

AGENDA

D2021/24763

Audit Committee 3 March 2022

Notice of Meeting

Dear Councillors

I wish to advise that the next meeting of the Audit Committee will be held on Thursday, 3 March 2022 at the EMRC Administration Centre, 1st Floor, 226 Great Eastern Highway, Ascot WA 6104 commencing at 6:00pm.



Marcus Geisler | Chief Executive Officer

25 February 2022

Please Note

If any member has a query regarding a report item or requires additional information in relation to a report item, please contact the responsible officer (SOURCE OF REPORT) prior to the meeting.



Audit Committee Members

Cr Margaret Thomas	Committee Chairman	City of Kalamunda
Cr Doug Jeans	Committee Deputy Chairman	Shire of Mundaring
Cr Hilary MacWilliam	Committee Member	Town of Bassendean
Cr Michelle Sutherland	Committee Member	City of Bayswater
Cr Mel Congerton	Committee Member	City of Swan

Audit Committee Deputies

Cr Kathryn Hamilton	Deputy Committee Member	Town of Bassendean
Cr Steven Ostaszewskyj	Deputy Committee Member	City of Bayswater
Cr Dylan O'Connor	Deputy Committee Member	City of Kalamunda
Cr John Daw	Deputy Committee Member	Shire of Mundaring
Cr Charlie Zannino	Deputy Committee Member	City of Swan

Audit Committee Second Deputies

Cr Emily Wilding	Committee Second Deputy Member	Town of Bassendean
Cr Giorgia Johnson	Committee Second Deputy Member	City of Bayswater
Cr Janelle Sewell	Committee Second Deputy Member	City of Kalamunda
Cr Jo Cicchini	Committee Second Deputy Member	Shire of Mundaring
Cr Andrew Kiely	Committee Second Deputy Member	City of Swan

Audit Committee

3 March 2022

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1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

1.1 ACKNOWLEDGEMENT OF COUNTRY

We wish to acknowledge the traditional custodians of the land on which we meet today and to pay our respects to elders past, present and future.

2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

3 DISCLOSURE OF INTERESTS

4 ANNOUNCEMENTS BY THE CHAIRMAN OR PRESIDING MEMBER WITHOUT DISCUSSION

5 PETITIONS, DEPUTATIONS AND PRESENTATIONS

6 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

6.1 MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 11 NOVEMBER 2021 (D2021/23638)

That the minutes of the Audit Committee meeting held on 11 November 2021 which have been distributed, be confirmed.

AUDIT COMMITTEE RESOLUTION

MOVED CR

SECONDED CR

7 QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

8 QUESTIONS BY MEMBERS WITHOUT NOTICE



9 ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH MEETINGS MAY BE CLOSED TO THE PUBLIC

Nil

10 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING

11 REPORTS OF EMPLOYEES

11.1 2022 FINANCIAL AUDIT PLAN (D2022/03261)

11.2 COMPLIANCE AUDIT RETURN 2021 (D2021/24765)

11.3 HALF YEAR BUDGET REVIEW (D2021/24767)

11.4 RISK MANAGEMENT UPDATE (D2021/24768)

11.5 CYBER SECURITY IN LOCAL GOVERNMENT (D2021/24766)



11.1 2022 FINANCIAL AUDIT PLAN

D2022/03261

PURPOSE OF REPORT

The purpose of this report is to present the Audit Committee with an audit plan for the financial audits to be undertaken for annual financial report for the year ending 30 June 2022.

KEY POINT(S)

- The audit for the annual financial report ending 30 June 2022 will be commencing with an interim audit to be undertaken prior to the end of financial year and the final audit following the end of financial year.
- Representatives from the Office of Auditor General and their contracting audit firm will present to the Audit Committee the Audit Plan detailing the focus areas for this year's audit as well as the proposed timetable.

RECOMMENDATION(S)

That Council notes the Audit Plan forming the attachments to this report.

SOURCE OF REPORT

Chief Financial Officer

BACKGROUND

It is a requirement under s.6.4 of the *Local Government Act 1995* that a Local Government is to prepare an annual financial report and submit it to its auditor by 30 September following each financial year.

The audit involves an interim audit prior to the financial year end and a final audit following the financial year end.

On 7 April 2016 Circular No 3-2016 was received titled "Auditing of Local Government by the Auditor General - Renewal of Audit Contracts", which outlined the intention to amend the *Local Government Act 1995* to allow for the Auditor General and the OAG to take responsibility for the local government financial audits from 1 July 2017.

The Local Government Amendment (Auditing) Act 2017 (No 5 of 2017) - an Act to amend the *Local Government Act 1995* and provide for the auditing of local governments by the Auditor General and for related purposes was assented to on 1 September 2017.

