

# Audit & Risk Committee Meeting

Minutes for Monday 19 May 2014

## UNCONFIRMED



**shire of  
kalamunda**

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## MINUTES

### 1.0 OFFICIAL OPENING

The Presiding Member opened the meeting at 7.00pm and welcomed Councillors and Staff.

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

#### 2.1 Attendance

##### Councillors

Sue Bilich	(Shire President) North Ward
Margaret Thomas JP	North Ward
Simon Di Rosso	North Ward
Noreen Townsend	South West Ward
Justin Whitten	South West Ward
Allan Morton	South West Ward
Geoff Stallard	South East Ward
Frank Lindsey	South East Ward
Andrew Waddell JP	North West Ward
Dylan O'Connor	(Presiding Member) North West Ward

##### Members of Staff

Rhonda Hardy	Chief Executive Officer
Warwick Carter	Director Development Services
Charles Sullivan	Director Infrastructure Services
Gary Ticehurst	Director Corporate Services
Darrell Forrest	Manager Governance
Peter Hayes	Internal Auditor
Nicole O'Neill	Public Relations Coordinator
Meri Comber	Governance Officer

#### 2.2 Apologies

##### Councillors

John Giardina	South East Ward
Bob Emery	North West Ward

#### 2.3 Leave of Absence Previously Approved

Nil.

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

3.1 That the Minutes of the Audit & Risk Committee Meeting held on 4 March 2014 are confirmed as a true and accurate record of the proceedings.

Moved: **Cr Noreen Townsend**

Seconded: **Cr Andrew Waddell**

Vote: **CARRIED UNANIMOUSLY (10/0)**

### **4.0 CONFIDENTIAL ITEMS**

4.1 **12. Master Lending Agreement between West Australian Treasury Corporation and the Shire of Kalamunda** – Confidential Attachment 1  
Reason for Confidentiality *Local Government Act 1995 Section S23 (2) (c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

### **5.0 DISCLOSURE OF INTERESTS**

#### **5.1 Disclosure of Financial and Proximity Interests**

- a. Members must disclose the nature of their interest in matters to be discussed at the meeting. (Section 5.65 of the *Local Government Act 1995*.)
- b. Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Section 5.70 of the *Local Government Act 1995*.)

5.1.1 Nil.

#### **5.2 Disclosure of Interest Affecting Impartiality**

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

5.2.1 Nil.

### **6.0 REPORTS TO COUNCIL**

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

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

**09. Internal Audit Report May 2014**

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	FI-AUD-004
Applicant	N/A
Owner	N/A
 Attachment 1	 Internal Audit Report May 2014

**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, *Income Tax Assessment Act 1997*, and the appropriateness of the local governments processes and financial systems in relation to risk management, internal control and legislative compliance.

**BACKGROUND**

2. The Internal Auditor examined and reviewed a number of areas in accordance with the Audit Plan and changes in legislative requirements. The areas covered in the Audit report included:
  - Cash Floats and Petty Cash
  - Rates and Rate Rebates, Concessions, Discounts and Interest
  - Cell 9 GST
  - Fixed Assets
  - Fringe Benefits Tax (FBT) on Mobile Phones
  - Fringe Benefits Tax (FBT) on Motor Vehicles
  - Records

**DETAILS**

3. The following summarises the findings and action being taken by management in response to the internal audit report of May 2014 (Attachment 1).

**Cash Floats and Petty Cash**

4. A risk assessment was conducted on cash floats and petty cash to ensure that key internal controls were in place and operating effectively.

Findings

5. There are proper controls in place for cash and petty cash floats for the security and storage of floats with appropriate levels of cash for each float.

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6. There are designated individuals for each float, segregation of duties and regular and independent checks and physical cash counts are conducted by the Management Accountant and reviewed by the Manager Financial Services.

### **Rates and Rate Rebates, Concessions, Discounts and Interest**

7. A risk assessment review was conducted to ensure that key internal controls were in place and operating effectively for rates, rate rebates, concessions, discounts and interest.

#### Findings on whether the correct level of rate income has been raised and whether rate rebates, concessions are either correctly recorded or not recorded at all

8. The total reconciliation of valuation of properties prior to the generation of the rates had not been balanced prior to going live and issuing the rate notices for 2013/2014. This has been an issue for over 12 months and reported by the external auditors during the last financial year (2012/2013). This is a key control that needs to be addressed to ensure all properties are properly rated. This will also establish whether any property included in the valuation register is exempt and not to be rated, or whether other properties have been correctly rated based on their valuations.

#### Management Response

9. This matter will be addressed with the next round of property valuation updates due out in 2014 for the 2014/2015 Annual Budget. This will be carried out in conjunction with the triennial revaluations of properties.

#### Findings on whether there is proper documentation on the rates system for new staff, and whether there has been adequate training

10. With the relatively high turnover of staff in the rates area and the complex nature of the rates system and legislative requirements, proper documentation of systems and procedures and external training for new staff is desirable.

#### Management Response

11. Management recognises the need for proper documentation and external training for new staff in the rates area. This will be addressed by management.

#### Findings on whether the property master file remains current and relevant

12. The Shire has not undertaken a review of exempt properties for a number of years. This may result in the status of exempt properties and non-rateable properties not retaining their current exempt status.
13. Master file changes are not controlled and restricted to the rates officer. Front counter staff are able to update master file data affecting the information used by the rates department. The system needs to be tightened to prevent this function at the front counter from occurring, by only

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restricting master file changes to rates officers to protect the integrity of master file information.

Management Response

14. Management is in the process of reviewing the current status of all exempt and non-rateable properties to ensure the current status is still valid and the master file up to date. Due to be completed by June 2014.
15. Management is aware that front counter staff have access to rates master file information and will be taking steps to address this problem with IT. Due to be completed by June 2014.

