, operational and project objectives are met. The Risk Management Plan identifies the process, systems and templates used by the Shire to manage risk. The Risk Management Plan is structured around AS/NZS/ISO 31000:2009, and the requirements under the *Local Government (Audit) Regulations 1996*.

What is Risk Management?

A risk is defined as the effect of uncertainty (either positive or negative) on business objectives.

Risk management is the coordination of activities that directs and controls the organisation with regard to risks. It is commonly accepted that risk management involves both the management of potentially adverse effects as well as the realisation of potential opportunities.

In performing daily activities, risk management can be described as the collection of deliberate actions and activities carried out at all levels to identify, understand and manage risk in order to achieve the objectives of the Shire.

Benefits of Risk Management

The benefits of risk management embedded in all aspects of management are:

- effective management of adverse events or opportunities that impact on our purpose and objectives
- ability to make informed decisions regarding management of potential negative effects of risk and take potential advantage of opportunities
- improved planning and performance management processes enabling a strong focus on core business service delivery and implementation of business improvements
- ability to direct resources to risks of greatest significance or impact
- improvement in culture of the organisation enhancing staff capacity to understand their role in contributing to the achievement of objectives
- greater organisational efficiencies

Goals of the Plan

The Plan aims to:

- integrate risk management within the Shire's performance management cycle
- communicate the benefits of risk management

- convey the Shire's policy, approach and attitude to risk management
- set the scope and application of risk management within the organisation
- establish the roles and responsibilities for managing risk
- set out a consistent approach for managing risk across the organisation, aligned with relevant standards and industry best practice
- detail the process for escalating and reporting risk
- convey the Shire's commitment to the periodic review and verification of the Risk Management Plan and its continual improvement
- describe the resources available to assist those with accountability or responsibility for managing risks
- ensures the Shire meets its risk reporting obligations
- manages the identifiable business risks relevant to financial reporting
- whether the risk is a risk of fraud
- whether the risk is related to recent significant economic, accounting or other developments and therefore requires special attention
- the complexity of transactions
- whether the risk involves significant transactions with related parties

Principles Underpinning the Plan

The Australian Standard for Risk Management – Principles and guidelines (AS/NZ ISO 31000:2009) is based on 11 best practice principles. These principles underpin the Plan and guide how to effectively and efficiently manage risk at all levels.

1. **Creating and protecting value** – risk management contributes to the achievement of the Shire's objectives and improves performance in areas such as corporate governance, program and project management, and employee health and safety.
2. **An integral part of all organisational processes** – risk management is not a stand-alone activity performed in isolation. Rather, it is an integral part of our governance and accountability framework, performance management, planning and reporting processes.
3. **Part of decision making** – risk management aids decision-makers to make informed choices, prioritise activities and identify the most effective and efficient course of action.
4. **Explicitly addressing uncertainty** – risk management identifies the nature of uncertainty and how it can be addressed through a range of mechanisms, such as sourcing risk assessment information and implementing risk controls.
5. **Systemic, structural and well timed** – risk management contributes to efficiency and to consistent, comparable and reliable results.
6. **Based on the best available information** – risk management should draw on diverse resources of historic data, expert judgement and stakeholder feedback to make evidence-based decisions. As decision-makers, we should be cognisant of the limitations of data, modelling and divergence amongst experts.
7. **Tailored** – risk management aligns with the internal and external environment within which the Shire operates, and in the context of its risk profile.
8. **Human and cultural factors** – risk management recognises that the capabilities, perceptions and aims of people (internal and external) can aid or hinder the achievement of objectives.
9. **Transparent and inclusive** – risk management requires appropriate and timely involvement of stakeholders to ensure that it stays relevant and up to date. Involving stakeholders in decision making processes enables diverse views to be taken into account when determining risk criteria.

10. Dynamic, interactive and responsiveness to change – risk management responds swiftly to both internal and external events, changes in the environmental context and knowledge, results of monitoring and reviewing activities, new risks that emerge and others that change or disappear.

11. Continual improvement of the organisation – risk management facilitates continuous improvement of our operation by developing and implementing strategies to improve risk management maturity.

Legislative Framework

Risk Management Policy

Intent:

The Shire of Kalamunda is committed to organisation-wide risk management principles, systems and processes that ensure consistent, efficient, and effective assessment of risk in all planning, decision making and operational processes. This will ensure compliance with the Financial Reporting, Budgeting and Integrated Planning requirements of the *Local Government Act (1995)*, *Local Government (Financial Management) Regulations 1996* and the *Local Government (Audit) Regulations 1996*.

The *Local Government (Audit) Regulations 1996* includes a review by the Chief Executive Officer on the appropriateness and effectiveness of the local governments systems in regard to risk management, internal control and legislative compliance, and reporting the results to the Audit and Risk Committee for consideration of that review, to the Council.

Definition of Risk:

AS/NZS ISO 31000:2009 defines risk as "the effect of uncertainty on objectives."

- A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative, or a deviation from the expected. An objective may be financial, related to health and safety, or defined in other terms.
- Definition of Risk Management: the application of coordinated activities to direct and control an organisation with regard to risk.

