

Audit Committee Meeting

Agenda for 17 September 2012



**shire of
kalamunda**

NOTICE OF MEETING AUDIT COMMITTEE MEETING

Dear Councillors

Notice is hereby given that the next meeting of the Audit Committee will be held in the Council Chambers, Administration Centre, 2 Railway Road, Kalamunda on **Monday 17 September 2012 at 4.45pm.**

Audit Committee Meeting Procedure

1. Audit Committee is not open to the public.
2. Audit Committee has a membership of six Councillors.
3. Unless otherwise advised a Committee makes recommendations only to Full Council (held on the third Monday of each month at 6.30pm).
4. All other arrangements are in general accordance with Council's Audit Committee Terms of Reference October 2007.

James Trail
Chief Executive Officer
12 September 2012

Our Vision, Mission and Organisational Values

Vision

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

Mission

Working together to provide effective and efficient leadership and services our whole community.

Organisational Values

The organisational values of the Shire of Kalamunda assist in driving the behaviour of staff in implementing our strategic plan:

- **Customer Service Focus** – Deliver consistent excellent customer service through being timely and courteous.
- **Innovation** – Pursue excellence through innovative improvements.
- **Leadership** – Provide responsive leadership and excellent governance demonstrating high standards of ethical behaviour.
- **Mutual Respect** – Value each other's differences and demonstrate mutual respect.
- **Trust** – Communicate and collaborate openly and with integrity generating a strong culture of trust.



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AGENDA

1.0 OFFICIAL OPENING

2.0 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

3.0 CONFIRMATION OF THE PREVIOUS MINUTES

- 3.1 That the Minutes of the Audit Committee Meeting held on 2 April 2012 are confirmed as a true and accurate record of the proceedings.

Moved:

Seconded:

Vote”

Statement by Presiding Member

“On the basis of the above Motion I now sign the Minutes as a true and accurate record of the meeting of 2 April 2012”.

4.0 CONFIDENTIAL ITEMS

- 4.1 Nil.

5.0 DISCLOSURE OF INTERESTS

5.1 Disclosure of Financial and Proximity Interests

- a. Members must disclose the nature of their interest in matters to be discussed at the meeting. (Sections 5.60B and 5.65 of the *Local Government Act 1995*.)
- b. Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Sections 5.70 and 5.71 of the *Local Government Act 1995*.)

5.2 Disclosure of Interest Affecting Impartiality

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

6.0 REPORTS TO COUNCIL

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

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

05. Interim Audit Findings For Financial Year 2011-2012

Previous Items	Nil
Responsible Officer	Director Corporate & Community Services
Service Area	Corporate Services
File Reference	FI-AUD-003
Applicant	N/A
Owner	N/A
Attachment 1	2012 Interim Audit Information Requirements
Attachment 2	2012 Interim Visit Report -31-07-12 – Draft Letter from Auditors UHY Haines Norton
Attachment 3	2012 Interim Audit Findings and Management Responses

PURPOSE

1. To present the interim annual audit findings for the year ending June 2012.

BACKGROUND

2. In March 2012 the Shire undertook a tender process to appoint external auditors for a three year period and UHY Haines Norton, Chartered Accountants were appointed.

In May 2012 the Shire's Auditors advised they would be undertaking an interim audit of the Shire's account in accordance with the audit scope shown in (Attachment 1).

DETAILS

3. The Shire's Auditor inspected the books and accounts from 5 - 7 June 2012 and provided a report on their observations and findings. (Attachment 2) outlines these matters.
4. The interim audit raised a number of non-compliance, system and procedural issues and gave three reminders as follows:
5. Compliance
 - Statement of Monthly Financial Activity
 - Financial Report
 - Budget
 - Annual Report
 - Minimum Rates Payments
 - Differential Rates
 - Tender Register
 - Financial Interest Register
 - Land Sales

-
6. System and Procedures
 - Payment Procedure
 - Month End Reconciliations
 - Purchases, Payments, Payables, Salaries and Wages
 - Debtors
 - Allocation of Overhead Costs
 - Disaster Recovery Plan
 7. Reminders
 - Investment Policy
 - Internal Audit Program
 - Asset Management Plan and Long Term Financial
 8. Details and explanations of each of these matters together with Management responses are shown in (Attachment 2) and (Attachment 3).

STATUTORY AND LEGAL IMPLICATIONS

9. *Local Government Act 1995* and associated Regulations.

POLICY IMPLICATIONS

10. Nil.

PUBLIC CONSULTATION/COMMUNICATION

11. Nil.

FINANCIAL IMPLICATIONS

12. Nil.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

Strategic Planning Implications

13. Nil.

Sustainability Implications

Social implications

14. Nil.

Economic Implications

15. Nil.

Environmental Implications

16. Nil.

OFFICER COMMENT

17. The issues identified in the interim audit have either been resolved to date or are in the process of being actioned to ensure the Shire addresses each of the areas found to be lacking from the interim audit conducted.
18. Nevertheless it should be noted that many of the issues identified in the Interim Audit are minor in nature and, with the exception of Disaster Recovery Plan issue, do not expose the Shire to significant risk.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (AU 05/2012)

That Council:

1. Notes the Interim Audit Findings for the 2011-2012 Financial Year.
2. Requests the Chief Executive Officer address any issues identified in the Auditor's Interim Audit Report for the year ended 30 June 2012.

Moved:

Seconded:

Vote:

Attachment 1



2012 INTERIM AUDIT INFORMATION REQUIREMENTS

We kindly request you to please ensure all staff as detailed on page 4 are available for the duration of the visit to answer questions.

In order to minimise any disruption to your normal operations and make our visit efficient please forward scanned copies (.pdf files) of the following documents to us as soon as possible and at least two weeks prior to our visit.

In order to keep track of the documents and maintain the same sequence as our list, please include numerical numbers at the beginning of the file name as below e.g. file name for the second document will be "2 - *Local public notice advising of Annual General Meeting of Electors*".

#	Documentation requirements for statutory matters	Responsible Person	Scan Attached (Yes)(No)(N/A)
1	Local public notice advising dates of Council meetings for the year.		
2	Local public notice advising of Annual General Meeting of Electors.		
3	Local public notice advising of availability of Annual Report.		
4	Local public notice of intention to charge differential rates (where differential rates have been raised).		
5	Council resolution where local government adopted a percentage or value, to be used in statements of financial activity for reporting material variances.		
6	Council resolution where policies and delegations register was reviewed.		
7	Council resolutions where decision to approve the sale of any property was made.		
8	Council resolution accepting the Annual Report.		
9	Council resolutions where all tenders have been decided upon.		
10	Council resolution where any decisions made at a meeting of electors were considered.		
11	Council resolution where the Plan for the future was adopted or reviewed.		
12	Council resolution where the Compliance Audit Return for calendar year ended December 2011 was accepted and a Copy of the signed Compliance Audit Return.		
13	Council resolution where the CEO has reported on the result of a review of the appropriateness and effectiveness of the Financial Management systems and procedures of the local government (where undertaken).		
14	Council resolution adopting the budget for the year ending 30 June 2012		



2012 INTERIM AUDIT INFORMATION REQUIREMENTS – CHECKLIST (Continued)

	Documentation requirements for statutory matters	Responsible Person	Scan Attached (Yes)(No)(N/A)
15	Council resolution adopting the review of the budget for the year ending 30 June 2012		
16	Copy of any resolutions where council has adopted or modified any accounting policies.		
17	Letter forwarding the Annual Financial Report for the year ended 30 June 2011 to the Department of Local Government.		
18	Letter forwarding the annual budget for the year ending 30 June 2012 to the Department of Local Government.		
19	Letter forwarding the Budget Review for the year ending 30 June 2012 following to the Department of Local Government.		
20	Copy of FBT Return (if lodged).		
21	<p>One copy of each of the following printed notices to include rate payers detailed information:</p> <ul style="list-style-type: none"> i. Rate Instalment Notice; ii. Interim Rate Notice and iii. Instalment Reminder Notice <p>Where relevant also include the info bulletin that accompanied the 2011/12 rate instalment notices.</p>		
22	Trial Balance to the end of the month preceding our visit in excel format.		
23	If any disposal of property during the year to pay rates we require a copy of forms 2 to 6 in terms of FM Regulations 72 to 78 along with all relevant associated documentation.		



2012 INTERIM AUDIT INFORMATION REQUIREMENTS – CHECKLIST (Continued)

Please ensure the following documents are readily available for us to examine at the time of our visit. (Should we require copies of any these documents we will obtain these during our visit).