Findings on whether officers have been responding to pensioners eligible for a discount or concession

16. Officers have been responding promptly to pensioners and self-funded retirees who normally claim their concessions firstly with the Water Corporation who then notify the Shire on eligibility for concessions.

**Cell 9 – GST Payable on Reimbursement to Education Department (update from February 2014 Internal Audit Report)**

17. Consultants have confirmed there is no GST payable by the Shire on the reimbursement to the Education Department. A copy of the consultant's advice was sent to the Education Department and a meeting will be arranged in order to expedite the reimbursement of approximately \$3.9 million over the next three years out of the Cell 9 Trust Bank Account.

**Fixed Assets**

18. A risk assessment was conducted on fixed assets to ensure that key internal controls have been operating effectively.

Findings on whether fixed asset additions, disposals, and write offs are being properly recorded

19. Fixed asset additions, disposals, write offs are being properly recorded. Assets are also tested for impairment at year end and recorded. The phasing in of assets at fair value will improve the identification and recording of assets.

Findings on whether the Fixed Asset Register (FAR) remains accurate and timely

20. Regular verification of fixed assets is not conducted and reconciled with the FAR and FAR is not being periodically reviewed for accuracy.

Management Response

21. This will be addressed as part of the phasing in and recognition of all classes of fixed assets at fair value as each asset within asset classes in the asset register are identified, reviewed and assessed for condition and remaining useful life. A review of plant and equipment was conducted in 2012/2013 and

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land and buildings will be assessed and revalued during the 2013/2014 Financial Year.

Findings on whether Fixed Assets are Valued Correctly

22. The Audit Review conducted found that fixed assets are utilised correctly. Fixed assets are recorded at cost or valuation. The phasing in of assets at fair value over three years has resulted in the recognition of plant and equipment at valuation during 2012/2013 with land and buildings to be revalued and recognised at valuation in 2013/2014 with all other classes phased in by 2014/2015. This is a legislative requirement.

Findings on whether Depreciation charges are accurately recorded

23. There were some deficiencies in the recording of depreciation changes. The Shire uses straight line depreciation in accordance with Australian Accounting Standards. The accuracy of the depreciation expenses will improve when condition assessments are conducted on each asset within asset classes as part of the revaluation process.

Fixed Asset maintenance and/or renewal are inadequately planned

24. There were some deficiencies in terms of adequate planning of fixed asset maintenance or renewal. The asset management plan should provide the appropriate information required for maintenance and planned refurbishment but at this stage requires updating and refinement before it is able to provide this level of reporting for future years. The information from the asset management plan should support the information used in the annual budget and long term financial plan.

Management Response

25. Management is aware of this problem and has engaged a full time employee to bring the asset management plan up to date in order to provide the right level of maintenance and renewal to ensure fixed assets are being sustained.

**Fringe Benefits Tax (FBT) on Mobile Phones**

26. The Shire needs to assess its liability on mobile phones for the 2013/2014 FBT Year. The Shire currently pays FBT on internet broad band and home telephone charges for employees but not on mobile phones for private calls.

Management Response

27. A draft Mobile Phone/Tablet usage policy and procedure has been prepared to address this matter by restricting mobile phone calls primarily for Shire related business.



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Recommendation

28. That all staff with a Shire mobile phone are made aware of the conditions of use as per the Mobile Phone/Tablet usage policy when it is adopted or when issued with one of these devices. Staff with a mobile phone are to sign a declaration that they have read and understand the conditions of use as per the new policy.

**Fringe Benefits Tax (FBT) on Motor Vehicles**

29. The Shire needs to consider the FBT, operating costs and depreciation when it grants certain types of motor vehicles to staff for commuting and private use. The intention of packaging novated leases as part of an employee's salary was to reduce the Shire's exposure to FBT, motor vehicle operating costs and depreciation.

Management Response

30. The Light Vehicle Policy is being reviewed, and this will address the rising cost in FBT and align the appropriate type of vehicles to suit the business needs of the Shire. It is intended to provide exempt or cheaper vehicles such as utilities to employees who have commuter rights.

Recommendation

31. With the start of the new FBT year it would be beneficial to have the reviewed and new Light Vehicle Policy introduced early into the FBT year.
32. Employees are made fully aware of the FBT rules regarding motor vehicles with additional training provided by an external consultant on the FBT rules and principles.
33. Staff with a Shire owned car are made aware of the conditions of use and sign a statement that they have read and understand the new policy and FBT principles, and will comply with the new policy and FBT principles.

**Records**

34. Ascertained whether the Record Keeping Plan, Record Keeping Policy and Councillor Record Keeping Policy have been reviewed and whether items identified for improvement in the plan submitted to the State Records Commission in October 2009 have been undertaken. The next review is required to be prepared and submitted to the State Records Commission before October 2014.

Findings

35. The Record Keeping Plan needs to be reviewed.
36. The Record Keeping Policy and Councillor Record Keeping Policy need to be reviewed.
37. Improvements identified in the Record Keeping Plan submitted in October 2009 have been implemented.

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38. Records are adequately safeguarded to ensure records are restricted, stored in a safe location and in accordance with legislation.
39. Records are being properly recorded by officers that have custody of these records.

#### Management Response

40. The Record Keeping Plan will be reviewed and presented to Council before October 2014.
41. The Manager Governance will be coordinating the review of the Record Keeping Policy and Councillor Record Keeping Policy. This will be undertaken with other policies that need to be reviewed.