It has been the standard practice for the auditors to meet with the Audit Committee or the CEO and the Chairman of the Audit Committee to present the Audit Plan.



REPORT

- 1 A representative from the OAG and a representative from the contractor auditors for the OAG assisting with undertaking the audit, Butler Settineri, will be in attendance to present to the Audit Committee the Audit Plan for the financial year ended 30 June 2022.
- 2 In preparation for the Audit Entrance Meeting the following documentation has been provided:
 - Financial Audit Entrance Meeting Agenda (Attachment 1);
 - Audit Timetable for the financial year ended 30 June 2022 (Attachment 2); and
 - Audit Planning Summary for the Year Ended 30 June 2022 (Attachment 3).

STRATEGIC/POLICY IMPLICATIONS

- 3 Key Result Area 3 - Good Governance
 - 3.3 To provide responsible and accountable governance and management of the EMRC
 - 3.4 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

- 4 Nil

SUSTAINABILITY IMPLICATIONS

- 5 Nil

RISK MANAGEMENT

Risk – Non-compliance with Financial Regulations		
Consequence	Likelihood	Rating
Moderate	Unlikely	Moderate
Action/Strategy		
➤ External Audit reviews to ensure compliance with Financial Regulations, EMRC policies and guidelines.		

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} Nil
City of Bayswater	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

**ATTACHMENT(S)**

1. Attachment 1 - EMRC Financial Audit Entrance Meeting Agenda (D2022/03262)
2. Attachment 2 - EMRC Audit timetable 2022 (D2022/03263)
3. Attachment 3 - EMRC Audit Planning Summary 2022 (D2022/03264)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That Council notes the Audit Plan forming the attachments to this report.

AC RECOMMENDATION(S)

MOVED

SECONDED

CLIENT NAME: EASTERN METROPOLITAN REGIONAL COUNCIL

YEAR END: 30 JUNE 2022

FINANCIAL AUDIT ENTRANCE MEETING AGENDA

Date of Meeting: 03 March 2022

Time: 6:00 pm

Location: EMRC, 1st Floor, Ascot Place, 226 Great Eastern Highway, Belmont, Western Australia, 6104

Attendees: Audit Committee representatives
 Marcus Geisler (CEO)
 Hua Jer Liew (Chief Financial Officer)
 David Ameduri (Finance Manager)
 Liang Wong (Assistant Director, OAG)
 Marcia Johnson (Butler Settineri Audit Director)

DISCUSSION POINTS

1.	OUR AUDIT APPROACH
2.	BUSINESS OPERATIONS
3.	SIGNIFICANT RISKS AND AUDIT FOCUS AREAS IDENTIFIED <ul style="list-style-type: none"> • RELATED PARTY TRANSACTIONS • REVENUE RECOGNITION AND CUT-OFF • UNAUTHORISED & INCOMPLETE EXPENDITURE • UNRECORDED LIABILITIES • VALUATION & ESTIMATION ON REHABILITATION OF LANDFILL CELLS • EMPLOYEE RELATED PROVISIONS • CITY OF BELMONT WITHDRAWAL • ACCOUNTING FOR CLOUD COMPUTING ARRANGMENTS – IFRIC DECISIONS
4.	SIGNIFICANT ASSETS ACQUIRED AND DISPOSED
5.	COMPLIANCE WITH LAWS AND REGULATIONS
6.	CHANGES IN ACCOUNTING POLICIES
7.	RELATED PARTIES / ENTITIES
8.	REPORTING PROTOCOLS <ul style="list-style-type: none"> • SIGNIFICANT ISSUES IDENTIFIED DURING THE AUDIT • INTERIM MANAGEMENT LETTER • FINAL MANAGEMENT LETTER
9.	AUDIT TEAM
10.	AUDIT TIME TABLE

AUDIT CLIENT:	Eastern Metropolitan Regional Council		
AUDIT AREA:	Audit timetable		
PREPARED BY:	MJ	DATE:	22/02/2022

Our audit timetable for the financial year ended 30 June 2022 is as follows:

Key area	Target date	Person responsible
Audit Planning		
Send list of requirements for planning and interim	14 Feb 2022	BSA
Planning information provided to audit	15 Feb 2022	EMRC
Audit Planning and Risk Assessment	16 Feb 2022	BSA
Planning document to OAG for review	17 Feb 2022	BSA
Entrance meeting document provide to client for agenda	23 Feb 2022	BSA
Audit Entrance Meeting as part of the Audit Committee Meeting	3 March 2022	EMRC, BSA, OAG
Interim Audit		
Reconciled financial information ready for audit (up to 28 February 2022) Interim Information provided	7 March 2022	EMRC
Interim Audit selections to EMRC	14 March 2022	BSA
Interim Audit visit	21-25 March 2022	BSA & EMRC
BSA Review	1 April 2022	
OAG Review	8 April 2022	OAG
Issue of Interim Management Letter (if applicable)	30 April 2022	OAG
Final Audit		
Bank confirmation letters	4 July 2022	BSA & EMRC
Final audit list of requirements to EMRC	4 July 2022	BSA
Reconciled financial information ready for audit - Trial Balance - Balance Sheet Reconciliations Provide information requested by audit	25 July 2022	EMRC
Draft Financial Report provided to audit	1 August 2022	EMRC
Audit selections to EMRC	1 August 2022	BSA
Audit fieldwork visit	8 - 12 August 2022	BSA & EMRC
Fieldwork & Completion for review	19 August 2022	BSA
BSA Fieldwork Review	2 September 2022	BSA
Meeting with Management	7 September 2022	EMRC, BSA
BSA Final Review	9 September 2022	BSA
File presented to OAG for review	12 September 2022	OAG
Financial Report		
Draft Audited Financial Report to EMRC with OAG comments	19 September 2022	BSA, EMRC
Draft Audited Financial Report ready for	29 September 2022	BSA, EMRC

AUDIT CLIENT:	Eastern Metropolitan Regional Council		
AUDIT AREA:	Audit timetable		
PREPARED BY:	MJ	DATE:	22/02/2022

Key area	Target date	Person responsible
Internal Agenda - Review		
Approval by the CEO <ul style="list-style-type: none"> Draft Annual Financial Report Management Representation Letter 	29 September 2022	EMRC
Final package to OAG for signing	29 September 2022	BSA
Completion and Exit		
Meeting with Audit Committee or (Audit Exit Meeting)	6 October 2022	EMRC, BSA, OAG
Issue of Auditor's Report	14 October 2022	OAG
Council Meeting to adopt AFR	27 October 2022	EMRC

Key:

EMRC = David Ameduri (Finance Manager), Le Truong (Finance Team Leader)

BSA = Butler Settinieri Audit [Marcia Johnson (Director) and team]

OAG = Liang Wong (Assistant Director)



AUDIT PLANNING SUMMARY

*“Better Business
People”*

EASTERN METROPOLITAN
REGIONAL COUNCIL

YEAR ENDING 30 JUNE 2022

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THE PLANNING SUMMARY

This Summary of our Audit Plan explains our approach to the audit of the annual financial report.

In particular, this Summary includes:

1. Introduction
2. Our Audit Approach
3. Business Operations
4. Significant Risks and Audit Focus Areas
5. Audit Emphasis and Significant Account Balances
6. Compliance with Laws and Regulations
7. Going Concern and Adverse Financial Trends
8. Accounting Policies
9. Internal Audit
10. Management Representation Letter
11. Related Parties
12. Reporting Protocols
13. Specific Audit Requirements
14. Your Audit Team
15. Proposed Audit Schedule
16. Other Audit Activities

If there are any matters in the Planning Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing this work.

INTRODUCTION

Auditor General

Following proclamation of the Local Government Amendment (Auditing) Act 2017, the Auditor General is responsible for the annual financial report audit of Western Australian Local Governments.

The Act allows the Auditor General to appoint contract audit firms to carry out the audit on their behalf.

Contractor Appointment – Butler Settineri Audit (“BSA”)

BSA has been contracted by the Auditor General to perform the Eastern Metropolitan Regional Council financial report audit on the Auditor General’s behalf for the year ending 30 June 2022.

Our audit procedures will be conducted under the direction of the Auditor General, who will retain responsibility for forming the audit opinion and issuing the audit report to the Eastern Metropolitan Regional Council.

BSA is required to report any matter to the Auditor General which may affect the Auditor General’s responsibilities under the Auditor General Act 2006.

Responsibility of the Council and the CEO

It is important to note that:

1. Under the *Local Government Act 1995* and associated regulations, the Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
2. Under the *Local Government Act 1995* and associated regulations, the Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit and Risk Committee and the Auditor General should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, we will report them to you.
3. The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial statements. We do not provide assurance over your annual report.
4. An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

The nature of the audit is influenced by factors such as:

- the use of professional judgement
- selective testing
- the inherent limitations of internal controls
- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

Conflicts of Interest

We confirm we have completed our independence evaluation and are satisfied we do not have any actual or perceived conflicts of interest in completing the annual audit of the Eastern Metropolitan Regional Council on behalf of the Auditor General.