Principles – Framework - Process

The Shire of Kalamunda considers risk management to be an essential management function in its operations. They recognise that the risk management responsibility for managing specific risks lies with the person who has the responsibility for the function, service or activity that gives rise to that risk. The Shire is committed to the principles, framework and process of managing risk as outlined in AS/NZS ISO 31000:2009.

The Shire of Kalamunda will manage risks continuously using a process involving the identification, analysis, evaluation, treatment, monitoring and review of risks. It will be applied to decision making through all levels of the organisation in relation to planning or executing any function, service or activity.

In particular it will be applied to:

- Strategic and operational planning
- Expenditure of large amounts of money
- New strategies and procedures
- Management of projects, tenders and proposals
- Introducing significant change
- The management of sensitive issues.
- The achievement of organisational goals and objectives.
- Compliance with Local Government Act (1995), Local Government (Audit) Regulations 1996
- The ongoing health and safety of all employees at the workplace
- Ensuring public safety within the Council's jurisdiction is not compromised.
- Limited loss or damage to property and other assets.
- Limited interruption to business continuity.
- Positive public perception of Council and the Shire.
- Application of equal opportunity principles in the workforce and the community.

Responsibilities

- Executive, managers and supervisors have the responsibility and accountability for ensuring that all staff are managing the risks within their own work areas. In each of these areas, risks should be anticipated and reasonable protective measures taken.
- All managers will encourage openness and honesty in the reporting and escalation of risks.
- All staff will be encouraged to alert management to the risks that exist within their area, without fear of recrimination.
- All staff will, after appropriate training, adopt the principles of risk management and comply with all policies, procedures and practices relating to risk management.
- All staff and employees will, as required, conduct risk assessments during the performance of their daily duties. The level of sophistication of the risk assessment will be commensurate with the scope of the task and the associated level of risk identified.
- Failure by staff to observe lawful directions from supervisors regarding the management of risks and/or failure of staff to take reasonable care in identifying and treating risks in the workplace may result in disciplinary action.
- It is the responsibility of every department to observe and implement this policy in accordance with procedures and initiatives that are developed by management from time to time.
- It is the responsibility of the auditor to obtain an understanding of the local government and its environment, including its internal control, sufficient to identify and assess risks of material misstatement of the financial statements whether due to fraud or error.
- Council is committed morally and financially to the concept and resourcing of risk management.

Monitor and review

The Organisation will implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends.

Risk management key performance indicators, relating to both organisational and personal performance will be developed, implemented and monitored, by the Shire's Executive and Council as appropriate

Signed: Name
Date / / Chief Executive Officer
Review Date / /

This policy is to remain in force until otherwise determined by Council.

Legislation

- Section 5.56(1) and (2) of the *Local Government Act 1995*- Planning for the Future; Regulation 17(1) (a) of the *Local Government (Audit) Regulations*: "The CEO is to review the appropriateness and effectiveness of a local government's system and procedures in relation to risk management".
- Under regulation 17 (1) of the *Local Government (Audit) Regulations 1996* the CEO is to review the appropriateness and effectiveness of a local government's system and procedures in relation to –
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.17 (2) the review may relate to any or all of the matters referred to in sub regulation (1) (a),(b) and (c), but each of those matters is to be the subject at least once every 2 calendar years.
17(3) The CEO is to report to the audit committee the results of that review.

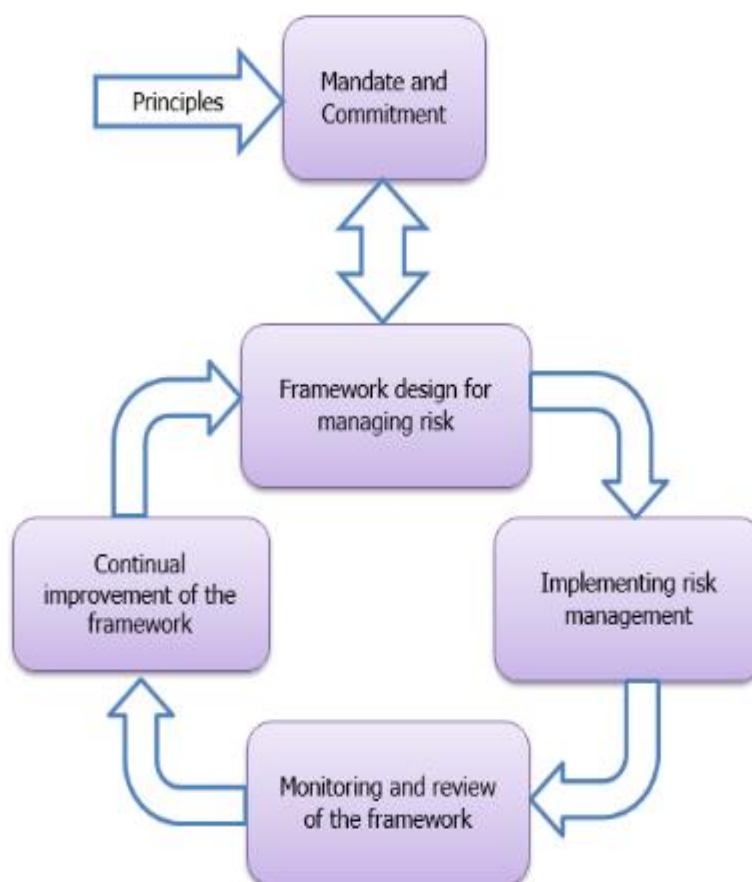
Australian/New Zealand Standard

- Alignment with the Australian/New Zealand Standard ISO 31000:2009 Risk management – Principles and guidelines (AS/NZS ISO 31000).