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

42. *Local Government Act 1995*  
*Local Government (Financial Management) Regulations 1996*  
*Local Government (Audit) Regulations 1996*  
*Australian Accounting Standards*  
*Income Tax Assessment Act 1997*  
*Fringe Benefits Tax Assessment ACT 1986*

#### **POLICY CONSIDERATIONS**

43. Nil.

#### **COMMUNITY ENGAGEMENT REQUIREMENTS**

44. Nil.

#### **FINANCIAL CONSIDERATIONS**

45. The implementation of the recommendations will reduce exposure to financial risk and loss to the Shire and ensure it complies with legislative requirements.

#### **STRATEGIC COMMUNITY PLAN**

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

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

#### **SUSTAINABILITY**

##### **Social Implications**

47. Nil.

##### **Economic Implications**

48. Nil.

## Environmental Implications

49. Nil.

## RISK MANAGEMENT CONSIDERATIONS

50.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Cash Floats and Petty Cash	Unlikely	Minor	Low	Proper internal control procedures in place.
Rates being understated as property valuations not reconciled	Possible	Major	Medium	Will be addressed with triennial revaluation of properties
Cell 9 – GST payable on reimbursement to Education Department	Unlikely	Major	Medium	Tax advice obtained from consultant that no GST is payable
Fixed assets not checked with fixed asset register regularly	Possible	Minor	Medium	This is being done as part of revaluation and take up of assets at fair value
Incorrect calculation of FBT relating to mobile phone charges	Possible	Minor	Medium	New policy being introduced to address this matter and reduce FBT
Incorrect calculation of FBT relating to motor vehicle expenses	Possible	Minor	Medium	Light Vehicle Policy being reviewed to address this matter
Records	Unlikely	Major	Low	Record Keeping Plan and policies to be reviewed.

## OFFICER COMMENT

51. The issues and recommendations identified were discussed with management to mitigate risk, strengthen the internal control practices of the Shire and ensure the Shire was compliant with legislation.

52. An audit register that records all audit findings together with their management responses will be introduced and will be reviewed on a quarterly basis at the Executive meeting.

*A Councillor queried the engagement of an employee to bring the asset management plan up-to-date, the Chief Executive Officer confirmed that this position was included in the Infrastructure Services Restructure approved by Council in early 2013.*

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*A Councillor queried why the Record Keeping Plan would not be presented to Council until October 2014, the Director Corporate Services indicated that the Shire is working with the State Records Office to ensure compliance. It is anticipated an interim report will be presented to Council in July 2014.*

*A Councillor expressed concern regarding FBT, the Director Corporate Services noted that FBT is up-to-date and it is hoped to adopt strategies to minimise the Shire's exposure to FBT costs, such as a new Light Vehicle Policy.*

<b>Voting Requirements: Simple Majority</b>
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## **COMMITTEE RECOMMENDATION TO COUNCIL (A&R 09/2014)**

That Council:

1. Notes the following recommendations included in the Internal Audit Report for May 2014 (Attachment 1)

### **Rates and Rate rebates, Concessions, Discounts and Interest**

- With the relatively high turnover of staff in the rates area and the complex nature of the rates computer system and legislative requirements, external training for new staff must be provided.
- Master file changes is restricted to rates staff to protect the integrity of this information. Front counter staff should be prevented from being able to make changes to rates master file information.
- That the reconciliation of valuations of all properties is undertaken with the valuations register prior to the raising of rates for 2014/2015 Financial Year.

### **Assets – Fixed Assets**

- The Asset Management Plan needs to be updated as a matter of priority. This document should provide the appropriate level of maintenance and renewal to ensure fixed assets are being effectively managed.

### **Fringe Benefits Tax (FBT) on Mobile Phones**

- All staff with a mobile phone are made aware of the conditions of the Mobile Phone/Tablet usage policy when adopted.
- All staff to sign a declaration that they have read and understand the Mobile Phone/Tablet usage policy to prevent the misuse of Shire resources.
- The Shire determines the liability for FBT on mobile phone usage for the 2013/2014 FBT year.

### **Fringe Benefits Tax (FBT)/Operating Costs and Depreciation on Motor Vehicles**

- With the start of a new FBT year it would be beneficial to have the revised light vehicle policy introduced early in the FBT year.
- Employees are made fully aware of the FBT rules regarding the use of Shire owned motor vehicles with additional training provided by an external consultant on the FBT rule and principles.
- Staff with a Shire owned car are made aware of the conditions of use and sign a declaration that they have read and understood the new policy, and FBT principles, and will comply with the new policy and FBT legislation.

Moved: **Cr Margaret Thomas**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (10/0)**

**Attachment 1**

Internal Audit Report May 2014  
Financial Management Review

## Objectives and Scope of the Internal Audit

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

Amendments to the audit regulations in 2013, 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 include:

- Cash Floats and Petty Cash
- Rates and Rate Rebates, Concessions, Discount and Interest
- Cell 9 GST
- Fixed Assets
- Fringe Benefits Tax (FBT) on Mobile Phones
- Fringe Benefits Tax (FBT) on Motor Vehicles
- Records

## Cash Floats and Petty Cash

### Background

Given the potential for misappropriation, the receipting, handling and recording of Cash Floats and Petty Cash is a potentially high risk activity. Accordingly the shire must develop and implement ways in which this risk can be minimised. Therefore it is imperative for the shire to focus strongly in ensuring that where possible segregation of duties is addressed and that opportunities for staff collusion is minimised. One way to minimise these risks is through regular cash counts, by personnel independent from the recording of these assets.

### Work Performed

A risk assessment was conducted on Cash Floats and Petty Cash to ensure that key internal controls were in place and operating effectively. When reviewing the internal control environment surrounding cash floats and petty cash, the following matters were considered:

- That cash and petty cash floats had appropriate levels of funds.
- The storage and security of floats both within and outside the administration office.
- That there were designated personnel responsible for managing and monitoring the cash and petty cash floats.
- There were regular and independent counts of cash and petty cash floats.