BSA's approach is designed to:

- Focus on key risks and financial areas; and
- Add value to your business by providing constructive ideas for improving internal controls and on-going business systems

The partner-led assurance service team is committed to meeting specific business needs by:

- Working closely with you to get to know the business whilst maintaining independence;
- Using the latest computerised systems and audit techniques; and
- Conducting an in-depth review of financial records to enable identification of key areas where additional support and attention will improve the business.

The audit will meet the statutory requirements under the *Local Government Act 1995* and *Regulations* and will be carried out in accordance with the Australian Auditing Standards.

We will carry out such work as is necessary to form an opinion as to whether the financial report of the Council:

- i) Is based on proper accounts and records and
- ii) Fairly represents, in all material respects, the results of the operations of the Council for the year ended 30 June 2022 and its financial position at the end of the period in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We will also include the following matters in the auditor's report:

- a) Any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the Council;
- b) Any material non-compliance with Part 6 of the Act, the Local Government (Financial Management Regulations 1996 or applicable financial controls in any other written law;
- c) Details of whether information and explanations were obtained by the auditor;
- d) A report on the conduct of the audit; and
- e) The opinion of the auditor as to whether or not the asset consumption ratio and the asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

In addition to the standard audit structure, additional audit matters may be performed upon direction from yourself and approval by the Auditor General.

The attendance of at least one meeting per year of the Council's audit and risk committee by a member of our audit team may also be carried out if required. The engagement partner and audit team will visit the Council's offices during each stage of the audit and will be available for subsequent meetings at the Council's request, subject to Covid 19 restrictions which may dictate that the audit and meetings have to be done remotely.

OUR AUDIT APPROACH

Our audit approach comprises the following steps:

Pre-engagement activities

- Legislative requirements of independence



Risk assessment procedures

- Discussions with the management team and members of the audit and risk committee
- Review of key accounting systems and operations
- Understand and evaluate control environment
- Identify and assess risk
- Identify significant accounts
- Develop procedures to address risk and significant accounts



Audit procedures

- Assess reliance on controls
- Perform tests of control, analytical review procedures and tests of detail at transaction level



Completion and review

- Completion procedures
- Evaluation of audit evidence
- Review format of the financial report
- Verify balances and disclosures in the financial report, including the Notes



Reporting and communication

- Form an opinion and provide opinion to OAG
- Report to management and OAG

Our audit approach involves assessing your overall control environment and understanding key business processes/cycles and internal controls relevant to the audit.

The level of testing will be dependent on our assessment of the risk in each business cycle. We plan to cover the following cycles:

- Revenue
- Expenditure
- Payroll
- Cash and Financing
- Property, Plant, Equipment and Infrastructure

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

Our audit will be split into two components as follows:

Interim audit

This includes:

1. Understanding your current business practices
2. Understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively
3. Testing transactions to confirm the accuracy and completeness of processing accounting transactions, namely rates and grant revenue, expenditure and payroll
4. Clarifying significant accounting issues before the annual financial report is prepared for audit.

Final audit

This focuses on verifying the annual financial report and associated notes, and includes:

1. Verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties
2. Reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

BUSINESS OPERATIONS

The Eastern Metropolitan Regional Council (EMRC) is a regional local government working on behalf of five member Councils located in Perth's Eastern Region. EMRC is responsible for delivering innovative and sustainable waste management solutions for the benefit of the community and the environment.

The current participating councils are:

- Town of Bassendean
- City of Bayswater
- City of Kalamunda
- Shire of Mundaring
- City of Swan

The EMRC provides a broad range of services across the region including waste management and education, resource recovery, environmental management and regional development. Working in partnership with member Councils and other stakeholders, the EMRC delivers local and regional scale projects across each of these areas for the benefit of the region.

There were no significant changes to the Council's business operations and accounting procedures and policies were made during the year.

The City of Belmont is no longer a member from 1 July 2021.

The Council uses Synergy Soft accounting system. Our primary contacts at the Council are David Ameduri (Finance Manager) and Le Truong (Finance Team Leader).

SIGNIFICANT RISKS AND AUDIT FOCUS AREAS

Through discussions with your staff, we have identified the following issues and key areas of risk affecting the audit:

Details of Risk / Issue	Audit Approach
Audit findings reported in the previous audit as under: <ul style="list-style-type: none"> • Tenders register not in compliance with the Regulations • Lack of sufficient quotes for purchases • Purchase orders dated after invoice dates 	We will follow-up the issues reported during the 2021-22 audit.
Changes to <i>Local Government (Financial Management) Regulations</i> that have been signalled by the Department of Local Government, Sport and Cultural Industries (DLGSCI): <ul style="list-style-type: none"> • None 	We do not anticipate any significant impact on your financial report for this year.
We have identified the following areas that we consider require additional focus during our 2021-22 local government audits:	We will review the accounting treatment and disclosure processes during our interim and final audits.