A Framework for Managing Risk

Risk management should be implemented by ensuring that the risk management process is applied to all relevant levels and functions of the organisation as part of its practices and processes (principles and guidelines (AS/NZS ISO 31000:2009)).

Risk Management requires strong and sustained commitment by management of the organisation as well as strategic and rigorous planning to achieve commitments at all levels (Risk management – principles and guidelines (AS/NZS ISO 31000:2009)).



Mandate and Commitment

The introduction of risk management and ensuring its ongoing effectiveness require strong and sustained commitment by management of the organisation, as well as strategic and rigorous planning to achieve commitment at all levels. Management should:

- define and endorse the risk management policy;
- ensure that the organisation's culture and risk management policy are aligned;
- determine risk management performance indicators that align with performance indicators of the organisation;
- align risk management objectives with the strategies of the organisation;
- ensure legal and regulatory compliance

Framework Design for Managing Risk

The component of a framework for managing risk includes:

- An understanding of the organisation and its context
- Establishing a risk management policy
- Accountability
- Integration into organisational processes
- Resources

- Establishing internal communication and reporting mechanisms
- Establishing external communication and reporting mechanisms



Risk Governance and Accountabilities

Risk management is part of the Shire's strategy to promote accountability through good governance and robust business practices, which contributes to the strategic objective of creating a sustainable organisation to manage resources effectively in order to strengthen service delivery.

The Shire is committed to embedding risk management principles and practices into its organisational culture, governance and accountability arrangements, planning, information technology, engineering, community services, reporting, performance reviews, business transformation and improvement processes.

Through the framework and its supporting processes, the Shire formally establishes and communicates its risk appetite, guiding staff in their actions and ability to manage risk.

The Shire has a low appetite for risks relating to:

- health, safety and the wellbeing of staff and the community
- administration of finances and assets
- legislative compliance

There is a potentially higher appetite where benefits created by innovative concepts and ideas outweigh the risks. Benefits may include improved service delivery, and/ or increases efficiencies and effectiveness of the Shire's operations.

In accordance with the Framework, each business unit and directorate will communicate their appetite for risk as part of the risk assessment process.

To position the Shire as a risk-aware, responsive and resilient organisation, its risk management approach is directed through:

- compliance with relevant legislation, policies and procedures
- alignment with standards and better practice guides to soundly support decision making and continuous improvement of risk management practices

Effective risk management is modelled by:

- leadership demonstrated by the Chief Executive Officer and the executive management team
- staff in all work contexts through their identification, analysis, evaluation, treatment, monitoring and review of risks that may impact in achieving the Shire objectives

The scope of responsibility and accountability for risk management is the business of everyone. The success of the Shire's risk management strategy relies on all staff enacting the risk management approach outlined in this framework.

Structures

The Chief Executive Officer (CEO) – under legislation the CEO is required to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance at least once in every two years and report to the audit and risk committee the results of that review.

Audit and Risk Committee – each local government is to establish an audit and risk committee made up of at least three or more persons with the majority to be elected members. It has an oversight role on all matters that relate to audits including the appointment of the external auditor and review of reports from the CEO, external auditor and internal auditor. The audit and risk committee supports Council in its endeavours to provide effective corporate governance and fulfil its responsibilities in relation to controlling and directing the affairs of the Shire.

External Auditor – is the person appointed by the local government under the Local Government Act 1995 to undertake the audit of the accounts and financial report for each financial year. An audit report and management report is then issued to the Audit and Risk Committee.

Internal Auditor – is a person appointed by a local government to undertake an audit of the adequacy and effectiveness of the internal control, legislative compliance, accounting systems and procedures, review of policies, procedures and risk management in accordance with an audit plan. The internal auditor is to report his findings to the CEO, and as directed by the CEO, to the Audit and Risk Committee.

Risk Hierarchy

The levels of risks can be identified at different levels depending on what activity is being assessed. These include:

Strategic Level Risks

Strategic Level risks are associated with achieving the long term objectives of the Shire. These risks can be of an internal or external nature and they are usually controlled by Council and/or the Executive Management Team.

In the context of integrated Planning and Reporting, Strategic Level Risks may include:

- Risks associated with achieving the objectives of the Strategic Community Plan:
 - Effective engagement with the community
 - Equity in involvement
 - Transparency of process
 - Integration of informing strategies
 - Organisational acceptance of Strategic Community Plan
- Risks associated with delivering the Corporate Business Plan:
 - Impact of new assets on changes to services
 - Aligning service delivery to meet organisational objectives
 - Resourcing and sustainability
 - Alignment of local government structures and operations to support achievement of objectives.