	Documentation to be held in Data Room	Responsible person	On file (Yes)(No)(N/A)
24	Signed minutes for the year since 1 July 2011. Include all minutes e.g. audit committee, electors etc. (Please, if possible, ensure that the latest minutes are not away for binding)		
25	Tender register.		
26	Delegations register.		
27	Register of financial interests including Primary/Annual returns.		
28	End of Month procedures files for the year since 1 July 2011 which should contain the following: <ul style="list-style-type: none"> • Reviewed and signed Bank Reconciliations; • Reviewed and signed Manual Rolling Rates Reconciliation; • Reviewed and signed Receivables reconciliations of General Ledger to detailed aged listings; • Reviewed and signed Payables reconciliations of General Ledger to detailed aged listings; and • Reviewed and signed Fixed Asset reconciliations 		
29	Copy of Annual Budget for the year ending 30 June 2012 approved by Council. (We will require a copy to take away where not already provided)		
30	Copy of Annual Report for the year ended 30 June 2011 approved by Council. (We will require a copy to take away where not already provided)		
31	Workings to Employee Numbers & remuneration per Annual Report 2011		
32	Policy Manual.		
33	Code of Conduct.		
33	Any authorised operating procedures relating to the Financial System.		
34	Any internal or external risk assessments which have been performed in the previous 2 years.		
35	Details of Council staff (Refer to Page 4 below)		
36	Signed Fraud and Error Letter signed by CEO. (Refer to Page 5 below)		
37	Signed Fraud and Error Letter signed by persons responsible for Governance. (Refer to Page 7 below)		

Please do not hesitate to contact us should you have any queries or require any clarification of items requested.



2012 INTERIM AUDIT INFORMATION REQUIREMENTS – CHECKLIST (Continued)

Please complete the following information in relation to the Council staff members responsible for the functions listed.

#	Function	Position Title	Name	Email Address
1	Bank Reconciliation			
2	Receipting			
3	Payments			
4	Minutes			
5	Rates			
6	Payroll			
7	Financial Interest Register			
8	Tender Register			
9	General Compliance			
10	Monthly Reconciliations – Debtors, Creditors, Fixed Assets, etc			
11	Annual Report			
12	Budget			



To the Chief Executive Officer

Re: Fraud and error assessment for the year ended 30 June 2012.

We are preparing to perform our Interim risk assessment of your Council in relation to the audit for the year ended 30 June 2012.

Members of the management team are primarily responsible for providing systems that mitigate the possibility of fraud or error occurring within the organisation. As part of the audit process we are required to assess the risk of fraud or error occurring within the organisation. In accordance with Australian Auditing Standards we are required to make enquiries of management as well as those charged with governance of their assessment of the risk of fraud or error occurring within the organisation.

As part of this assessment we request you to briefly answer the following questions by ticking the appropriate box and where appropriate providing an explanation in the spaces provided.

Should you wish to discuss any matters arising please feel free to do this with us at any stage of the audit.

Internal control

1. In your opinion are the internal control systems adequate to mitigate the possibility of fraud or error occurring within the organisation?

Yes No *If No, please explain reasons.*

2. Are the internal control systems adequately documented to be enforceable?

Yes No *If No, please explain reasons.*

3. Do you believe the controls are adequately monitored to ensure they are operating as intended?

Yes No *If No, please explain reasons.*

4. Do you consider there to be any weaknesses in the entity's internal controls?

Yes No *If Yes, please explain reasons.*

5. Are there any controls which you think could be bypassed or overridden?

Yes No *If Yes, please explain reasons.*

6. Do you know of instances in the past in which those controls have been overridden?

Yes No *If Yes, please explain reasons.*



Misrepresentation in financial statements

7. Do you consider there to be any risk of fraud or error having a material impact (both individually or cumulatively) on any balances or statements made within the Financial Report?

Yes No *If Yes, please explain reasons.*

8. Are you aware of any actual instances of fraud or error (either misrepresentation of data or misappropriation of assets) within the Council?

Yes No *If Yes, please explain reasons.*

9. Do you suspect that fraud or error may be occurring within the Council (even if unlikely to have a material impact)?

Yes No *If Yes, please explain reasons.*

10. Have you received communication from any current or former employee, Councillor, or other individual connected with the Council alleging that fraud has occurred?

Yes No *If Yes, please explain reasons.*

Other matters

11. If you have any concerns or questions you would like us to address during the course of our audit, please describe

Council Name: _____

Reply completed by: _____

Signed: _____

Date: _____



To the Chair of the Audit Committee

Re: Fraud and error assessment for the year ended 30 June 2012.

We are preparing to perform our Interim risk assessment of your Council in relation to the audit for the year ended 30 June 2012. In performing the engagement, the Australian Auditing Standards require us to consider the risk that fraud could occur within the organisation.

These standards require us to make enquiries of those charged with governance of the risk of fraud within the organisation.

We would appreciate you taking the time to briefly answer the following questions in the spaces provided, and return this letter, preferably before the commencement of the audit.

1. Do you believe the policies and procedures in place within the organisation are adequate to minimise the risk of fraud to an appropriately low level? If no, please provide an explanation and reasons for your answer.

Yes No *If No, please explain reasons.*

2. Are you aware of any instances where policies and procedures have not been adhered to which could have resulted in a fraud occurring? If yes, please provide details.

3. Have you, during the past year, become aware of or suspected fraud within the organisation? If yes, please provide details.

4. If there any concerns or questions you would like us to address during the course of our audit, please describe.

Council Name: _____

Reply completed by: _____

Signed: _____

Date: _____

Attachment 2

31 July 2012

Cr Dylan O'Connor
The Chairman
Audit Committee
Shire of Kalamunda
PO Box 42
KALAMUNDA WA 6926

Dear Dylan

INTERIM AUDIT VISIT

We have completed our onsite procedures in respect of our interim audit visit from 5th to 8th June 2012.

We have attached our report which provides a summary of matters raised with management during our review including management comments.

Please note, we will follow these up during our final visit later in the year to help ensure appropriate action has been implemented.

This letter, together with the attached matters are provided for the purposes of general information only and are not part of our formal audit reporting process. Our audit and management reports will be formally issued at the conclusion of our audit in respect of the year ended 30 June 2012.

If you have any queries regarding these or other matters, please contact me.

Yours sincerely

DAVID TOMASI
PARTNER

cc: Mr James Trail –Chief Executive Officer

SHIRE OF KALAMUNDA

30 June 2012 Interim Visit Report

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SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.0 COMPLIANCE

1.1 STATEMENT OF MONTHLY FINANCIAL ACTIVITY

OBSERVATIONS

- Whilst the monthly statements of financial activity did not include variances between year to date actual and year to date budget amounts as required by Financial Management Regulation 34(1) (d), commentary was provided for the overall Statement of Comprehensive Income by Nature and Type.

As a result, the commentary on material variances cannot be agreed to material variances between year to date actual and year to date budget amounts.

- We noted in all instances, the explanation of the composition of net current assets was not presented in the Statement of Monthly Financial Activity.

COMMENTS

- Whilst it would appear all material variances have been explained, to help ensure compliance with Financial Management Regulations 34(1)(d) and 34(2)(b), material variances should be identified.

The schedule reflecting material variances should also be cross referenced to the schedule of explanations for variances.

- To help ensure compliance with Financial Management Regulation 34(2)(a) each statement of financial activity should contain an explanation of the composition of the net current assets.

As the above matters raised represent non-compliance with Financial Management Regulations, they may be carried forward to our audit report for the year ended 30 June 2012.

MANAGEMENT COMMENTS



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.2 FINANCIAL REPORT

OBSERVATION

The annual financial report for the year ended 30 June 2011 was not submitted to the Department of Local Government within 30 days of receiving the auditor's report as required by Financial Management Regulation 51(2).

COMMENT

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in future.

As the above matter raised represents non-compliance with the Financial Management Regulations, it may be carried forward to our audit report for the year ended 30 June 2012.

MANAGEMENT COMMENTS



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.3 BUDGET

OBSERVATION

The Budget for 2011/12 was not submitted to the Department of Local Government within 30 days of the report being adopted. We noted the Budget was adopted on 25 July 2011 and submitted to the Department on 07 September 2011. As a result the statutory requirement was breached by 12 days.

COMMENT

In future, to help ensure compliance with Financial Management Regulation 33 the Budget document should be sent to the Department within 30 days of its adoption.

As the above matter raised represents non-compliance with Financial Management Regulations, it may be carried forward to our audit report for the year ended 30 June 2012.

MANAGEMENT COMMENTS

1.4 ANNUAL REPORT

OBSERVATION

Local public notice of the availability of the Annual Report was not given as required by Section 5.55 of the Act.

COMMENT

To help ensure compliance with statutory requirements, local public notice of the availability of the Annual Report should be given.

MANAGEMENT COMMENTS



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.5 MINIMUM RATES PAYMENTS

OBSERVATION

Whilst reviewing the adopted rates in the 2011/12 budget, we noted, in relation to UV Industrial category the number of properties on which the minimum rate payment was imposed was more than 50% of the number of separately rated properties.

COMMENT

To help ensure compliance with Section 6.35(4) of the Local Government Act, this requirement should be correctly addressed in the future.

We noted that the Shire has agreed to accept the State Administrative Tribunal's decision to quash the rates and has agreed to refund the two rates in question.

As the above matter raised represent non-compliance with Part 6 of the Local Government Act, this may be carried forward to our audit report for the year ended 30 June 2012.