Details of Risk / Issue	Audit Approach
<ul style="list-style-type: none"> • Related party disclosures • Revenue recognition • Unauthorised expenditure • Unrecorded liabilities and expenses • Fictitious employees • Accounting for cloud computing arrangements 	
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • Provision for annual and long service leave • Provision for rehabilitation of waste disposal sites 	<p>We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.</p>
<p>The impact on the current year financial statements with regards to the withdrawal of the City of Belmont as a member of EMRC.</p>	<p>We will review management's assessment of the impact as well as supporting documents and determine whether the effect has been accurately recorded and disclosed in the financial statements.</p>

AUDIT EMPHASIS AND SIGNIFICANT ACCOUNT BALANCES

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances, and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk and the sensitivity of disclosures.

Significant Account	2021 Audited Balance \$'000	Audit Approach
Statement of Financial Position		
Cash and cash equivalents	\$55,361	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Verify year-end balance through bank confirmations • Analytical review
Receivables	\$3,555	<ul style="list-style-type: none"> • Year-end cut-off testing • Review subsequent receipts • Review expected credit loss • Analytical review
Financial assets	\$32,500	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Verify year-end balance through bank confirmations • Analytical review

Significant Account	2021 Audited Balance \$'000	Audit Approach
Property, plant, equipment and infrastructure	\$115,415	<ul style="list-style-type: none"> Review key processes/controls Verify asset additions and disposals Assess assets for impairment Test items posted to construction in progress to assess appropriateness of expenses being capitalised Assess whether carrying amounts approximate fair value
Payables	\$12,625	<ul style="list-style-type: none"> Review of key processes/controls Test for unrecorded liabilities Year-end cut off testing
Provisions	\$8,522	<ul style="list-style-type: none"> Review the reasonableness of assumptions and calculations Determine whether the subsequent measurement of the waste rehabilitation provision is accurate and inline with the Australian Accounting Standards. Analytical review
Statement of Comprehensive Income		
Grants, subsidies & contributions;	\$2,736	<ul style="list-style-type: none"> Review of key processes and controls Analytical review Sample testing of transactions
Fees and charges	\$39,657	<ul style="list-style-type: none"> Review of key processes and controls Analytical review Year-end cut-off testing
Employee related expenses	\$9,872	<ul style="list-style-type: none"> Review of key processes and controls Sample testing of transactions Analytical review
Materials and contracts	\$7,407	<ul style="list-style-type: none"> Review of key processes and controls Sample testing of transactions Analytical review
Depreciation and amortisation	\$6,452	<ul style="list-style-type: none"> Review of management's assessment of the useful lives of assets and assess reasonableness. Analytical review
Other expenses	\$9,736	<ul style="list-style-type: none"> Review of key processes/controls Sample testing of transactions Analytical review

COMPLIANCE WITH LAWS AND REGULATIONS

Management is to ensure the entity complies with the Local Government Act 1995 (as amended), and the Local Government (Financial Management) Regulations 1996 (as amended).

We are required by the Local Government Act 1995 and Local Government (Audit) Regulations 1996 to test compliance with the Act and Regulation.

GOING CONCERN AND ADVERSE FINANCIAL TRENDS

Auditing Standard ASA 570 *Going Concern* requires that we consider the appropriateness of the going concern assumption at the planning stage.

The Council, being a regional council is financially supported by its member councils under the Establishment Agreement; hence going concern assumption is deemed reasonable.

However, the auditor's report, per the Local Government (Audit) Regulations 1996, is still required to disclose if there are any significant adverse trends in the financial position or financial practices.

Based on the 2021/22 Annual Budget, the Council is expecting a net surplus of \$5,652k. We further note that as at 30 June 2020, the council has a net current asset position of \$77,045k of which \$66,077k relates to restricted cash reserves with further non-current liabilities of \$6,707k.

The Council's liability is significantly less than its unrestricted cash holdings. Hence it is reasonable to expect that the Council is able to pay off its liabilities when it becomes due and payable.

The financial ratios reported as at 30 June 2021 were all in line with the Department of Local Government, Sport and Cultural Industries (DLGSCI) benchmarks.

Hence the going concern basis of accounting is considered appropriate at planning stage.

ACCOUNTING POLICIES

The Council appears to be adopting all the recognition and measurement requirements of the applicable Australian Accounting Standards.

We do not anticipate any significant changes from new accounting standards during the year.