### Findings

There are proper controls in place for Cash and Petty Cash floats for the security and storage of floats with appropriate levels of cash for each float. There are designated individuals responsible for each float, a segregation of duties and regular and independent checks and physical counts conducted by the Management Accountant and reviewed by the Manager Financial Services.

A summary of all floats and custodians of these floats is being maintained, with the total of all floats reconciled with the total balance in the general ledger. The main floats are located in the Administration Office, Libraries, Recreation Centres, HACC, the Zig Zag and Kalamunda Performing Arts.

### Risk

The main risks associated with cash floats and petty cash is whether;

- Cash and petty cash floats are adequately safeguarded.



- Cash and petty cash transactions are either invalid, inaccurately recorded or not recorded at all.

With adequate controls in place for the safeguarding of cash and petty cash floats and proper recording and reviewing of transactions and regular independent cash counts the residual risk for this area is considered low.

## Rates and Rate Rebates, Concessions, Discounts and Interest

### Background

Council adopted the annual budget for 2013/2014 at a Special Meeting held on 24 June 2013.

Pursuant to Sections 6.32, 6.33, 6.34, 6.35 6.45 of the *Local Government Act 1995* (the Act) and regulations council imposed differential general rates, and minimum rates on gross rental and unimproved values of properties, instalment arrangements, and incentives for early payment of rates and an administration charge for instalment arrangements and an instalment interest of 5.5%.

The annual budget and statutory documents adopted by Council are not audited by the external auditors. There is no statutory requirement under the Act for these documents to be audited. Consequently the procedures for adopting the annual budget and raising rates should form part of the risk assessment process.

### Work Performed

A risk assessment review was conducted to ensure that key internal controls were in place and operating effectively for rates and rate rebates, concessions, discounts and interest.

The main risks associated with rates, rate rebates, concessions, discounts and interest is whether:

1. Council does not raise the correct level of rate income
2. Rates and rate rebates, concessions are either incorrectly recorded or not recorded at all.

### Findings

For 1 and 2 the annual valuation update of all properties prior to the generation of rates had not been balanced prior to going live and issuing the rate notices for 2013/2014. This has been an issue for over a year now and reported by the external auditors during the last financial year (2012/2013). This is a key control item that needs to be addressed.

Management Response 1 and 2

This matter will be addressed with the next round of property valuations updates due out in 2014 for the 2014/2015 Annual Budget when new valuations as part of the triennial revaluation of properties is carried out. The shire did not have the time or resources to reconcile the valuations prior to issuing the rate notices for 2013/2014.

Findings

With the relatively high turnover of staff in the rates area and the complex nature of the rates system and legislative requirements, proper documentation of systems and procedures needs to be prepared and external training for new staff is considered desirable.

Management Response 1 and 2

Management recognises the need for proper documentation and external training for new staff in the rates area. This will be addressed by management.

Recommendation 1 and 2

With the relatively high turnover of staff in the rates area and the complex nature of the rate system and legislative requirements, external training for new staff is desirable with proper documentation of procedures on the rates system.

3. The Property master file data does not remain accurate and timely

Findings

The shire has not undertaken a review of exempt properties for a number of years. This may result in the status of exempt and non-rateable properties not retaining their current exempt status. New properties and changes to the status of existing properties when notification is received by Landgate (Valuer General) are interim rated. This is carried out regularly and promptly.

Management Response 3

Management is in the process of reviewing the current status of all exempt and non-rateable properties in order to ensure the property master file is up to date.

Findings

Master file changes are not controlled and restricted to the rates officer. Front counter staff are able to update master file data affecting the information used by the rates department. System needs to be tightened to prevent this function

at the front counter from occurring, by only restricting master file changes to rates officers to protect the integrity of master file information.

Recommendation 3

Master file changes is restricted to rates staff to protect the integrity of this information. Front counter staff should be prevented from being able to make changes to rates master file information.

4. Pensioner concessions and self-funded retirees are either inaccurately recorded or not recorded at all

Management Response 4

Pensioners and self-funded retirees normally claim their concessions first with the Water Corporation who notify the Shire as to the granting and eligibility for a rate concession. The Water Corporation is fairly prompt in notifying the Shire that a person is eligible for a concession and the Shire acts promptly on the information received.

Risk

Rates raised during 2013/2014 may have been misstated due to the non-reconciliation of valuations prior to the raising of rates. However steps will be taken to address this before the raising of rates in the 2014/2015 Financial Year.

The risk of rates being significantly understated or misstated is considered relatively low. However a key control is the reconciliation of rate valuations with the valuation of all properties rated. This will be undertaken for the 2014/2015 annual budget before the rate notices are issued.

The integrity of the master file information for rates should be protected by restricting access to this information to the appropriate personnel.

Cell 9 – GST Payable on Reimbursement to Education Department  
(update)

Background

The Shire of Kalamunda disputed the payment of GST of approximately \$390,000 on the two parcels of land purchased by the Education Department for a new school in Cell 9.

### Work Performed

Management met to discuss this matter with the Education Department to establish the principle for the establishment of GST. The Shire's concern relates to whether there was ever a taxable supply, and if so what the consideration was when the asset (land) belongs to the Education Department. If GST was payable on the transaction, the Shire needed to establish whether it could recover any GST payable. Professional advice was sought from PwC in relation to this matter.

### Findings

The consultants confirmed there was no GST payable by the Shire on the reimbursement to the Education Department. A copy of the consultant's advice was forwarded to the Education Department with a meeting to be arranged in order to expedite the reimbursement of approximately \$3.9 million over the next three years out of the Cell 9 Trust Bank Account.