MANAGEMENT COMMENTS

[Empty box for Management Comments]



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.6 DIFFERENTIAL RATES

OBSERVATION

A brief statement of objects/reasons for imposing the differential rates was not included in the rate notice or information accompanying the rate notice as required by Financial Management Regulation 56(4)(a)(i).

COMMENT

To help ensure compliance with statutory provisions, these requirements should be correctly addressed in the future.

As the above matter raised represent non-compliance with Financial Management Regulations, this may be carried forward to our audit report for the year ended 30 June 2012.

MANAGEMENT COMMENTS



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.7 TENDER REGISTER

OBSERVATION

Upon review, the tender register did not appear to be up to date in respect of all necessary details. In particular, details concerning the consideration or summary of the amounts of consideration sought as required by Functions and General Regulation 17(3) had not been completed in three (3) instances.

COMMENT

We recommend procedures be implemented to help ensure these details are recorded promptly and the register is complete with all necessary requirements.

MANAGEMENT COMMENTS

Empty box for management comments.

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Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.8 FINANCIAL INTEREST REGISTER

OBSERVATIONS

The register was examined to ensure compliance with regulatory requirements. The following matters were noted:

- Our review of the Annual and Primary returns of Councillors and Staff revealed 7 of 19 returns reviewed contained sections which had been left blank; and
- At the time of our review, the Financial Interest Register was not up dated from January 2102 in relation to financial, impartiality and proximity interests disclosed by Councillors and Staff.

COMMENTS

- To help ensure returns submitted are not at risk of being amended, we recommend all sections be completed. We note it is acceptable to record N/A, Nil or No Change or to rule a clear line through a N/A section (Departmental Circular 18/2005); and
- All disclosed interests should be minuted and recorded in the financial interest register (Administration Regulation 28).

MANAGEMENT COMMENTS

[Empty box for Management Comments]

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SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

1.9 LAND SALES

OBSERVATION

During the period under review we noted certain blocks in Smokebush Estate were sold by private treaty and no local public notice was given.

COMMENT

To help ensure compliance with Section 3.58 (3) of the Act, local public notice of the proposed disposition should be given.

MANAGEMENT COMMENTS

DRAFT



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

2.0 SYSTEM AND PROCEDURES

2.1 PAYMENT PROCEDURES

OBSERVATIONS

Our review of payments made during the period under review revealed the following:

- In six (6) instances (out of 50 samples), purchase orders were raised after tax invoices had been received; and
- In certain instances, purchase requisitions were not attached to purchase orders.

COMMENTS

To help ensure:

- proper budgetary controls;
- compliance with the Shire's purchasing policy;
- goods invoiced are ordered; and
- prices invoiced were quoted.

purchase orders should be issued prior to goods/services being sourced and should contain all of the necessary details in relation to them (including quantity and price).

In addition, prior to payment authorisation, invoiced amounts should be verified with prices quoted in the purchase orders.

MANAGEMENT COMMENTS

[Empty box for Management Comments]

-10-

Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

2.2 MONTH END RECONCILIATIONS

OBSERVATIONS

Our review of the month end reconciliations revealed the following:

- Monthly manual rolling reconciliations of property valuations were not prepared on a regular basis;
- No regular reconciliations were prepared between physical stocks and the ledger balance for beverage stocks at the recreation centre on a regular basis; and
- The following reconciliations were not reviewed by a person independent of preparation;
 - Inventory;
 - Daily receipts at the Shire Counters; and
 - Library, Meals on Wheels and HACC.

COMMENTS

- To help ensure valuations are correctly recorded and the integrity of the rating system is regularly maintained as changes from Landgate are notified, reconciliations should be prepared on a regular basis and reviewed by a senior staff member independent of preparation. This review should seek to confirm the accuracy of the reconciliation and should be evidenced accordingly.
- To help safeguard Shire resources, all month end reconciliations should be prepared in a timely manner. They should be signed and dated by the preparer and should be reviewed by a person independent of preparation.

The independent reviewer should also sign and date the reconciliations as evidence of their review.

MANAGEMENT COMMENTS

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Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.



**SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012**

2.3 PURCHASES, PAYMENTS, PAYABLES, SALARIES AND WAGES

OBSERVATIONS

- Review of the EFT payments system revealed changes to creditors and staff details in the system were not reviewed by a senior staff member independent of processing.
- We noted access to creditors' and payroll ABA files are not restricted to authorised personnel of the Shire.

COMMENTS

- To help ensure ALL changes to creditors and staff details in the system are completely reviewed, a senior staff member independent of processing should review a system generated audit trail report showing all changes made on every EFT.

The independent review should seek to confirm the integrity of the details in the system for the subsequent creation of the ABA file and should be evidenced accordingly.
- To help ensure the ABA files are not tampered with after their creation, access to these files should be limited to authorised personnel.

MANAGEMENT COMMENTS

DRAFT



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

2.4 DEBTORS

OBSERVATION

As at 30 April 2012, the amount of sundry debtors outstanding for a period of greater than 60 days was \$93,742 or 16.8% of the total amount shown in the ageing analysis. Of this, \$73,797 (13%) was outstanding for a period greater than 90 days.

During our assessment of recoverability of these sundry debtors we noted there are debtors aged more than 90 days which may be non recoverable.

COMMENT

To help ensure recorded assets are not impaired, recoverability should be assessed on a regular basis.

In addition, follow up procedures should be established in line with the adopted credit policy.

MANAGEMENT COMMENTS

[Empty box for Management Comments]



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

2.5 ALLOCATION OF OVERHEAD COSTS

OBSERVATION

During our review of allocation of overhead costs we noted there were unallocated Plant Operating Costs of \$232,787 as at 30 April 2012.

Whilst this has no effect on the net operating result, it may distort the true cost of individual jobs at a given point in time and monthly Statements of Financial Activity would not reflect the correct allocations.

COMMENT

To help ensure all jobs are accurately reflected on a timely basis, we recommend the allocation rates and methodology be reviewed on a regular basis. This would also help Council and staff as they make management decisions on scarce resources.

MANAGEMENT COMMENTS

[Empty box for Management Comments]



SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012

2.6 DISASTER RECOVERY PLAN

OBSERVATIONS

A review of storage of documents and record keeping revealed the following:

- There is no disaster recovery plan in place; and
- Backup is maintained on the second server but this server is kept in the same building.

COMMENTS

To help ensure uninterrupted operations and efficient document management:

- A disaster recovery plan should be developed and adopted; and
- A backup system should be maintained off site.

MANAGEMENT COMMENTS

DRRAFT

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Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.



**SHIRE OF KALAMUNDA
MATTERS NOTED & REQUIRING FOLLOW UP
INTERIM VISIT YEAR ENDED 30 JUNE 2012**

3 REMINDERS

3.1 INVESTMENT POLICY

Local Government (Financial Management) Regulations relating to investments have recently been amended (effective from 20 April 2012).

Council should review its current investment policy to help ensure it is in line with the amended requirements.

3.2 INTERNAL AUDIT PROGRAM

During our interim audit visit the results of the internal audit program were not available for our review. We will follow these results up at a later stage of our engagement.

3.3 ASSET MANAGEMENT PLAN AND LONG TERM FINANCIAL PLAN

As outlined in our engagement letter, we will undertake a review of Shire's Asset Management Plan and Long Term Financial Plan upon the availability of relevant information.

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Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.

Attachment 3

SHIRE OF KALAMUNDA

Responses to Interim Audit Management Report

UHY Haines Norton

1.0 COMPLIANCE

1.1 STATEMENT OF MONTHLY FINANCIAL ACTIVITY

Auditor's Observations

Whilst the monthly statements of financial activity did not include variances between year to date actual and year to date budget amounts as required by Financial Management Regulation 34(1) (d), commentary was provided for the overall Statement of Comprehensive Income by Nature and Type.

As a result, the commentary on material variances cannot be agreed to material variances between year to date actual and year to date budget amounts.

We noted in all instances, the explanation of the composition of net current assets was not presented in the Statement of Monthly Financial Activity.

Auditor's Comments

Whilst it would appear all material variances have been explained, to help ensure compliance with Financial Management Regulations 34(1)(d) and 34(2)(b), material variances should be identified.

The schedule reflecting material variances should also be cross referenced to the schedule of explanations for variances.

To help ensure compliance with Financial Management Regulation 34(2) (a) each statement of financial activity should contain an explanation of the composition of the net current assets.

As the above matters raised represent non-compliance with Financial Management Regulations, they may be carried forward to our audit report for the year ended 30 June 2012.

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Management Comments

Whilst the Shire accepts that there was not a column disclosing variances between actual year to date amounts and the estimated budget which appears to be what the audit finding is referring to, we advise that Financial Management Regulation 34(1) (d) does not stipulate how variances should be shown. In the Shire's case all major variances were reported in the body of reports to Council.