INTERNAL AUDIT

We seek to rely on internal audit work to reduce our own audit work wherever possible. This avoids duplication of audit effort and the associated workload on your operational and administrative staff.

This year an independent audit firm performed the Financial Management Review and Audit Regulation 17 review, we will assess whether we will be able to rely on the report and whether management have adequately addressed recommendations made.

MANAGEMENT REPRESENTATION LETTER

Our audit procedures assume that management expects to be in a position to sign a management representation letter.

This letter should be reviewed and tailored to meet your Council's particular circumstances, and be signed and dated by the CEO as close as practicable to the date of the proposed auditor's report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor's report.

Please bring to the attention of the Chairman that we will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm that:

- they have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

RELATED PARTIES

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related parties and entities that are in existence.

REPORTING PROTOCOLS

Significant issues identified during the course of the audit will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to your CEO (or other nominated representative) for coordination of comments from appropriate members of your management. We request that these be returned quickly, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the Chairman, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting.

Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO. Interim management letters will be forwarded to the President and Minister with the auditor's report.

SPECIFIC AUDIT REQUIREMENTS

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the audit with your CEO and by using your staff to have various documents readily available when we perform our audit.

Please note however that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

YOUR AUDIT TEAM

	Name	Contact
OAG Representative	Liang Wong	(08) 6557 7542 Liang.Wong@audit.wa.gov.au
Butler Settineri Director	Marcia Johnson	(08) 6389 5222 mjohnson@butlersettineri.com.au
Butler Settineri Auditor	Sou Eng Moeuk	(08) 6389 5222 smoeuk@butlersettineri.com.au

Marcia will be your primary contact and will communicate progress and any emerging issues to you.

PROPOSED AUDIT SCHEDULE

See attached Audit Timetable.

OTHER AUDIT ACTIVITIES

The OAG has recently completed or is undertaking financial and performance audits relevant to local government. Through these audits, OAG aims to identify good practice and opportunities for improvement. You may therefore wish to review these reports as they may have relevance to your local government. They are available at www.audit.wa.gov.au.

A summary of reports issued from March 2020 are listed below:

- Purchasing cards (March 2020)
- Security considerations for remote working arrangements (April 2020)
- COVID-19 financial and governance matters (April 2020)
- Controls for the management of monies held for specific purposes (April 2020)
- Contract management – extensions and variations (May 2020)
- Managing technical vulnerabilities (June 2020)
- Western Australian Public Sector Audit Committees (June 2020)
- Grant administration (January 2021)
- Western Australian Public Sector Financial Statements Better Practice Guide (June 2021)
- Staff Exit Controls – (August 2021)
- Summary of Audit Committee Chair Forum (Oct 2021)
- Cyber Security in Local Government (Nov 2021)



11.2 COMPLIANCE AUDIT RETURN 2022

D2021/24765

PURPOSE OF REPORT

The purpose of this report is to present to Council for adoption the Compliance Audit Return (CAR) for the year ending 31 December 2021.

KEY POINT(S)

- Each local government is required to complete a CAR at the end of each calendar year.
- The CAR is required to be reviewed by the Audit Committee (AC) before being adopted by Council, certified by the Chairman and Chief Executive Officer (CEO) and uploaded to the Department of Local Government, Sport and Cultural Industries Smart Hub portal by 31 March 2022.

RECOMMENDATION(S)

That Council adopts the draft Compliance Audit Return 2021, forming the attachment to this report, that it be certified by the Chairman and Chief Executive Officer and submitted to the Department of Local Government, Sport and Cultural Industries by 31 March 2022.

SOURCE OF REPORT

Chief Financial Officer

BACKGROUND

- 1 The audit and applicable return are completed in accordance with the requirements of Regulations 14 and 15 of the *Local Government (Audit) Regulations 1996*. It is a compliance audit for the period 1 January to 31 December 2021 against the requirements included in the Compliance Audit Return for that period.
- 2 Regulation 14 requires the Audit Committee to review the CAR and to report the results of the review to Council prior to adoption by Council.

REPORT

- 3 The CAR, as required by the *Local Government Act 1995* (the Act) and relevant Regulations, is now completed and is awaiting Council approval before lodgement via the Department of Local Government, Sport and Cultural Industries Smart Hub portal.
- 4 The CAR sought advice on the extent of compliance by the EMRC to a range of sections of the Act and the local government regulations.
- 5 The review process includes a rigorous assessment being undertaken by responsible officers for each section. It is then input by the Manager Procurement & Governance which is why the Manager Procurement & Governance's name appears on the "respondent" column of the CAR document.
- 6 A high level of compliance was achieved. Where applicable, the details and explanations relating to the completion of the return appear in the relevant comment sections of the CAR.
- 7 After the CAR has been adopted by Council a certified copy of the return along with the relevant section of the minutes and additional information explaining or qualifying the compliance audit, is to be uploaded to the Department of Local Government, Sport and Cultural Industries Smart Hub portal by 31 March 2022.