Operational Level Risks

Operational Level risks are associated with developing the operational plans, functions or activities of the local government. These risks have day to day impacts on the Shire and are owned and managed by the person who has responsibility for the activity to the level of delegated authority or capability.

In the context of Integrated Planning and reporting, Operational risk may include:

- Risks associated with delivery of the Long Term Financial Plan
- Risks associated with the development or delivery of the Asset Management Plan
- Risks associated with the delivery of the Workforce Plan:

Project Level Risks

Project level risks are associated with developing or delivering projects or discrete activities. Project risks should be managed at each stage of the project by the person who has responsibility for them.

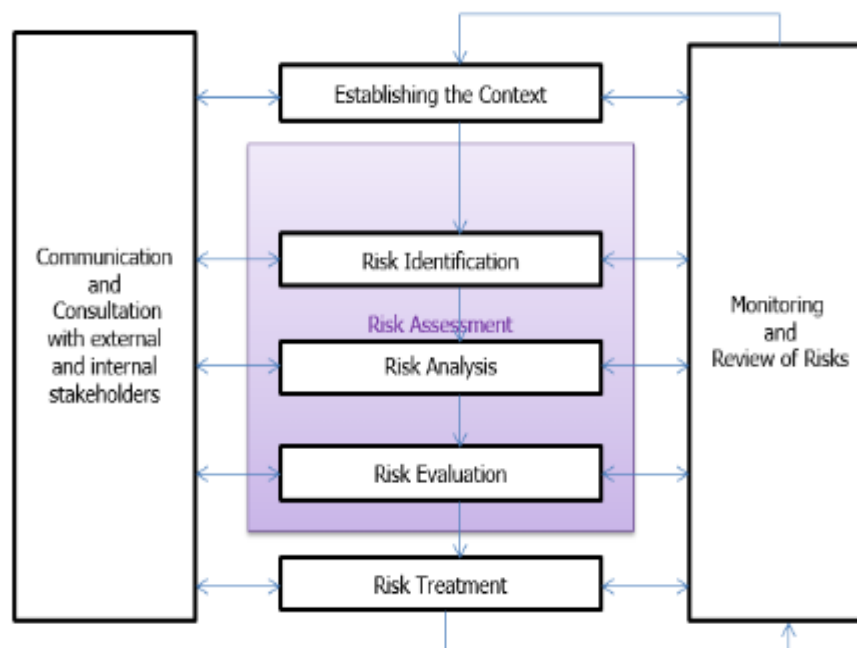
Implementing the Risk Management Plan

Risk management should be implemented by ensuring that the risk management process is applied to all relevant levels and functions of the organisation as part of its practices and processes (principles and guidelines (AS/NZS ISO 31000:2009)).

Risk System

Risk Management Process

The risk management process should be an integral part of management, embedded in the culture and tailored to the business process of the Shire. The risk management process is shown in the following diagram (AS/NZ 31000:2009)



Communication and Consultation

Communication and consultation with external and internal stakeholders must take place throughout the risk management process. Therefore plans for communication and consultation must be developed at an early stage. This will ensure that issues relating to the risk itself, its causes, its consequences (if known), and the measures being taken to treat or address them are managed.

It is an essential element of risk management as it helps stakeholders understand the basis on which decisions are made, and the reasoning behind particular actions.

Transparent clear communications throughout the process will help meet the obligations on local government for accountability and transparency.

Consulting with all stakeholders using a planned consultation process helps identify and address risks through improved understanding and backed by proper documentation.

Establishing the Context

By establishing the context, the Shire articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process. While many of these parameters are similar to those considered in the design of the risk management framework, when establishing the context for the risk management process, they need to be considered in greater detail and particularly how they relate to the scope of the particular risk management process.

Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. It includes the following components:

- Establishing the context
- Identification of the risk
- Analysing the level of risk and establishing whether it meets acceptable levels of tolerance
- Evaluating the risk in relation to the benefits it may provide
- Consideration on whether there are ways to mitigate risk and the treatment of risk.

Risk Identification

The Shire will identify sources of risk, areas of impact, events including changes in circumstances) and their causes and their potential consequences. The aim of this step is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievements of those objectives. It is also important to identify any risks associated with not pursuing an opportunity.

The techniques used to identify risks associated with the development, transition and operation of the SOK include:

Activity	Detail / timeframe	Participants
Strategic risk assessment as part of the decision making process	In planning processes and phased implementation timelines	Council, Executive and key stakeholders
Corporate risk analysis	In annual planning cycle and at key review points	Council, Executive and key stakeholders
Operational risk analysis	Agenda item on all regular Council, project, committee and staff team meetings	All relevant Elected Members and Officers
Internal and external Emergency management	As required	Executive, relevant staff and LEMC
Business Continuity	Ongoing with regular review	All relevant Elected Members and Staff
Review of current risk treatments and assessment of future organisational and project plans in relation to risk	Annually and as relevant	All relevant Elected Members and Officers
Incident / Issue reporting, investigation and review	When reported and monthly	All relevant staff and stakeholders
Feedback processes	Ongoing	All relevant staff and key stakeholders

Risk Assessment Categories

- Financial
- Health
- Reputation
- Operation
- Environment
- Compliance
- Project

Risk Analysis

Risk analysis involves developing an understanding of risk. Risk analysis provides an input to risk evaluation and informs decisions on whether risks need to be treated, and on the most appropriate risk treatment strategies and methods. Risk analysis can also provide an input into making decisions where choices must be made and the options involve different types and levels of risk.