With the changeover in the Financial Manager's position at year end 2011 and a contractor stepping in to fill the role, the preparation of the net current asset position which reconciled to the closing position in the financial activity statement (or termed "rate setting statement") had been overlooked. This was highlighted to the Shire by the audit manager during the interim audit in May and the matter was rectified with the inclusion of the net current asset position statement being reported since May 2012.

The Shire has been preparing a full set of monthly statutory financial statements and a quarterly corporate report detailing variances and commentary by business units for the year which is generated from the CAMMS software system and provided to the Council. This would have compensated for the oversight noted above. A copy of this report has been provided. It is also noted that the monthly statutory statements provided included the "statement of financial position" which covers the disclosure of the net current asset position of the Shire with the only exception of there being no disclosure on restricted or committed assets as required under Financial Management Regulation 34(2) (a) which is noted and corrected as stated above in the May and June Council reports.

Effective from September 2012 the Shire will be improving its variance reporting by providing a monthly Variance report that is similar to the quarterly report which is produced electronically from the CAMMS budget management centre software.

1.2 FINANCIAL REPORT

Auditor's Observations

The annual financial report for the year ended 30 June 2011 was not submitted to the Department of Local Government within 30 days of receiving the auditor's report as required by Financial Management Regulation 51(2).

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Auditor's Comments

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in future.

As the above matter raised represents non-compliance with the Financial Management Regulations, it may be carried forward to our audit report for the year ended 30 June 2012.

Management Comments

The 2010/11 annual financial report was inadvertently not submitted to the Department of Local Government within 30 days of receiving the auditor's report due to staffing changeover issues. By way of explanation the 2010/11 end of financial year was a very difficult time for the Shire due to the impromptu resignation of the Manager Financial Services during July 2011. This left the Shire vulnerable in its ability to simultaneously deliver the annual budget and the end of year financials. A temporary replacement was found however it took some time for that person to learn the systems and create a set of year end accounts and delays were inevitably experienced.

The Shire has since recruited a suitably skilled Manager Financial Services and this stability will once again enable the Shire to ensure compliance with statutory timeframes requirements in the future.

1.3 BUDGET

Auditor's Observations

The Budget for 2011/12 was not submitted to the Department of Local Government within 30 days of the report being adopted. We noted the Budget was adopted on 25 July 2011 and submitted to the Department on 07 September 2011. As a result the statutory requirement was breached by 12 days.

Auditor's Comments

In future, to help ensure compliance with Financial Management Regulation 33 the Budget document should be sent to the Department within 30 days of its adoption.

As the above matter raised represents non-compliance with Financial Management Regulations, it may be carried forward to our audit report for the year ended 30 June 2012.

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UHY Haines Norton

Management Comments

The 2011/12 adopted budget was inadvertently not submitted to the Department of Local Government within 30 days of adoption due to staffing changeover issues. By way of explanation the 2010/11 end of financial year was a very difficult time due to the impromptu resignation of the Manager Financial Services during July 2011. This left the Shire vulnerable in its ability to simultaneously deliver the annual budget and the end of year financials. A temporary replacement was found however it took some time for that person to learn the systems and finalise the annual budget documentation so delays were inevitably experienced.

The Shire has since recruited a suitably skilled Manager Financial Services and this stability will enable the Shire to ensure compliance with statutory timeframes requirements in the future.

1.4 ANNUAL REPORT

Auditor's Observations

Local Public Notice of the availability of the Annual Report was not given as required by Section 5.55 of the Act.

Auditor's Comments

To help ensure compliance with statutory requirements, local public notice of the availability of the Annual Report should be given.

Management Comments

This issue is acknowledged and a new process will be initiated to ensure the advertising of availability of Report will be done as required by the *Local Government Act 1995*.

1.5 MINIMUM RATES PAYMENTS

Auditor's Observations

Whilst reviewing the adopted rates in the 2011/12 budget, we noted, in relation to UV Industrial category the number of properties on which the minimum rate payment was imposed was more than 50% of the number of separately rated properties.

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Responses to Interim Audit Management Report

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Auditor's Comments

To help ensure compliance with Section 6.35(4) of the Local Government Act, this requirement should be correctly addressed in the future.

We noted that the Shire has agreed to accept the State Administrative Tribunal's decision to quash the rates and has agreed to refund the two rates in question.

As the above matter represents non-compliance with Part 6 of the Local Government Act, this may be carried forward to our audit report for the year ended 30 June 2012.

Management Comments

The Rates Book has been duly adjusted in light of the SAT findings. All monies have been refunded to the affected property owners. Action is now completed and Council adopted the re-imposed rates on 30/7/2012 as per the SAT ruling. Minutes are available for inspection.

1.6 DIFFERENTIAL RATES

Auditor's Observations

A brief statement of objects/reasons for imposing the differential rates was not included in the rate notice or information accompanying the rate notice as required by Financial Management Regulation 56(4) (a)(i).

Auditor's Comments

To help ensure compliance with statutory provisions, these requirements should be correctly addressed in the future.

As the above matter raised represent non-compliance with Financial Management Regulations, this may be carried forward to our audit report for the year ended 30 June 2012.

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Responses to Interim Audit Management Report

UHY Haines Norton

Management Comments

The Shire does not totally agree that this is a non-compliance issue. The Local Government act states that information about imposing differential rates should be included or accompany the rates notice. The Shire believes that the word 'accompany' does not necessarily stipulate this information has to accompany the rates notice by way of paper distribution through the mail. The Shire's information about the objects and reason for imposing differential rates has to date been displayed on the Shire's website rather than trying to include so much detail into the rates notice. The weakness currently is that the Rates Notice does not reference a link back to the Shire's website and if it is deemed to be appropriate the Shire will ensure that this reference is included in future years on the back of the Rates Notice under the section called 'Additional Information'.

The information about objects and reasons is not brief and would consume a lot of space in the rates notice. It has to date been the Shire's understanding holding this information on the website is a satisfactory approach to complying with Regulation 56(4)(a)(i).

The following outlines the information displayed on the Shire's website and highlights the difficulty in placing so much information on the rates notice.

OBJECTS OF AND REASONS FOR PROPOSED DIFFERENTIAL RATES FOR THE YEAR ENDING 30 JUNE 2013

The Shire of Kalamunda provides services to a diverse and rapidly changing region consisting of residential, commercial, industrial, rural and special rural properties. Council will extend the existing differential rating approach for the 2012/2013 financial year in an attempt to ensure the rate revenue is collected on an equitable basis, taking into consideration the levels of services provided to the different types of properties as well as the need to encourage specific types of activities within the region.

The Local Government Act 1995 stipulates where land is used predominantly for rural purposes the rate levied shall be based on Unimproved Values (UV) of the respective properties, and where the land is used predominantly for non-rural purposes the rate levied shall be based on Gross Rental Value (GRV).

Council will implement the following differential rating categories:

- *General GRV*
- *Commercial GRV*
- *Industrial GRV*
- *General UV*
- *Commercial UV*

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Responses to Interim Audit Management Report

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VALUATIONS

Landgate is the statutory authority responsible for the valuation process in accordance with the provisions of the Local Government Act 1995 and the Valuation of Land Act 1978 (as amended). Landgate carries out general valuations at such times and frequency as it considers necessary. Where valuations are used as a rate base, they should reasonably reflect the current market and be supported by sales and rental evidence.

Unimproved (UV)

The definition of Unimproved Value (UV):

"Means the capital amount that an estate of fee simple in the land might reasonably be expected to realise upon sale, assuming any improvements to the land had not been made".

UV properties are reviewed on an annual basis, effective 1 July each year.

Gross Rental Valuations (GRV)

The definition of a Gross Rental Value (GRV):

"Means the gross annual rental that the land might reasonably be expected to realise if let on tenancy from year to year, upon condition the landlord were liable for all rates, taxes, insurance, and other outgoings necessary to maintain the value of the land".

GRV properties are reviewed every three years as per the Valuation of Land Act 1978 (as amended), with the last review assessed as at 1 August 2009 effective 1 July 2011. Properties on a GRV valuation are assessed as follows;

- Developed - sales and rental evidence. 5% of the Capital Value.*
- Vacant Residential - 3% of the site value.*
- Vacant Other - 5% of the site value.*

OBJECTIONS TO VALUATIONS

There are provisions for ratepayers to lodge an objection to valuations within 60 days of the issue of the rate notice. It is important any objection to a valuation should be on the grounds the valuation is unjust or incorrect and not simply based on the quantum of rates payable.

Further information and brochures on objection procedures are available from Landgate by visiting their website at www.landgate.wa.gov.au. Ratepayers are also encouraged to telephone the Office on 9273 7373 to discuss their valuation concerns prior to lodging any formal objection. Objection to Valuation forms can also be obtained by contacting the Shire's Rates Department on 9257 9999 or e-mail rates@kalamunda.wa.gov.au.