## Assets – Fixed Assets

### Background

Personnel responsible for fixed asset acquisitions, disposal, recording, and maintenance should have responsibility for only one such function and have no system access function other than their assigned function. In addition, personnel responsible for fixed asset transaction processing should have neither responsibility for fixed asset master file maintenance nor update access to the fixed asset master file.

### Work Performed/Risks Noted

Conducted a risk assessment of fixed assets and tested whether key controls have been operating effectively. Major risks summarised were discussed with the Manager Financial Services.

The major risks faced by the Shire may be summarised as follows;

1. Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all

Fixed asset additions, disposals, write offs are being accurately recorded. Assets are also tested for impairment at year end and written down. The

phasing in of assets at fair value will improve the identification and recording of assets and ensure the Shire complies with legislative requirements.

2. Fixed Asset Register (FAR) does not remain current and accurate

Regular verification of fixed assets is not conducted and reconciled to the FAR, and FAR is not being periodically reviewed for accuracy and ongoing pertinence.

Management Response

This will be addressed as part of the phasing in and recognition of all classes of fixed assets at fair value as individual asset within asset classes in the asset register are identified, reviewed and assessed for condition and their remaining useful lives. A review of plant and equipment was conducted in 2012/2013 and land and buildings will be assessed and revalued during the 2013/2014 Financial Year.

3. Fixed Assets are not valued correctly.

Fixed assets are recorded at cost or at valuation. The phasing in of assets at fair value over 3 years has resulted in the recognition of plant and equipment at valuation during 2012/2013 with land and buildings to be revalued in at in 2013/2014, and all other classes by 2014/2015. This is a legislative requirement.

4. Depreciation charges are either invalid, not recorded at all or are inaccurately recorded.

The shire uses straight line depreciation in accordance with Australian Accounting Standards. The accuracy of the depreciation expense will improve when condition assessments are conducted on each asset within asset classes as part of the revaluation process.

5. Fixed Asset maintenance and /or renewals are inadequately planned

The asset management plan should provide the information required for maintenance and planned refurbishment but at this stage requires updating and refinement before it is able to provide this level of reporting for future years.

Management Response

Management is aware of this problem and has engaged a full time employee to bring the asset management plan up to date in order to provide the right

level of information for planned maintenance, asset renewal and the sustainability of assets.

### Recommendations

The asset management plan need to be updated as a matter of priority. This document should provide the appropriate level of maintenance and renewal to ensure fixed asset are being sustained. The information from the asset management plans should support the information used in the annual budget and the Long Term Financial Plan.

## Fringe Benefits Tax (FBT) on Mobile Phones

### Background

An expense payment fringe benefit arises where the Shire either:

- Reimburses an employee for private expenses incurred by the employee.
- Pays expenses on behalf of the staff member.

This is usually the case when the Shire pays a bill on behalf of a staff member such as home telephone, mobile calls, internet broadband fees etc.

The taxable value of an expense payment fringe benefit is generally the amount of the expenditure incurred by the employee which is paid by or reimbursed by the employer.

The taxable value of an expense payment fringe benefit can be reduced by an amount that would have been deductible to the staff member (known as the Otherwise Deductible Rule) had they paid for the expense or been reimbursed.

The shire should claim a reduction in the taxable value in relation to a benefit that has been paid or reimbursed to an employee by obtaining an approved declaration.

The Shire pays FBT on internet broadband fees and home telephone, but not on any private calls on a mobile phone provided by the Shire.

### Work Performed

Discussed with management and staff whether declarations have been received or determinations made for employees use of Shire mobile phones for private calls, and whether steps and procedures are in place to restrict the use of shire devices for private use. The total mobile phone bill for the year is approximately \$50,000 per annum with majority of this being for business use. Staff believe the level of private use to be small.

### Risk

The Australian Taxation Office (ATO) has indicated that it will be undertaking taxation audits on FBT paid by organisations. There is the risk that if FBT is understated or not paid in accordance with the FBT Legislation then the Shire could be exposing itself to a potential liability for unpaid FBT plus penalties. This will apply to the private use of mobile phones.

### Management Response

A draft Mobile Phone/Tablet usage policy and procedure has been prepared to address this matter. The draft policy states "mobile phones and/or tablet devices purchased, maintained and provided by the organisation are to be used primarily for Shire-related business, however it is accepted that some private usage will be permitted".

### Recommendation

That all staff with a Shire mobile phone are made aware of the conditions of the Mobile Phone/Tablet usage policy when it's adopted and when issued with one of these devices. Staff with a mobile phone to sign a declaration that they have read and understand the policy to avoid the misuse of shire mobile phones for calls.

## Fringe Benefits Tax (FBT)/ Operating Costs and Depreciation on Motor Vehicles

### Background

A reduction of shire owned cars assigned to management staff was seen as a positive measure in reducing the Shire's FBT, operating costs and depreciation by having management staff either on a novated lease or paying tax on their allowance and supplying their own vehicle. The shire provided cars would be sold and the proceeds placed in reserves.

The benefits of a novated lease is it has a pre and post-tax salary benefit for the employee with running costs, depreciation and FBT payable as part of the novated lease thereby reducing the FBT and running costs payable by the Shire. Since the last FBT Year (Y/E 31 March 2013) some 7 to 8 management staff have either taken a novated lease or provided their own vehicle and treated their allowance as part of their taxable salary. This was designed to reduce the Shire's FBT and operating costs and still provide a tax advantage for employees.

### Work Performed

From a review, discussions and emails received it would appear that the principle of reducing the fleet of Shire cars has been reversed with a number of employees now being provided with a Shire owned vehicle, with little consideration of the cost this may have in relation to FBT and operating expenditure to the Shire. There have been occasions where motor vehicles have been hired also resulting in additional FBT and running costs.