Risk Evaluation

The purpose of risk evaluation is to assist in making decisions, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation.

Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered. Based on this comparison, the need for treatment can be considered.

The Shire has a low appetite for risks relating to:

- health, safety and the wellbeing of staff and the community
- administration of finances and assets
- legislative compliance

There is a potentially higher appetite where benefits created by innovative concepts and ideas outweigh the risks. Benefits may include improved service delivery, and/ or increases efficiencies and effectiveness of the Shire's operations.

Risk should be evaluated on the basis of materiality consideration to other matters including:

- financial
- health and safety
- reputation
- operation
- environment
- compliance
- project

The following chart provides examples to assist in the evaluation process in establishing whether risks are considered to be:

- **minor** – immaterial and less than a \$10,000 financial impact, a minor breach of policy and will result in no health, safety or reputational impacts of the Shire
- **moderate** – financial effect of between \$10,000 and \$100,000, may result in minor injury and low reputational impact but can be contained within the Shire
- **significant** – financial impact of between \$100,000 and \$500,000, may result in moderate reputational impact, compliance breach requiring internal investigation
- **major** – financial impact of between \$500,000 and \$1 million, resulting in serious injury, substantial reputational damage, compliance breach requiring external investigation
- **critical** – financial impact greater than \$1 million, potential fatality or permanent disability widespread reputational damage, significant compliance breach

Risk Matrix

SHIRE OF KALAMUNDA RISK MATRIX

SHIRE OF KALAMUNDA RISK MATRIX							LIKELIHOOD					
							< once in 13 years	At least once in 10 years	At least once in 3 years	At least once per year	More than once per year	
CONSEQUENCE								May occur, only in exceptional circumstances	Could occur at some time	Should occur at some time	Will probably occur in most circumstances	Expected to occur in most circumstances
Financial	Health & Safety	Reputation	Operation	Environment	Compliance	Project	Severity	Rare E	Unlikely D	Possible C	Likely B	Almost Certain A
>\$1M	Fatality or permanent disabling injuries or illness	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Non-achievement of major deliverables	Major breach of legislation or extensive contamination and environmental damage requiring third party intervention	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	>50% increase in cost or timeline, or inability to meet project objectives requiring the project to be abandoned or redeveloped	Critical	High	Extreme	Extreme	Extreme	Extreme
\$500,000 - \$1M	Serious irreversible injuries or illness	Substantiated, organizational embarrassment, high impact news profile, third party actions	Non-achievement of major deliverables	Minor Breach of legislation / significant contamination or damage requiring third party assistance	Breach resulting in external investigation or third party actions resulting in tangible loss and some damage to reputation	20 — 50 % increase in time or cost or significant variation to scope or objective requiring restructure of project and Senior Management or Council approval	Major	High	High	Extreme	Extreme	Extreme
\$100,000 - \$500,000	Injuries or illness that could lead to a Lost Time Injury	Substantiated, public embarrassment, moderate impact, moderate news profile	Significant delays to major deliverables	Environmental damage requiring restitution or internal clean up	Breach requiring internal investigation, treatment or moderate damage control	10 -20 % increase in time or cost or variation to scope or objective requiring Senior Management approval	Significant	Medium	Medium	High	High	Extreme
\$10,000 - \$100,000	Medical treatment injury or illness	Substantiated, low impact, low news item	Inconvenient delays	Minor damage or contamination	Breach of policy, process or legislative requirement requiring attention of minimal damage control	5-10% increase in time or cost or variation to scope or objective requiring managers approval	Moderate	Low	Low	Medium	High	High
< \$10,000	First aid treatment injury or illness	Unsubstantiated, low impact, low profile or "no news" item	Little impact	Little impact	Minor breach of policy, or process requiring approval or variance	Small variation to cost , timelines, scope or quality of objectives and required outcomes	Insignificant	Low	Low	Low	Medium	High

Risk Appetite and Tolerance

Given that local governments have limited resources, it is important to focus on the key risks. The risk management methodology outlined below has been adapted from the Australian /New Zealand Standard on Risk Management (AS/NZ ISO 31000:2009) to provide a structured approach for the Shire. This methodology will assist in the risk management process with particular emphasis on the following:

- Identifying the key risks facing the organisation
- Assessing whether the associated internal controls are effective
- Identifying whether further controls may be required

Step 1: Identify Risks

The first step is to identify the key risks facing the Shire. The purpose of the risk identification stage is to consider those events that may affect the Shire's ability to achieve its objectives and goals. It is important that careful attention is paid to this step because potential risks not identified during this stage are likely to be excluded from further analysis.