RATING YIELD OBJECTIVE

In setting the rate in the dollar for each category, Council has taken into consideration the following factors:

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- *Main Source of Revenue*
Rates revenue will continue to be the main source of revenue for the Shire. The Shire will endeavour to access more grant funding for approved projects, but it is to be recognised there is increasing competition for a reducing pool. A large portion of the fees and charges for the services provided by the Shire are set by Statutory Regulations, and other fees are price sensitive. Thus the potential for increased revenue from sources other than rates is limited.
- *Asset Management*
The Shire has under its management approximately 600 kilometres of roads and over 220 buildings. A large percentage of these are approaching, if not already passed, the stage where they need substantial repairs and maintenance. As with many local governments in Western Australia, infrastructure assets are in urgent need of care if they are to be effectively utilised over their planned lifespan.

DIFFERENTIAL RATES

Category 1 - General GRV

The General GRV rate applies to all properties with a land use that does not fall within the categories of Commercial or Industrial. The Shire of Kalamunda's rates historically are lower than our immediate neighbours and many other metropolitan councils, with the Minimum Rate in particular being appreciably lower.

Rate in the dollar is 5.3626 cents with a minimum rate of \$693.

Category 2 – Commercial GRV

The Commercial GRV rate is levied on properties with a commercial land use. The Fire and Emergency Services Levy (FESA) also distinguishes between industrial and commercial property uses. It is noted that rate levies paid by commercial property owners are generally tax deductible.

Rate in the dollar is 5.6307 cents with a minimum rate of \$728.

Category 3 – Industrial GRV

The Industrial GRV rate is levied on properties with an industrial land use. The Fire and Emergency Services Levy (FESA) also distinguishes between industrial and commercial property uses. It is noted that rate levies paid by industrial property owners are generally tax deductible.

Rate in the dollar is 6.0059 cents with a minimum rate of \$778.

Category 4 - General UV

This category is applied to all rural properties which do not fall into one of the other categories, and is the base for computing the rate in the dollar for

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Unimproved Value properties. The valuations of UV properties are reviewed on an annual basis by Landgate.

Rate in the dollar is 0.2552 cents with a minimum of \$693.

Category 5 – Commercial UV

The Commercial UV rate is levied on properties with a commercial land use. The Fire and Emergency Services Levy (FESA) also distinguishes between industrial and commercial property uses. It is noted that rate levies paid by industrial property owners are generally tax deductible.

Rate in the dollar is 0.2680 cents with a minimum rate of \$728

Summary

In arriving at the proposed rates in the dollar the Council has attempted to balance the need for revenue to fund essential services and facilities with the desire to limit any increase on the ratepayer to affordable levels.

Submissions, addressed to the Chief Executive Officer, Shire of Kalamunda, PO Box 42 Kalamunda WA 6926, by electors or ratepayers in respect of the proposed Differential Rates and Minimum Payments, may be lodged to Council by 5.00 pm on Monday 9 July 2012.

1.7 TENDER REGISTER

Auditor's Observations

Upon review, the tender register did not appear to be up to date in respect of all necessary details. In particular, details concerning the consideration or summary of the amounts of consideration sought as required by Functions and General Regulation 17(3) had not been completed in three (3) instances.

Auditor's Comments

We recommend procedures be implemented to help ensure these details are recorded promptly and the register is complete with all necessary requirements.

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Management Comments

With respect to the three tenders not complying with Functions and General Regulation 17(3) was an oversight and has since been rectified. These tenders when put to Council contained schedules of rates which were treated as confidential attachments to the Council report. The Shire has included the Council's resolution in the Tender Register but had not included the confidential schedule of rates. An internal discussion has been undertaken and the Tender register will contain all prices scheduled whether or not they were treated confidentially at the Council meeting in order to comply.

1.8 FINANCIAL INTEREST REGISTER

Auditor's Observations

The register was examined to ensure compliance with regulatory requirements. The following matters were noted:

- Our review of the Annual and Primary returns of Councillors and Staff revealed 7 of 19 returns reviewed contained sections which had been left blank; and
- At the time of our review, the Financial Interest Register was not up dated from January 2102 in relation to financial, impartiality and proximity interests disclosed by Councillors and Staff.

Auditor's Comments

- To help ensure returns submitted are not at risk of being amended, we recommend all sections be completed. We note it is acceptable to record N/A, Nil or No Change or to rule a clear line through a N/A section (Departmental Circular 18/2005); and
- All disclosed interests should be minuted and recorded in the financial interest register (Administration Regulation 28).

Management Comments

This was an oversight and the audit recommendations will be implemented in future years.

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Responses to Interim Audit Management Report

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1.9 LAND SALES

Auditor's Observations

During the period under review we noted certain blocks in Smokebush Estate were sold by private treaty and no local public notice was given.

Auditor's Comments

To help ensure compliance with Section 3.58 (3) of the Act, local public notice of the proposed disposition should be given.

Management Comments

The Shire undertook a new initiative in 2011/12 to subdivide a freehold land in Welshpool into 29 lots. The Shire appointed a sales and marketing firm to assist with the process and a breakdown in communication between the Shire's sales agents and Shire officers resulted in a sales contracts being signed for the first tranche of lots to be sold without a clause stating that section 3.58 was to apply. The Shire made a conscious decision not to subject the purchasers to s3.58 advertising retrospectively given they had signed offers and acceptance without knowing that was to be a requirement. This oversight has been disclosed in the Annual Compliance Return adopted by Council and Council was given the above explanation as to this non-compliance. All sales contracts are now duly written up with the s3.58 clause.

2.0 SYSTEM AND PROCEDURES

2.1 PAYMENT PROCEDURES

Auditor's Observations

Our review of payments made during the period under review revealed the following:

- In six (6) instances (out of 50 samples), purchase orders were raised after tax invoices had been received; and
- In certain instances, purchase requisitions were not attached to purchase orders.

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Auditor's Comments

To help ensure:

- proper budgetary controls;
- compliance with the Shire's purchasing policy;
- goods invoiced are ordered; and
- prices invoiced were quoted,

Purchase orders should be issued prior to goods/services being sourced and should contain all of the necessary details in relation to them (including quantity and price).

In addition, prior to payment authorisation, invoiced amounts should be verified with prices quoted in the purchase orders.

Management Comments

This issue has been a focus for management during the financial year and it was highlighted in a Forensic audit undertaken by Deloitte on the Swimming Pool upgrade project. This project clearly showed that compliance with purchasing policy was an issue in the rank and file of the organisation.

The Shire's Internal Auditor has been requested to review and develop improved guidelines. The Shire will also instigate training in the near future. The Financial system will be upgraded in October 2011 enabling the introduction of online work flow purchasing systems where controls can be tightened.

A monthly non-compliance reporting process has also been introduced that will highlight to senior management any breaches of the purchasing guidelines to a management and staff will be given warnings and or disciplinary action will be taken if the practice continues.

Both management and the Council are very concerned about the lack of adherence to purchasing policy in the past and will ensure the internal control system is strengthening going forward.

2.2 MONTH END RECONCILIATIONS

Auditor's Observations

Our review of the month end reconciliations revealed the following:

- Monthly manual rolling reconciliations of property valuations were not prepared on a regular basis;

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- No regular reconciliations were prepared between physical stocks and the ledger balance for beverage stocks at the recreation centre on a regular basis; and
- The following reconciliations were not reviewed by a person independent of preparation;
 - Inventory;
 - Daily receipts at the Shire Counters; and
 - Library, Meals on Wheels and HACC.

Auditor's Comments

- To help ensure valuations are correctly recorded and the integrity of the rating system is regularly maintained as changes from Landgate are notified, reconciliations should be prepared on a regular basis and reviewed by a senior staff member independent of preparation. This review should seek to confirm the accuracy of the reconciliation and should be evidenced accordingly.
- To help safeguard Shire resources, all month end reconciliations should be prepared in a timely manner. They should be signed and dated by the preparer and should be reviewed by a person independent of preparation.
- The independent reviewer should also sign and date the reconciliations as evidence of their review.

Management Comments

The matters raised either have or will be addressed with the relevant operations areas.

- For inventories, as at 30.6.2012, an independent verification was done by a senior finance officer and the internal auditor. Work papers have been available for the audit team to confirm during the final audit.
- For the daily receipts at the Shire's Counters, the co-ordinators in charge of that operations area signs off on the "Daily Cash Reconciliation Statement/Centaman Reports", a copy is sent to Finance for confirmation and reconciliation to the banking which is done by an independent security firm. The Shire will review these practises during the year to identify any improved practices.

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- For the Meals on Wheels and HACCC, the Shire will review the processes during the year to identify any improved practices.

2.3 PURCHASES, PAYMENTS, PAYABLES, SALARIES AND WAGES

Auditor's Observations

- Review of the EFT payments system revealed changes to creditors and staff details in the system were not reviewed by a senior staff member independent of processing.
- We noted access to creditors' and payroll ABA files are not restricted to authorised personnel of the Shire.

Auditor's Comments

- To help ensure ALL changes to creditors and staff details in the system are completely reviewed, a senior staff member independent of processing should review a system generated audit trail report showing all changes made on every EFT. The independent review should seek to confirm the integrity of the details in the system for the subsequent creation of the ABA file and should be evidenced accordingly.
- To help ensure the ABA files are not tampered with after their creation, access to these files should be limited to authorised personnel.