### Risk

Certain types of vehicles granted to employees and the nature of use, is likely to result in additional FBT and operating expenditure for the Shire. This could probably be avoided if there was proper consultation with the Finance team before decisions were made to grant an employee a particular vehicle for commuting and or private use.

### Management Response

The Light Vehicle Policy is being reviewed and this will address the costs in FBT, and align the appropriate types of vehicles to a person's position description and nature of work with the intention of providing exempt or cheaper vehicles such as utilities to employees who have commuter rights.

### Recommendation

1. With the start of a new FBT year it would be beneficial to have the reviewed and new Light Vehicle Policy introduced early into the FBT year.
2. Employees are made fully aware of the FBT rules regarding motor vehicles with additional training provided by an external consultant on the FBT rules and principles.
3. Staff with a shire owned car are made aware of the conditions of use and sign a statement that they have read and understood the new policy, the FBT principles, and will comply with the new policy and FBT legislation.

## Records

### Background

The State Records Commission wrote to the Shire of Kalamunda on the 7<sup>th</sup> October 2009 approving the amended Recordkeeping Plan for the Shire. This plan is required to be prepared and reviewed every 5 years under the State Records Act 2000. The next review is required to be prepared and submitted to the State Records Office by



the 2<sup>nd</sup> October 2014. The reviewed plan will need to be presented to Council for approval before being submitted to the State Records Commission.

#### Work Performed/Risk Noted

Ascertain whether the Recordkeeping Plan, Record Keeping Policy and Councillor Record Keeping Policy have been reviewed.

Whether items identified for improvement as part of the self-assessment in the Recordkeeping Plan have been carried out.

A risk assessment review was conducted on:

- Whether records are adequately safeguarded to ensure access to records is restricted, records are stored in a safe location and in accordance with legislative requirements to prevent Shire records from being lost or misused.
- Whether records are not being recorded, inaccurately recorded or not recorded at all by officers that have custody of these records.

#### Findings

1. The Recordkeeping Plan needs to be reviewed.
2. The Record Keeping Policy and Councillor Record Keeping Policy need to be reviewed.
3. Improvements identified in the Recordkeeping Plan submitted in October 2009 have been implemented.
4. Records are adequately safeguarded to ensure records are restricted, stored in a safe location and in accordance with legislation.
5. Records are being properly recorded by officers that have custody of these records.

#### Managements Response to 1 and 2

1. The Recordkeeping Plan will be reviewed and presented to Council before October 2014.
2. The Manager of Governance will be coordinating the review of the Record Keeping Policy and Councillor Record Keeping Policy. This will be undertaken with other policies that need to be reviewed.

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

**10. Review of Integrated Risk Management Plan**

Previous Items	OCM 21/2012
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Integrated Risk Management Plan

**PURPOSE**

1. To review the Shire of Kalamunda's Integrated Risk Management Plan (Attachment 1). This document provides the foundation and framework for managing risk and describes how the Shire will manage the strategic and operational risks associated with governance, management and operations.

**BACKGROUND**

2. There is a strong emphasis on risk management and the management of risk by the Department of Local Government and Communities with amendments in December 2013 to the *Local Government (Audit) Regulations 1996* and the issue a new Operational Guideline No 9 – Audit in Local Government. In addition, the Shire's external auditors will be undertaking a review of the Risk Management Framework.
3. The principles and processes underpinning the Integrated Risk Management Plan is based on the Australian/New Zealand Standard ISO 31000:2009 Risk Management – Principles and Guidelines (AZ/NZS ISO 31000).
4. Risk Management is the foundation of the control environment and sound corporate governance and enhances the Shire's capacity to achieve its stated objectives.

**STATUTORY AND LEGAL CONSIDERATIONS**

5. *Local Government Act 1995*  
*Local Government (Financial Management) Regulations 1996*  
*Local Government (Audit) Regulations 1996*  
*Australian /New Zealand Standard ISO 31000:2009 Risk Management – Principles and Guidelines*

**POLICY CONSIDERATIONS**

6. Risk Management Policy.

**COMMUNITY ENGAGEMENT REQUIREMENTS**

7. Nil.

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## FINANCIAL CONSIDERATIONS

8. Improves the internal financial control processes as part of Council's broader accountability and financial reporting through good governance and robust business practices by managing risk. It assists the Chief Executive Officer in identifying and reducing the risk of fraud and error, improving reliability of financial reporting and compliance with laws, regulations and policies.

## STRATEGIC COMMUNITY PLAN

### Strategic Planning Alignment

9. *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

10. Nil.

### Economic Implications

11. Nil.

### Environmental Implications

12. Nil.

## RISK MANAGEMENT CONSIDERATIONS

- 13.
- | Risk                                  | Likelihood | Consequence | Rating   | Action/Strategy                       |
|---------------------------------------|------------|-------------|----------|---------------------------------------|
| Failure to adopt the recommendations. | Unlikely   | Major       | Moderate | Comply with legislative requirements. |

## OFFICER COMMENT

14. The risk management process is an integral part of management, embedded in the culture and tailored to the business process of the Shire and applied to all levels and functions within the organisation. It helps stakeholders understand the basis on which decisions are made and enhances the Shire's capacity to achieve its objectives.
15. Risk Management involves a systematic process that identifies, analyses, evaluates, treats and monitors risk.

16. Implementation of the Risk Management Plan will be most effective when integrated into the Shire's Business Planning process. The effective management of risk enables the Shire to optimise the achievement of goals, reduce the impact of negative events and increase the delivery of business opportunity.