Step 2: Analyse Risks

Following identification of the risks, each risk is assessed in terms of the causes and consequences of each risk event. Following this, identified risks are assessed in terms of how likely the event is to occur (likelihood) and the possible magnitude (consequences of each risk).

Step 3: Risk Evaluation

The next step is to identify the existing preventative and mitigating controls that are currently in place for each risk event. This provides for a residual risk level. Following this risk tolerance is assessed determining whether the risk is to be accepted or further actions are required in order to manage the risk.

If the risk tolerance decision is not accepted or is subject to further action, target risk ratings are to be completed to determine a new target residual risk level.

Step 4: Risk Treatment

The final step is to treat risks and control activities with the implementation of any action plans to correct deficiencies. It is also appropriate to identify the further controls that should be implemented to ensure the risks are being managed at an acceptable level. Consistent with the accountability principles of a robust corporate governance environment, each additional control to be implemented should be assigned to a nominated responsible officer.

Risk Treatment

When a risk has been assessed there are a number of options available including:

- Not undertake or continue with an activity
- Increase the risk to pursue an opportunity
- Remove the source of the risk
- Change the likelihood of the risk
- Share the risk with another party such as insurers
- Retain the risk and ensure it is continually monitored.

Monitoring and Review of Risk

An essential element of the risk management process is the monitoring and review of risk. This may be by internal audit review of process and internal controls depending on the nature of the process.

Tools – Risk Registers

The risk register enables staff to document, manage, monitor, review and update strategic, corporate and operational risk information. Maintaining and updating the risk register allows management to monitor and review risks in alignment with the strategic plan, divisional operational plans, programs of change and other related plans.

Risk Reporting

As there is no one single risk report that meets the decision making needs of the Shire, risk reports are tailored by the accountable area and summarised using the preferred templates to support management decision during the planning and review processes, and in support of reports to Council.

Tools for Building Risk Capability

A range of guides and publications are available to build staff awareness and develop skills by enabling staff to proactively manage risk. This increased awareness and understanding provides staff with greater self-confidence and willingness to take responsibility for the management of risk across their business unit directorate.

Recommended guides and publications include:

- Risk Management Resources – Department of Local Government March 2013
- Section 7 of the Western Australian Local Government Accounting Manual – Department of Local Government
- AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines by Standards Australia
- International Standard on Auditing 315 – Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

Monitoring and Review

- Review risk management performance against objectives
- Review risk management IT system (CAMMS Module)
- Review organisational risk management culture
- Include review of the risk registers in strategic and operational planning and budgeting.
- Include Risk Management in all new business ventures and activities
- Include Risk Management as part of purchasing process.
- Include risk management in annual performance appraisals
- Conduct annual risk management internal audit
- Look for continuous improvement opportunities
- Review if the Integrated Organisational Risk Management Plan used as reference and orientation document

- Review if risk management accountabilities and responsibilities are included in position descriptions and KPIs.
- Review if hazard management processes aligned for both OSH and all organisational risks

KPIs and Performance Measures

The Key Performance Indicators (KPI's) for Risk Management are in development. Currently the Risk Management KPI measures the number of identified risks not mitigated.

Monitoring, Review and Continual Improvement of the Framework

The monitoring and review will be a planned part of the risk management process and involve regular checking and surveillance. Strategic risks should be reviewed six monthly by the Executive. Project risks should be reviewed on an ongoing basis and operational risk should be reviewed by each Directorate six monthly.

Responsibilities for monitoring and review should be carried out periodically and clearly defined. The review process should encompass all aspects of the risk management process.

The main aim of the monitoring and review process is to:

- Ensure key controls remain efficient and effective within the Shire
- Provide early identification of changes in the risk context or risk assessment which may require revision of the risk treatment
- Identify any new or emerging risk due to changes in circumstances including new technology, new personnel, corporate restructuring, new business models, changes in operating environment, new accounting pronouncements and legislative changes
- Review risks due to changes in legislation and procedures
- Independent investigations and reports with adverse findings requiring steps to be taken in relation to risk and processes.

Appendix

A. Risk Register

B. Example of Completed Template for Inclusion in Reports to Council on Risk Management

A: Risk Register

RISK IDENTIFICATION				RISK ANALYSIS				RISK RATING								RISK TREATMENT ACTION PLAN						
ID No.	Objective	Risk Description	Risk Owner	Causes	Consequences	Existing Preventative Controls	Existing Mitigating Controls	Current Risk Rating				Risk Tolerance Decision	Target Risk Rating				Treatment Action	Responsible Person	Due Date	Action Status	Follow Up date	Risk Action Status
								Consequence	Likelihood	Current Residual Risk Level	Rating Basis/ Scenario		Consequence	Likelihood	Target Residual Risk Level	Rating Basis/ Scenario						

B: Example of Completed template for inclusion in Reports to Council on Risk Management

B Example of Risk management Considerations for Inclusion in Reports to Council				
RISK	LIKELIHOOD	CONSEQUENCES	RISK RATING	ACTION/STRATEGY
1. Delays in supporting Planning amendments	Unlikely	Minor	Low	Ensure the WA Planning Commission is fully briefed on the planning merits of this proposal

Attachment 2

Risk Management Framework

[Click HERE to go directly to the document](#)

Attachment 3

Shire of Kalamunda Risk Management Policy – Revised Management Procedure

CM-HR06 – Risk Management
Relevant Shire of Kalamunda Council Policy CM-HR06: Risk Management Relevant Shire of Kalamunda Policy

Policy Intent

Risk Management is a core component of the corporate governance framework and the Shire is committed to organisation-wide risk management practices that minimises the effect of uncertainty on objectives and assists the Shire in taking advantage of opportunities.