Management Comments

The Manager Financial Services and the Internal Auditor will review the controls around these processes and will ensure that a senior staff authorises all changes independently from the data entry officers.

This separation of duties process will be monitored by the Internal Auditor.

The Manager Financial Services will stipulate access needs and nominate which individuals are to be given access.

The software provider IT Vision has informed us that it is not possible for encryption to be enabled within the database unless significant development was undertaken to build in this level of functionality at cost to the Shire. IT staff can however restrict access to nominated personnel and this will be undertaken.

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Responses to Interim Audit Management Report

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2.4 DEBTORS

Auditor's Observations

As at 30 April 2012, the amount of sundry debtors outstanding for a period of greater than 60 days was \$93,742 or 16.8% of the total amount shown in the ageing analysis. Of this, \$73,797 (13%) was outstanding for a period greater than 90 days.

During our assessment of recoverability of these sundry debtors we noted there are debtors aged more than 90 days which may be non-recoverable.

Auditor's Comments

To help ensure recorded assets are not impaired, recoverability should be assessed on a regular basis.

In addition, follow up procedures should be established in line with the adopted credit policy.

Management Comments

The Shire reports monthly to council about its sundry debtors and updates on aged debtors are explained.

It should be noted that action is being undertaken on the recoverability of 60 and 90 day aged sundry debtors however many of these debtors are community groups and have payment arrangements in place with the Shire to pay their overdue accounts over an extended period. Any debtors that are deemed as un-recoverable will be recommended to be written off as part of the final audit.

2.5 ALLOCATION OF OVERHEAD COSTS

Auditor's Observations

During our review of allocation of overhead costs we noted there were unallocated Plant Operating Costs of \$232,787 as at 30 April 2012.

Whilst this has no effect on the net operating result, it may distort the true cost of individual jobs at a given point in time and monthly Statements of Financial Activity would not reflect the correct allocations.

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Auditor's Comments

To help ensure all jobs are accurately reflected on a timely basis, we recommend the allocation rates and methodology be reviewed on a regular basis. This would also help Council and staff as they make management decisions on scarce resources.

Management Comments

This matter was identified and was resolved in the May/June 2012 accounts. The Shire is now monitoring allocation monthly and ensuring it is balanced each month.

2.6 DISASTER RECOVERY PLAN

Auditor's Observations

A review of storage of documents and record keeping revealed the following:

- There is no disaster recovery plan in place; and
- Backup is maintained on the second server but this server is kept in the same building.

Auditor's Comments

To help ensure uninterrupted operations and efficient document management:

- A disaster recovery plan should be developed and adopted; and
- A backup system should be maintained off site.

Management Comments

The Shire is embarking in development of a Business Continuity Plan and Disaster Recovery Plan in line with the adoption of its Risk Management Plan and will have a draft completed by the end of 2012/13 in order to comply with the new Integrated Planning Framework. Currently Backups of daily data is stored off site and are sent via the Shire's IP fibre link to a server housed in the Shire's Operations Centre computer room. Should there be a catastrophic data loss at the Shire systems could be restored from the back up, however the Shire has not identified where it would go to set up a temporary office premises for business continuity.

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3 REMINDERS

3.1 INVESTMENT POLICY

Local Government (Financial Management) Regulations relating to investments have recently been amended (effective from 20 April 2012).

Council should review its current investment policy to help ensure it is in line with the amended requirements.

Investment policy will be reviewed by the end of 2012/13 to align with the amendments to the Local Government (Financial Management) Regulations.

3.2 INTERNAL AUDIT PROGRAM

During our interim audit visit the results of the internal audit program were not available for our review. We will follow these results up at a later stage of our engagement.

Internal control audit programs have been drafted and will be made available to the auditors during their final audit.

3.3 ASSET MANAGEMENT PLAN AND LONG TERM FINANCIAL PLAN

As outlined in our engagement letter, we will undertake a review of Shire's Asset Management Plan and Long Term Financial Plan upon the availability of relevant information.

Management Comment

A draft Asset Management Strategy and associated Asset Plans have been drafted and under a final review process. It is expected these documents will be finalised by the end of 2012.

The Long Term Financial Plan is in development it is not expected to be finalised before the end of 2012.

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

06. Progress on the Implementation of Recommendations of the Forensic Audit on the Kalamunda Water Park

Previous Items	Nil
Responsible Officer	Director Corporate & Community Services
Service Area	Finance
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Summary of the Implementation of Recommendations of the Forensic Audit on the Kalamunda Water Park

PURPOSE

1. To consider the progress on the implementation of the recommendations on the Kalamunda Water Park issued by the Forensic Auditors in their report.

BACKGROUND

2. Deloitte issued a draft report on 19 March 2012 for consideration by the members of the Audit Committee. The report included a number of key findings and recommendations to be addressed by the Shire.

DETAILS

3. Progress has been made in implementing majority of these recommendations as summarised in (Attachment 1) by reviewing the Shire Purchasing Policy, reviewing and documenting procedures on procurement and tendering and developing guidelines for staff and officers to follow.

STATUTORY AND LEGAL IMPLICATIONS

4. Conformity with Section 3.57 of the *Local Government Act 1995* and Part 4 Tendering for providing goods or services under *Local Government (Functions and General) Regulations 1996*.

POLICY IMPLICATIONS

5. Compliance with Purchasing Policy (Policy Number – PUR 1).

PUBLIC CONSULTATION/COMMUNICATION

6. Nil.

FINANCIAL IMPLICATIONS

7. Nil.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

Strategic Planning Implications

8. Nil.

Sustainability Implications

Social Implications

9. Nil.

Economic Implications

10. Nil.

Environmental Implications

11. Nil.

OFFICER COMMENT

12. To provide an update to Council of the implementation of the key findings and recommendations of the Report on the Kalamunda Water Park Project prepared by the Forensic Auditors.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (AU 06/2012)

That Council:

1. Notes the implementation by the Shire of key findings and recommendations of the Report on the Kalamunda Water Park Project prepared by the Forensic Auditors.

Moved:

Seconded:

Vote:

Attachment 1

Implementation of Recommendations from Forensic Audit Report on Kalamunda Water Park

Procurement Activity	Recommendation	Implementation
1 Tendering	Design and implement a tender evaluation report to record the decision making process and those involved in making the recommendation for Council approvals.	Evaluation report included as part of Tender Guideline.
2 Tendering	Perform a review of historical expenditure by supplier for the previous and current FYs to identify examples where procurement should have taken place through a tender and contract process. Conduct training for all staff with purchasing authorities to confirm the requirements of the Regulations highlight the exceptions identified and reinforce the requirements to call for public tenders.	Discussed with Manager Corporate Services Current year should be undertaken, however the previous year would be too onerous for little to no gain. When guidelines are completed intention is to conduct in-house training.
3 Tendering	Update Shires purchasing policy to include a process to obtain appropriate authorisation where the scope of works and value of tendered contracts is amended	Included as part of the Tender Guideline with reference to purchasing policy
4 Panel Suppliers	Conduct training for all staff with purchasing authorities to confirm the thresholds values of purchases using Panel suppliers and highlight the requirement to adhere to Shire purchasing policy where these are or are expected to be exceeded.	When guidelines are completed intention is to conduct in-house training.
5 Panel Suppliers	Update Shire purchasing policy to include reference to the scope of services for which Panel suppliers can be engaged. If Panel suppliers are required to perform works beyond the specification in their contract, this amendment to the contract should be formalised.	Included in the Purchasing Guideline.

Shire of Kalamunda

Implementation of Recommendations from Forensic Audit Report on Kalamunda Water Park

Procurement Activity	Recommendation	Implementation
6 Panel Suppliers	Inform all Panel suppliers of their obligations to submit detailed invoices and supporting information as stated in their contract.	Included in the Purchasing Guideline. To be reinforced as part of the staff training.
	Inform A & S Hill and Hill Top of the deficiencies in their supporting information (Section 2.2) in relation to invoices for the Project and full details to be submitted for examination by the Shire against tendered price schedules	Letter sent to A & S Hill and Hill Top. Legal advice received and meeting held with main supplier Hill Top. Matter resolved with supplier.
7 Panel Suppliers	Request confirmation from appropriate Shire personnel and All Earth that each of their invoices relates solely to the project.	Staff no longer with shire to confirm this.
8 Quotations	When quotations are not fixed, the Shire should consider a contingency for escalation of costs and assess whether it is likely that the total value of supplies will exceed the statutory threshold of \$100,000 requiring the calling for public tenders.	To be implemented as part of the Purchasing Guideline.
9 Quotations	Update the records management section of the Shire purchasing policy to include the specific minimum records to be retained when purchasing via a quotation process. This should include full details of all quotes sought, written correspondence and a clear explanation of the suppliers selected.	Included in Purchasing Guidelines.
	Conduct training for all staff with purchasing authorities to confirm the threshold values that require the assessment of multiple verbal and written quotations and record keeping.	When guidelines are completed intention is to conduct inhouse training.