*A Councillor asked for an outline as to how this new plan differs from the old, the Director Corporate Services indicated that the old plan was largely compliance driven, the new guideline seeks to operationalise and integrate risk management into the planning and operational elements of the Shire's business.*

<b>Voting Requirements: Simple Majority</b>
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**COMMITTEE RECOMMENDATION TO COUNCIL (A&R 10/2014)**

That Council:

1. Adopts the Revised Integrated Risk Management Plan (Attachment 1.)

Moved: **Cr Margaret Thomas**

Seconded: **Cr Noreen Townsend**

Vote: **CARRIED UNANIMOUSLY (10/0)**

## **Attachment 1**

Integrated Risk Management Plan

[Click HERE to go directly to the document](#)

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

**11. Policy Review and Development**

Previous Items	En Bloc OCM 72/2013
Responsible Officer	Chief Executive Officer
Service Area	Governance
File Reference	N/A
Applicant	N/A
Owner	N/A
Attachment 1	Council Policy – Mobile Phone and Tablet Device – Provision, Usage and Disposal
Attachment 2	Management Procedure - Mobile Phone and Tablet Device – Provision, Usage and Disposal
Attachment 3	Council Policy - Investments
Attachment 4	Shire Policy – Social Media
Attachment 5	Shire Policy – Employee Achievement and Recognition
Attachment 6	Shire Policy – Shire Employees Undertaking Secondary Employment
Attachment 7	Shire Policy – Conference Attendance and Professional Development for Staff Members
Attachment 8	Shire Policy – Corporate Uniform and Standard of Dress
Attachment 9	Management Procedures – Procedures for Attachments 4, 5, 6, 7 and 8

**PURPOSE**

1. For Council to consider and adopt a new Council Policy and note the associated Management Procedure (Attachments 1 and 2) and adopt a revised Council Policy (Attachment 3).
2. For Council to note the new Shire Policies and associated Management Procedures (Attachments 4 to 9).

**BACKGROUND**

3. Section 2.7 of the *Local Government Act 1995* (the Act) provides that the development and adoption of policies is a key part of the role of Council.
4. In addition, it is necessary for the Chief Executive Officer to develop policies to support his/her functions and responsibilities and provide direction and guidance to the administrative staff.

**DETAILS**

5. A comprehensive review of the Policy Register has been ongoing for some time with the initial changes presented to Council in June 2013.
6. Subsequent development of new Policies has now been completed and these are presented to Council for adoption or endorsement.

- 
7. In addition the Investments Policy has been revised as a consequence of this phase of the review.
  8. The Policy has been amended with respect to an updated list of Authorised Deposit Taking Institutions (ADI's) in accordance with the *Banking Act 1959*. Citibank and HSBC Bank Australia have been deleted as competitive investment opportunities with these institutions have not been available to the Shire. To maintain an adequate spread of ADI's, IMB Ltd is being added to the list.

## **STATUTORY AND LEGAL CONSIDERATIONS**

9. Section 2.7 of the *Local Government Act 1995* and the *Banking Act 1959*.

## **POLICY CONSIDERATIONS**

10. The ongoing review being undertaken is aimed at ensuring all policies are current and relevant to the strategic objectives of Council and the current operational environment of the Shire.

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

11. None of the policies proposed to be adopted have a direct impact on the community and it is therefore considered that specific engagement is not required.

## **FINANCIAL CONSIDERATIONS**

12. There are no financial issues associated with the adoption or revocation of Policies.
13. The revision of the Investments Policy maintains the Shire's objective to maximise investment income in line with the Investment Policy Procedure which requires the CEO and its delegated officers to invest the Shire's surplus funds with consideration of risk and the most favourable rate of return available to it at that time.

## **STRATEGIC COMMUNITY PLAN**

### **Strategic Planning Alignment**

14. *Kalamunda Advancing: Strategic Community Plan to 2023*  
  
Strategy 6.3.3 Regularly review the organisation's structure, policies and procedures in response to changing circumstances.

## **SUSTAINABILITY**

### **Social Implications**

15. Nil.

### Economic Implications

16. Higher investment returns achieved through prudential investments placed on the Shire's behalf will enable more funds available for community activities and projects.

### Environmental Implications

17. Nil.

### RISK MANAGEMENT CONSIDERATIONS

#### 18. Policies Generally

Risk	Likelihood	Consequence	Rating	Action/Strategy
That Policies are not developed and adopted that support the strategic direction of Council or the operational requirements of the Shire	Unlikely	Major	Medium	Ensure Council is aware of the need to provide guidance to staff to support its strategic direction.

#### Investments Policy

Risk	Likelihood	Consequence	Rating	Action/Strategy
The Investment Company in which the deposit is placed will default	Unlikely	Major	Medium	<p>The investment policy requires that investment balance does not exceed 25% of total portfolio;</p> <p>Investments are only placed in approved ADI's which are regulated by APRA/ASIC;</p> <p>Internal review done to ensure that the investment company is sound and has adequate capital and liquidity ratios.</p>



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## OFFICER COMMENT

19. The proposed new Council and Shire Policies included with this Report have undergone a vigorous development and assessment process and are now considered in line with strategic objectives of the Council and administrative and operational requirements of the Shire.

*A Councillor asked how the Mobile Phone and Tablet Device Policy would address the FBT elements and do staff ever pay for any personal use; the Director indicated that the policy is aimed at obtaining better control over personal use and by reinforcing the guidelines it is hoped to reduce FBT. Some staff have made reimbursements for personal use.*

<b>Voting Requirements: Simple Majority</b>
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## COMMITTEE RECOMMENDATION TO COUNCIL (A&R 11/2014)

That Council:

1. Adopts the Mobile Phone and Tablet Device – Provision, Usage and Disposal Policy (Attachment 1) and the revised Investments Policy (Attachment 3).
2. Notes the Mobile Phone and Tablet Device – Provision, Usage and Disposal Management Procedures (Attachment 2).
3. Notes the following Shire Policies:-
  - Social Media (Attachment 4)
  - Employee Achievement and Recognition (Attachment 5)
  - Shire Employees Undertaking Secondary Employment (Attachment 6)
  - Conference Attendance and Professional Development for Staff Members (Attachment 7)
  - Corporate Uniform and Standard of Dress (Attachment 8)
4. Notes the Management Procedures for the above Shire Policies (Attachment 9).