Purpose

To establish organisation-wide risk management principles, systems and processes that ensure consistent, efficient, and effective assessment of risk in all planning, decision making and operational processes.

The Shire of Kalamunda considers risk management to be an essential management function in its operations. It recognises that the risk management responsibility for managing specific risks lies with the person who has the responsibility for the function, service or activity that gives rise to that risk. The Shire is committed to the principles, framework and process of managing risk as outlined in AS/NZS/ISO 31000:2009.

Definitions

Risk	AS/NZS/ISO 31000:2009 defines risk as "the effect of uncertainty on objectives." A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative, or a deviation from the expected. An objective may be financial, related to health and safety, or defined in other terms.
Risk Management	The application of coordinated activities to direct and control an organisation with regard to risk.

Detail

Principles – Framework – Process

The Shire of Kalamunda will manage risks continuously using a process involving the identification, analysis, evaluation, treatment, monitoring and review of risks. It will be applied to decision making through all levels of the organisation in relation to planning or executing any function, service or activity.

In particular it will be applied to:

- Strategic and operational planning.
- Expenditure of large amounts of money.
- New strategies and procedures.
- Management of projects, tenders and proposals.
- Introducing significant change.
- The management of sensitive issues.
- Risk management objectives.
- The achievement of organisational goals and objectives.
- Compliance with *Local Government Act (1995) Regulation S5.56(2)*.
- The ongoing health and safety of all employees at the workplace.
- Ensuring public safety within the Council's jurisdiction is not compromised.
- Limited loss or damage to property and other assets.
- Limited interruption to business continuity.
- Positive public perception of Council and the Shire.
- Application of equal opportunity principles in the workforce and the community.

Roles and Responsibilities

Council

- The Council determines the risk appetite appropriate to the achievement of the Shire's objectives and will review this annually in line with a review of the risk profile.
- The Council approves the risk management methodology which will be used by Administration to identify, prioritise and respond to risk management issues.

Audit Committee

- The Audit Committee will oversee and make recommendations to Council on the Shire's responses to risk issues and emerging risks. The Committee will also consider if the risk management methodology is sufficiently robust, applicable and still relevant to Council.

Executive Management Team (EMT)

- The Executive Management Team will receive and review reports on the Shire's responses to managing risks.

All Employees/Contractors/Consultants

- Every employee within the Shire is recognised as having a role in risk management, this involves vigilance in the identification and ongoing management of risks and participating in the risk management process.

Risk Matrix

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\$10,000 - \$100,000	Medical treatment injury or illness	Substantiated, low impact, low news item	Inconvenient delays	Minor damage or contamination	Breach of policy, process or legislative requirement requiring attention of minimal damage control	5-10% increase in time or cost or variation to scope or objective requiring managers approval	Moderate	Low	Low	Medium	High	High
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Key Success Factors

In using the Risk Matrix, it is important to recognise that in initial debate, unless there are subject professionals or experts in the conversations the results will guide the discussions, but more information will be needed to further define the risk level.

Monitor and Review

The Shire will implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends.

Risks assessed as extreme or high will be reviewed quarterly by the Executive Management Team (EMT). Risks assessed as medium will be reviewed six-monthly by the EMT. Finally, Risks assessed as low will be monitored annually by the EMT.

Risk management key performance indicators, relating to both organisational and personal performance will be developed, implemented and monitored, by the Shire's Executive and Council as appropriate.

Related Budget Schedule			
Authority			
Adopted		Next Review Date	

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

07. Sundry Debtor Write-Off 2016/2017

Previous Items	N/A
Responsible Officer	Director Corporate & Community Services
Service Area	Finance
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Sundry Debtors Write off 2016/17
Attachment 2	Letter from Kalamunda Cricket Club

PURPOSE

1. To consider the write off of sundry debts for the period 2016/17 identified as uncollectable.

BACKGROUND

2. The Shire has a documented Policy and Management Procedure in regards to debt collection. All requirements of the Policy and Management Procedure have been adhered to in an attempt to collect the debt.
 -
3. Under Council Delegation LGA 7, the Chief Executive Officer is delegated to exercise the power or discharge the duties of the Council to write off the debts where the relevant debt does not exceed \$,1000. Debts exceeding \$1,000 and considered un-economical to pursue are recommended to Council for a write off.

DETAILS

4. In August 2016, Kalamunda Cricket Club wrote to the Shire requesting the amount of \$2855.73 be written off as they have struggled to generate any income for weekend games due to the inability to fully utilise the Pat Moran pavilion due to the re-development of the Koster Oval.