Implementation of Recommendations from Forensic Audit Report on Kalamunda Water Park

Procurement Activity	Recommendation	Implementation
10 Purchase Orders	Update the Shire purchasing policy to clarify that multiple purchase orders issued to the same supplier for effectively the same supply should be treated as a single supply and require the appropriate methods and approval stated in section 5 of the current policy.	Include in the Purchasing Guideline.
	Conduct training for all staff with purchasing authorities to confirm anti-avoidance provisions in the regulations and the updated Shire purchasing policy referred to above.	When guidelines are completed intention is to conduct in-house training.
11 Approval thresholds	Clarify and confirm the requirements of the Shire's purchasing policy to all personal in relation to who may authorise a purchase order.	Defined in the delegations and included in the tender guideline.
12 Approval thresholds	Conduct a full review of all synergy users accounts. Identify and remove terminated personnel to: Align authority limits in Synergy to those in the Shire purchasing policy	To be completed.

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

07. Implementation of the Recommendations of the Forensic Audit on the Kalamunda Water Park- Purchasing and Tendering

Previous Items	Nil
Responsible Officer	Director of Corporate & Community Services
Service Area	Finance
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Revised Purchasing Policy (PUR-1)
Attachment 2	Tender Guideline
Attachment 3	Purchasing Guideline

PURPOSE

1. To implement the recommendations of the Forensic Audit Report on the Kalamunda Water Park with respect to tendering and purchasing.

BACKGROUND

2. Following the Deloitte Forensic Audit on the Kalamunda Water Park the Purchasing Policy has been reviewed and amended.
3. The Forensic Auditors made a number of findings and recommendations on tendering and purchasing.

DETAILS

4. The implementation of the recommendations of the Forensic Audit. The Purchasing Policy (PUR -1) has been reviewed by removing processes and procedures and incorporating them into purchasing and tender guidelines. These documents will form the basis for staff training, and be used as reference guides to ensure staff observe the correct processes and procedures.

STATUTORY AND LEGAL IMPLICATIONS

5. Conformity with Section 3.57 of the *Local Government Act 1995* and Part 4 Tendering for providing goods and services under *Local Government (Functions and General) Regulations 1996*.

POLICY IMPLICATIONS

6. Compliance with Purchasing Policy (Policy Number – PUR 1).

PUBLIC CONSULTATION/COMMUNICATION

7. Nil.

FINANCIAL IMPLICATIONS

8. Nil.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

Strategic Planning Implications

9. Nil.

Sustainability Implications

Social Implications

10. Nil.

Economic Implications

11. Nil.

Environmental Implications

12. Nil.

OFFICER COMMENT

13. To consider and accept the amended purchasing policy.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (AU 07/2012)

That Council:

1. Adopts the Revised Purchasing Policy (PUR- 1) as per (Attachment 1).
2. Receives and notes the Implementation of the Forensic Audit recommendations by including the required processes and procedures in Tender and Purchasing Guidelines (Attachments 2 and 3).

Moved:

Seconded:

Vote:

Attachment 1

			
<p>POLICY REGISTER</p>			
Title:	Purchasing		
Policy No.:	PUR 1		
Date Adopted:		Date Last Reviewed:	
Rationale	Deliver value for money using a best practice approach to the procurement of all goods and services Ensure consistency for all purchasing activities; Provide compliance with the <i>Local Government Act 1995</i> and the <i>Local Government (Function and General) Regulations 1996</i> ; Ensure that the Shire considers the environmental impact of the procurement process across the life cycle of the goods and services procured.		
Policy	The Shire is committed to operating efficient, effective, economical and sustainable procedures for the procurement of all goods and services and adopts a value for money approach, which allows the best possible procurement outcome to be achieved.		
Related Local Law	N/A		
Related Policy	N/A		
Management Practice	N/A		
Legislation			
Conditions			

Attachment 2

Due to the size of this attachment this has been provided under separate cover.

Attachment 3

DRAFT

**Shire of Kalamunda
Purchasing Guideline**

Prepared August 2012

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Purchasing Guideline

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1. Objectives

This guideline has been prepared to establish sound and consistent practices with respect to the purchase of goods and services by all operational areas within the Shire, including:

- Effective procedures for calling of quotations to achieve best value for money and quality of goods and services within specified time frames.
- Ensuring the selection of supplier is carried out in a transparent, fair and equitable manner.
- Ensuring procedures and processes are in accordance with the provisions of the Purchasing Policy (PUR 1) and legislative requirements.

2. The Procurement Process

OVERVIEW DOCUMENT FLOW



3. Legislative Framework

The legislative framework used by local governments for the calling of quotations for purchase of goods and services includes:

- *Local Government Act 1995* (the Act);
- *Local Government (Financial Management) Regulations 1996*
- *Local Government (Functions and General) Regulations 1996*;
- *Code of Conduct*
- *Purchasing Policy* (PUR 1)
- *Delegations Register*
- *State Records Act 2000*

The Shires Purchasing Policy (PUR 1) and the Guideline supports the legislative requirements.

Section 5.46 of the Act requires a record of delegations to the CEO and employees to be maintained. The powers delegated for the approval of purchase orders are summarised in attachment 12.1.

4. Purchasing Policy (PUR 1)

To meet the requirements of the Act and regulations, the Shire has established a best practice approach to the procurement of all goods and services as part of its Purchasing Policy.

The policy requires consideration of the environmental impact of the procurement process across the life cycle of the goods and services procured.

5. Purchasing Process

The Shire uses a two stage process using electronically raised purchase requisitions and purchase orders. Purchase orders are issued at the Administration Centre and Depot electronically from authorised purchase requisitions.

5.1 Purchase Requisitions

Purchase requisitions should only be raised for items with a budget amount. If a purchase requisition has no budget allocation, the document should be returned to the person who approved the purchase requisition to confirm the coding.

There should be a separation of powers between the originator of the purchase requisition and the person authorising the document. If a Coordinator raises a purchase requisition, then their Manager should approve the requisition. A person should not raise and authorise their own purchase requisition for goods or services.

The following procedures should be followed when raising a purchase requisition:

Insert the following information on the purchase requisition form:

- Date Requested
- Referring Officer
- Contact Telephone Number
- Where goods to be delivered to or work undertaken
- Job Code
- Date Required By
- Quantity
- Description of goods
- Include supporting information e.g. Council resolution in support of request

Attach details of verbal or written quotations to the purchase requisition.

Depending on the nature and value of the goods or services the following procedures should be followed:

(i) Direct Purchase \$0 - \$1,999

No formal quotations is required, however officers are bound to “best value” principles. The following factors are to be considered in the decision making process:

- value for money;
- knowledge of general cost of item/ service;
- “Buy Local” policies;
- ongoing good relationship with supplier;
- reliability of supplier;
- general Shire of Kalamunda policies, i.e. environmentally friendly, recycled product; and
- Compatibility of supplier with Shire of Kalamunda’s administrative processes.

Authorisation: Officers responsible for their budget allocation.

(ii) Quotations

Verbal Quotations \$2,000 - \$ 4,999

2 Verbal quotations required and recorded on a Quotation Record Sheet. Factors to be considered in the decision making process as per “direct purchase”.

Authorisation: Officers responsible for their budget allocation.

Verbal Quotations \$5,000 - \$9,999

3 Verbal quotations required and recorded on a Quotation Record Sheet. Factors to be considered in the decision making process as per “direct purchase”.

Authorisation: Managers

Written Quotes \$10,000 - \$49,999

3 Written quotes required. When returned by the company/supplier, the Request form is to be kept as a record of the written quotation,

and an evaluation of written quotation form is to be completed.
Factors to be considered in the decision making process as per
“direct purchase”.

Authorisation: Managers

Request for Quotation \$50,000 - \$99,999

Requests for quotation form to be completed detailing specifications.
Factors to be considered in the decision making process as per
“direct purchase”.

Authorisation: Directors

(iii) Tenders \$100,000 and greater

Tender to be called for goods and services greater than \$100,000 in
value (refer Tender Guideline).

Authorisation: CEO up to \$200,000 and Council for goods and
services greater than \$200,000.

5.2 Purchase Orders

Before a purchase order is raised at the two centralised locations, the
purchase requisition is checked to ensure it is properly completed and been
approved

The purchasing officer raises the purchase order electronically from the
authorised purchase requisition through Synergy. One copy of the
purchase order is faxed to the supplier, with the original including
supporting documents sent to accounts payable for matching with supplier
invoices.

If there is an open purchase order, the value of the open purchase order is
tracked by writing the value of the invoices currently paid on the purchase
order. If the sum of invoices raised on one purchase order exceeds the
original value of the purchase order, then accounts payable informs the
originator of the original order to raise another purchase order. New orders
should not be raised if value remains on an existing purchase order for

goods and services. Raising new orders when existing orders remain unfilled may inflate the Shire's outstanding commitments. Therefore existing open orders should be completed prior to a new purchase order being raised.