Moved: **Cr Andrew Waddell**

Seconded: **Cr Noreen Townsend**

Vote: **CARRIED UNANIMOUSLY (10/0)**

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## Attachments 1-9

Attachment 1, Page 1	Council Policy – Mobile Phone and Tablet Device – Provision, Usage and Disposal
Attachment 2, Page 3	Management Procedure - Mobile Phone and Tablet Device – Provision, Usage and Disposal
Attachment 3, Page 10	Council Policy - Investments
Attachment 4, Page 12	Shire Policy – Social Media
Attachment 5, Page 13	Shire Policy – Employee Achievement and Recognition
Attachment 6, Page 14	Shire Policy – Shire Employees Undertaking Secondary Employment
Attachment 7, Page 16	Shire Policy – Conference Attendance and Professional Development for Staff Members
Attachment 8, Page 17	Shire Policy – Corporate Uniform and Standard of Dress
Attachment 9, Page 19	Management Procedures – Procedures for Attachments 4, 5, 6, 7 and 8

[Click HERE to go directly to the document](#)

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

**12. Master Lending Agreement between West Australian Treasury Corporation and the Shire of Kalamunda**

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Finance
File Reference	
Applicant	N/A
Owner	Shire of Kalamunda
Confidential Attachment 1	Local Government Master Lending Agreement (LGMLA) For the Shire of Kalamunda
<u>Reason for Confidentiality</u> <i>Local Government Act 1995 Section S23 (2) (c)</i> a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.	
<b>Circulated to Councillors under separate cover.</b>	

**PURPOSE**

1. To roll the existing loans under one umbrella agreement with the West Australian Treasury Corporation (WATC). This change will also make future loan borrowings more efficient as the normal loan application process are no longer required.

**BACKGROUND**

2. The WATC has implemented a Master Lending Agreement for Local Governments (LGMLA)'s which incorporate the recently introduced Commonwealth Government *Personal Property Security Act 2009* (PPSA) to improve the efficiency of the lending process to local governments.
3. As a local government is only permitted to provide security in the way of a charge over its General Funds pursuant to S6.21 of *Local Government Act 1995*, WATC has been advised by its legal department that it is a requirement to register these charges under the PPSA and include reference to this requirement within the new LGMLA.

**DETAILS**

4. The Shire currently has 18 loans with WATC as stated on page 3 and 4 of the LGMLA (Attachment 1).
5. The new LGMLA will replace previous loan terms for existing loans and will enable the Shire to apply for future loans more efficiently. The changes implemented are not of a significant nature to warrant a review by our own lawyers and it should be noted that they have passed the review from the State Solicitor's Office and Department of Local Government and Communities.

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## **STATUTORY AND LEGAL CONSIDERATIONS**

6. Under *Local Government Act 1995, s6.21* a local government can only provide its General Funds as security by way of charge on it. Under the PPSA, WATC is required to register these changes.

## **POLICY CONSIDERATIONS**

7. Shire of Kalamunda Council Borrowing Policy

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

8. Nil.

## **FINANCIAL CONSIDERATIONS**

9. The Shire's objective to ensure an effective organisation requires funding specific projects with a mix of debt funding among other funding sources. The LGMLA will make the loan portfolio management easier to administer in the future.

## **STRATEGIC COMMUNITY PLAN**

### **Strategic Planning Alignment**

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

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

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

## **SUSTAINABILITY**

### **Social Implications**

11. Nil.

### **Economic Implications**

12. The Shire's operational effectiveness is managed with debt funding where it is believed to have a beneficial outcome for current and future Kalamunda communities. Debt funding spreads the burden across current ratepayers and future ratepayers which would be equitable for large and significant projects.

### **Environmental Implications**

13. Nil.

## RISK MANAGEMENT CONSIDERATIONS

14.	Risk	Likelihood	Consequence	Rating	Action/Strategy
	The Shire breaches its debt covenants	Unlikely	Major	Medium	The Shire has strict protocols to ensure covenants are not breached
	The Shire breaches its debt repayments	Unlikely	Major	Medium	Cash flows are strictly monitored to ensure there are sufficient funds to fulfil debt repayment obligations

### OFFICER COMMENT

15. The LGMLA will create an umbrella agreement within which debt management will be more effectively administered by the Shire.

*A Councillor queried if there were any financial implications associated with entering into this agreement, the Director Corporate Services indicated there were not, this would merely make the administration process more efficient and allow the Shire to aggregate all its loans under the one header agreement.*

<b>Voting Requirements: Simple Majority</b>
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### COMMITTEE RECOMMENDATION TO COUNCIL (A&R 12/2014)

That Council:

1. Resolves that the Shire of Kalamunda enters into a Master Lending Agreement with Western Australia Treasury Corporation as per the Attachment 1 tables at this meeting.
2. Approves the affixation of the common seal of the Shire of Kalamunda to the said Master Lending Agreement in the presence of the Shire President and Chief Executive Officer of the Shire of Kalamunda, each of whom shall sign the document to attest the affixation of the Common Seal thereto.

Moved: **Cr Margaret Thomas**

Seconded: **Cr Justin Whitten**

Vote: **CARRIED UNANIMOUSLY (10/0)**

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

7.1 Nil.

**8.0 CLOSURE**

7.1 There being no further business, the Presiding Member declared the meeting closed at 7.11pm.

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

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

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2014