STRATEGIC/POLICY IMPLICATIONS

8 Key Result Area 3 – Good Governance

3.3 To provide responsible and accountable governance and management of the EMRC

FINANCIAL IMPLICATIONS

9 Nil

SUSTAINABILITY IMPLICATIONS

10 Nil

RISK MANAGEMENT

Risk – Non Compliance with the *Local Government Act 1995* and EMRC's responsibility to maintain responsible and accountable governance and management of the organisation.

Consequence	Likelihood	Rating
Moderate	Unlikely	Moderate
Action/Strategy		
➤ Council to adopt the draft Compliance Audit Return 2021, that it be certified by the Chairman and Chief Executive Officer and submitted to the Department of Local Government, Sport and Cultural Industries by 31 March 2022.		

MEMBER COUNCIL IMPLICATIONS

Member Council

Town of Bassendean
City of Bayswater
City of Kalamunda
Shire of Mundaring
City of Swan

Implication Details

Nil

ATTACHMENT(S)

EMRC - Compliance Audit Return Regional Local Government 2021 (D2022/01910)

VOTING REQUIREMENT

Simple Majority

**RECOMMENDATION(S)**

That Council adopts the draft Compliance Audit Return 2021, forming the attachment to this report, that it be certified by the Chairman and Chief Executive Officer and submitted to the Department of Local Government, Sport and Cultural Industries by 31 March 2022.

AC RECOMMENDATION(S)

MOVED

SECONDED



Department of
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Eastern Metropolitan Regional Council - Compliance Audit Return Regional Local Government 2021

Certified Copy of Return

Please submit a signed copy to the Director General of the Department of Local Government, Sport and Cultural Industries together with a copy of the relevant minutes.

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a) F&G Regs 7,9,10	Has the local government prepared a business plan for each major trading undertaking that was not exempt in 2021?	Yes	A business plan for the proposed EMRC permanent FOGO processing facility was prepared.	Izabella Krzysko
2	s3.59(2)(b) F&G Regs 7,8A, 8, 10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2021?	N/A		Izabella Krzysko
3	s3.59(2)(c) F&G Regs 7,8A, 8,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2021?	N/A		Izabella Krzysko
4	s3.59(4)	Has the local government complied with public notice and publishing requirements for each proposal to commence a major trading undertaking or enter into a major land transaction or a land transaction that is preparatory to a major land transaction for 2021?	Yes	A public notice was issued on 29 September 2021 in relation to the major trading undertaking for the proposed EMRC permanent FOGO processing facility.	Izabella Krzysko
5	s3.59(5)	During 2021, did the council resolve to proceed with each major land transaction or trading undertaking by absolute majority?	N/A		Izabella Krzysko



Delegation of Power/Duty					
No	Reference	Question	Response	Comments	Respondent
1	s5.16	Were all delegations to committees resolved by absolute majority?	Yes	Legal Committee was established on 8 February 2021 by absolute majority.	Izabella Krzysko
2	s5.16	Were all delegations to committees in writing?	Yes		Izabella Krzysko
3	s5.17	Were all delegations to committees within the limits specified in section 5.17?	Yes	Legal Committee was established on 8 February 2021 and complied with the requirements under section 5.17 of the Local Government Act 1995.	Izabella Krzysko
4	s5.18	Were all delegations to committees recorded in a register of delegations?	Yes		Izabella Krzysko
5	s5.18	Has council reviewed delegations to its committees in the 2020/2021 financial year?	No		Izabella Krzysko
6	s5.42(1) & s5.43 Admin Reg 18G	Did the powers and duties delegated to the CEO exclude those listed in section 5.43 of the Act?	Yes		Izabella Krzysko
7	s5.42(1)	Were all delegations to the CEO resolved by an absolute majority?	Yes		Izabella Krzysko
8	s5.42(2)	Were all delegations to the CEO in writing?	Yes		Izabella Krzysko
9	s5.44(2)	Were all delegations by the CEO to any employee in writing?	Yes		Izabella Krzysko
10	s5.16(3)(b) & s5.45(1)(b)	Were all decisions by the council to amend or revoke a delegation made by absolute majority?	N/A		Izabella Krzysko
11	s5.46(1)	Has the CEO kept a register of all delegations made under Division 4 of the Act to the CEO and to employees?	Yes		Izabella Krzysko
12	s5.46(2)	Were all delegations made under Division 4 of the Act reviewed by the delegator at least once during the 2020/2021 financial year?	Yes		Izabella Krzysko
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record in accordance with Admin Reg 19?	Yes		Izabella Krzysko