Designated forms should be completed to evidence the recording of quotations. This is done to ensure there is transparency in the process with reasons for selecting specific suppliers, and justification for purchase decisions. Evidence of requested quotes should be maintained such as names, telephone numbers, email addresses and written correspondence.

Often quotes cannot be selected based on price alone, and therefore, recording the reasons for selection is required to demonstrate the probity of all purchasing decisions. Quotes and supporting documentation should be attached to the printed copy of the purchase requisition and forwarded for approval.

5.3 Corporate Credit Cards

Corporate credit cards are equivalent to a purchase order issued to a nominated hand full of staff for selective types of purchases where suppliers require a credit card instead of a purchase order e.g. for payment of flights and accommodation, supplies from Bunning's, IGA and others. Holders of corporate credit cards are required to provide supporting information and invoices with their monthly statement before the credit card account is processed for payment.

For supplies of goods and services greater than \$100,000 the Shire has established administrative procedures relating to the calling of expressions of interest or tenders for goods and services (refer to Tender Guideline).

5.4 Approval Threshold's

The Delegations Register provides thresholds for the approval of purchase requisitions (Refer Attachment 12.1).

Where the value of a supply of goods or services exceeds a person's delegated threshold, the requisition should be forwarded and approved by a person with the delegated power within the business unit or directorate.

6. Preferred Suppliers

The Shire uses preferred suppliers under its Purchasing Policy (PUR1) who are prequalified for one off purchases of up to \$10,000 and where the annual supply does not exceed \$100,000. Preferred suppliers are recognised as being able to provide value for money, being reliable and having a good working relationship with the Shire in the delivery of certain supplies of goods and services.

7. Panel Suppliers

The Shire Purchasing Policy permits the use of panel suppliers who are prequalified to meet certain Shire requirements for the supply of goods and services and are appointed through a tender process. Panel suppliers are required to provide supporting information with their invoices in accordance with their panel contract. Panel supplier invoices should not be approved for payment without the required supporting information. The work undertaken by panel suppliers under contract may exceed \$100,000 without the need to call tenders.

The scope of work should conform to specifications in the panel contract.

If a panel supplier contract allows for additions or deletions of these services, notice should be given formalised in writing before the work is undertaken.

8. Processing of Invoices for Payment

Purchase orders received by accounts payable are filed awaiting the suppliers invoice. Invoice received are checked against the order and sent to the originator for approval before being processed by accounts payable for payment.

9. Request for Tender (Refer to Tender Guideline)

Regulation 11(1) requires tenders to be publicly invited where the contract for goods or services is expected to be more than \$100,000.

Refer to Tender Guideline for procedures to be followed.

10. Record Keeping

The State Records Act 2000 requires information to be kept and maintained in accordance with an approved record keeping plan.

Section 3 (2) of the State Records Act a reference to the keeping of records includes:

- (a) To creating, maintaining, indexing, organizing, storing, preserving, securing, retaining and managing records and
- (b) To maintain, preserving, securing and retaining the means by which any information on a record can be recovered.

11. Internal and External Independent Review

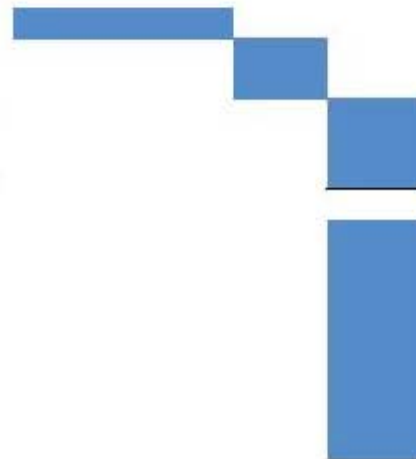
Purchasing procedure will be subject to regular Internal and external Audit review to ensure there is compliance with legislation and proper practices.

12. Attachments

12.1 Approval Thresholds for Authorising Purchase Orders

POSITION	Authority to Sign Orders		
	Under \$200,000	Under \$99,000	Under \$50,000

CEO
 Director of Corporate and Community Services
 Director of Development and Infrastructure Services
 Manager Human Resources & Organisational Development
 Manager Governance
 Manager Environmental Health & Community Compliance & Safety
 Manager Development Services
 Manager Infrastructure Operations
 Manager Technical Services
 Manager Economic, Property and Procurement Services
 Manager Community Development
 Manager Technical and Corporate Support
 Manager Financial Services
 Internal Auditor



12.2 Forms

- Quotation Record Sheet
- Request for Quotation
- Purchase Requisition
- Purchase Order

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

08. Sundry Debtor Write-Off

Previous Items	OCM 39/2011
Responsible Officer	Director Corporate & Community Services
Service Area	Corporate Services
File Reference	
Applicant	N/A
Owner	N/A
Attachment 1	Summary of Debtors for period ended 31 August 2012

PURPOSE

1. To consider the further write off of debtors identified since the last meeting of the Audit Committee on 24 October 2011.

BACKGROUND

2. The Shire has in place a debt collection procedure for sundry debtors, involving follow up reminders, phone calls and ultimately referral to Dun & Bradstreet for an initial free reminder service before commencing formal proceedings. In some cases the Shire can also choose to review the debt incurred or recognise the debt is not recoverable for various reason and in these cases will recommend they be written off.
3. The external auditors, UHY Haines Norton, in their Interim and Final Audit for the financial year 2011/2012 have requested the Shire review the recoverability of these outstanding debts.

DETAILS

4. A Summary of Debtors for period ended 31 August 2012 totalling \$14,451.66 has been identified and is shown as (Attachment 1). These sundry debts are for invoices issued for multiple expenses in 2010/2011 financial year. The nature of the debts incurred show that the Shire did not willingly enter into these transactions and that the restitution was unfortunately necessarily required due to the greater impact on the community.
5. The first debt outstanding of \$13,342.86 relates to a car accident caused by Mr Fazari. The costs incurred in the clean-up of the road are not covered by the Shire's insurers, LGIS Insurance, as there is an exclusion clause on roads and the accident was not a Shire vehicle. FOI searches have proved the debt was correctly owed by Mr Fazari, however, all attempts to recover the debt have proved to be fruitless. Mr Fazari is not contactable. No proven assets have been found to lodge a lien or caveat against this debt.

6. The second outstanding debt of \$1,108.80 relates to private works incurred for damage repairs incurred by Mr Steve John Mack. Dun & Bradstreet were contracted to recover the debt. The Shire has since been informed that Mr Mack is not contactable. The quantum of the amount involved does not make it economically viable to incur any further legal costs to recover this debt as the probability of recovering it is minimal.

STATUTORY AND LEGAL IMPLICATIONS

7. Section 6.12(1) (c) of the *Local Government Act 1995* provides the authority for Council to write off sundry debts such as these.

POLICY IMPLICATIONS

8. Nil.

PUBLIC CONSULTATION/COMMUNICATION

9. Nil.

FINANCIAL IMPLICATIONS

10. The budget allocation for doubtful and bad debts for 2011/2012 is \$12,000. Subject to endorsing recommendation, the budget would be over drawn by \$14,388.88 taking into account the write offs passed in October 2011 of \$11,937.22.
11. During the recent interim audit, comment was made by the inspecting audit officer over the age of these debts and questioning the likelihood of recovery. It is proposed that this write off be passed in the 2011/2012 financial year as a final adjustment.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

Strategic Planning Implications

12. Nil.

Sustainability Implications

Social Implications

13. It is acknowledged that the wider community would have been adversely impacted if restitution work was not done by the Shire.

Economic Implications

14. Nil.

Environmental Implications

15. Nil.

OFFICER COMMENT

16. Approval is being sought from the Audit Committee and Council on the two balances to be written off.
17. Although the officers are in agreement with the Auditors', UHY Haines Norton, recommendation that this amount written back in the previous year, the Council in its authority may choose to consider these write offs be effected in the current financial year, 2012/2013.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (AU 08/2012)

That Council:

1. Endorses the write off of sundry debts totalling \$14,451.66 as detailed in (Attachment 1) in the financial year 2011/12.

Moved:

Seconded:

Vote:

Attachment 1

SHIRE OF KALAMUNDA SUMMARY OF DEBTORS FOR THE PERIOD ENDED 31st August 2012			
AMOUNT	DEBTOR	DETAILS	STATUS
New debt since aged >90 days			
>90 days			
\$13,342.86	Agostino Fazari	Private Works Costs - WP66	Clean Up & Repairs at Crystal Brook Road, Wattle Grove WA after Traffic Accident.
\$1,108.80	Steven John Mack	Private Works Costs - WP66	Private Works Costs - Road Guttering Railing Repairs. (WP66). Lodged debt with Dun & Bradstreet - 13/07/2011. Advised by D&B that Debtor is currently not contactable and may not be worth pursuing further. A Confidential Report on the Debtor will be submitted to Audit Committee.
\$14,451.66	TOTAL OUTSTANDING		

7.0 CLOSURE