The amount of \$2855.73 was made up of occupancy costs of \$1267.80, \$436.50 recovery of costs for damages caused by club member and \$1151.43 being the instalment and guarantee fee amount related to the self-supporting loan
5. A write off amount of \$1,267.80 has been identified and is shown in 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. Debt Collection Policy S-FIN02

"The Shire of Kalamunda is committed to ensuring that it manages its cash flows in a manner that provides financial sustainability for the organisation."

COMMUNITY ENGAGEMENT REQUIREMENTS

8. Nil.

FINANCIAL CONSIDERATIONS

9. The total budget allocation for doubtful and bad debts for 2016/17 is \$2,976.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

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

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

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	Closely monitor outstanding debts and follow up using both internal and external resources. Discontinue providing further services until debt is paid in full.

OFFICER COMMENT

15. The Kalamunda Cricket Club has requested that the Shire write off the whole amount of \$2855.73 due to loss of revenue from decreased membership and loss of bar revenue associated with the restricted use of the Pat Moran pavilion during the Koster Oval redevelopment.
16. The Shire has assisted the Club in the past by providing Club Development funding via a cash donation of \$14,500 in 2014/15 financial year. The funding was provided to assist the club for unforeseen financial hardship. In addition to this donation, the Shire has paid for the turf maintenance for amounting to \$23,000 for previous years.
17. Following the redevelopment of the Koster Oval, the Club will be better placed to generate revenue from the use of the facilities. This will enable the secondary income streams from the running of the bar to boost the club's financial position.
18. The debt requested for write off is partially supported with the amount for occupancy costs of \$1267.80 recommended for write off and a six month credit extension be provided for the loan repayment component of \$1,151.43. With the cricket season about to commence, the extension will be adequate period for the club to be in a more financially sustainable position to meet its ongoing financial obligations.

Voting Requirements: Simple Majority

COMMITTEE RECOMMENDATION TO COUNCIL (A&R 07/2016)

That Council:

1. Authorises the write off of sundry debts totalling \$1,267.80 as detailed in (Attachment 1).

Moved: **Cr Tracy Destree**

Seconded: **Cr John Giardina**

Vote: **CARRIED UNANIMOUSLY (12/0)**

Attachment 1**Sundry Debtors write off schedule - 2016/2017**

Debtor Name	Description of service provide	Amount Due \$	Reasons for write off
Kalamunda Cricket Club	Recovery of operational expenses - Pat Moran Pavilion occupancy costs for the period October 2015 to March 2016	1,267.80	The club has fallen into financial difficulties due to decreased membership and negative impact on income in past season due to in-accessibility of the Koster Oval

Attachment 2

Letter from Kalamunda Cricket Club



Kalamunda Cricket Club Inc.
PO Box 1424
Kalamunda WA 6926

22nd August 2016

Kalamunda Shire Council
Shire of Kalamunda
2 Railway Road
Kalamunda WA 6076

Dear Councillors,

Further to the letter from the cricket club and subsequent meeting with Shire staff, Councillor Destree and Councillor Bilich, the Kalamunda Cricket Club would like the Shire Council to consider the waiving of our outstanding charges relating to the 2015/16 season. The total amount outstanding is \$2,855.73.

The past season proved to be difficult, both on and off the field, for the cricket club. The loss of revenue from a decreased membership and significantly lower bar income has left the club in a precarious financial position heading into the 2016/17 season. We feel this is directly attributable to the loss of our home ground for the season and has put us at a severe disadvantage.

The club is extremely grateful for the opportunities the development will provide in the future; however, we feel the club will be more able to take advantage of the new facilities if we are in a better financial position. As such, the waiving of the 2015/16 outstanding charges would give us this opportunity and contribute to the ongoing prosperity of the cricket club. We believe a strong and stable cricket club would provide the best possible return on the people of Kalamunda's investment in the sporting facility at Kostera Oval.

We hope the Council agrees that the waiving of the outstanding charges represents an appropriate course of action and we look forward to your decision and would like to thank the Council in advance for the consideration of this matter.

Yours sincerely

Glenn Docherty
KCC President

David Armstrong
KCC Secretary

9.0 URGENT BUSINESS APPROVED BY THE PERSON PRESIDING OR BY DECISION

9.1 Audit & Risk Committee Meeting Schedule 2017 (Cr O'Connor)

COMMITTEE RECOMMENDATION TO COUNCIL (A&R 08/2016)

That Council:

1. Request the Chief Executive Office to outline a series of suitable dates to allow for four Audit & Risk Committee meetings (if required) during 2017.
2. Request the Chief Executive Office negotiate with the Chairperson of the Audit & Risk Committee a suitable meeting date should the need arise for an unplanned meeting to be called.

Moved: **Cr Dylan O'Connor**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (12/0)**

10.0 CLOSURE

10.1 There being no further business, the Presiding Member declared the meeting closed at 7:33pm.

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

Signed: _____
Presiding Member

Dated this _____ day of _____ 2016