Disclosure of Interest					
No	Reference	Question	Response	Comments	Respondent
1	s5.67	Where a council member disclosed an interest in a matter and did not have participation approval under sections 5.68 or 5.69, did the council member ensure that they did not remain present to participate in discussion or decision making relating to the matter?	Yes		Izabella Krzysko



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No	Reference	Question	Response	Comments	Respondent
2	s5.68(2) & s5.69 (5) Admin Reg 21A	Were all decisions regarding participation approval, including the extent of participation allowed and, where relevant, the information required by Admin Reg 21A, recorded in the minutes of the relevant council or committee meeting?	Yes		Izabella Krzysko
3	s5.73	Were disclosures under section sections 5.65, 5.70 or 5.71A(3) recorded in the minutes of the meeting at which the disclosures were made?	Yes		Izabella Krzysko
4	s5.75 Admin Reg 22, Form 2	Was a primary return in the prescribed form lodged by all relevant persons within three months of their start day?	Yes	Councillor Rossi from the City of Belmont lodged a primary return in the prescribed form within three months of being sworn in.	Izabella Krzysko
5	s5.76 Admin Reg 23, Form 3	Was an annual return in the prescribed form lodged by all relevant persons by 31 August 2021?	Yes		Izabella Krzysko
6	s5.77	On receipt of a primary or annual return, did the CEO, or the mayor/president, give written acknowledgment of having received the return?	Yes		Izabella Krzysko
7	s5.88(1) & (2)(a)	Did the CEO keep a register of financial interests which contained the returns lodged under sections 5.75 and 5.76?	Yes		Izabella Krzysko
8	s5.88(1) & (2)(b) Admin Reg 28	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70, 5.71 and 5.71A, in the form prescribed in Admin Reg 28?	Yes		Izabella Krzysko
9	s5.88(3)	When a person ceased to be a person required to lodge a return under sections 5.75 and 5.76, did the CEO remove from the register all returns relating to that person?	Yes		Izabella Krzysko
10	s5.88(4)	Have all returns removed from the register in accordance with section 5.88(3) been kept for a period of at least five years after the person who lodged the return(s) ceased to be a person required to lodge a return?	Yes		Izabella Krzysko
11	s5.89A(1), (2) & (3) Admin Reg 28A	Did the CEO keep a register of gifts which contained a record of disclosures made under sections 5.87A and 5.87B, in the form prescribed in Admin Reg 28A?	Yes		Izabella Krzysko
12	s5.89A(5) & (5A)	Did the CEO publish an up-to-date version of the gift register on the local government's website?	Yes		Izabella Krzysko
13	s5.89A(6)	When a person ceases to be a person who is required to make a disclosure under section 5.87A or 5.87B, did the CEO remove from the register all records relating to that person?	Yes		Izabella Krzysko



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No	Reference	Question	Response	Comments	Respondent
14	s5.89A(7)	Have copies of all records removed from the register under section 5.89A (6) been kept for a period of at least five years after the person ceases to be a person required to make a disclosure?	Yes		Izabella Krzysko
15	Rules of Conduct Reg 11(1), (2) & (4)	Where a council member had an interest that could, or could reasonably be perceived to, adversely affect the impartiality of the person, did they disclose the interest in accordance with Rules of Conduct Reg 11(2)?* *Question not applicable after 2 Feb 2021	Yes		Izabella Krzysko
16	Rules of Conduct Reg 11(6)	Where a council member disclosed an interest under Rules of Conduct Reg 11(2) was the nature of the interest recorded in the minutes?*	Yes		Izabella Krzysko
		*Question not applicable after 2 Feb 2021			
17	s5.70(2) & (3)	Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to council or a committee, did that person disclose the nature and extent of that interest when giving the advice or report?	N/A		Izabella Krzysko
18	s5.71A & s5.71B (5)	Where council applied to the Minister to allow the CEO to provide advice or a report to which a disclosure under s5.71A(1) relates, did the application include details of the nature of the interest disclosed and any other information required by the Minister for the purposes of the application?	N/A		Izabella Krzysko
19	s5.71B(6) & s5.71B(7)	Was any decision made by the Minister under subsection 5.71B(6) recorded in the minutes of the council meeting at which the decision was considered?	N/A		Izabella Krzysko
20	s5.103 Admin Regs 34B & 34C	Has the local government adopted a code of conduct in accordance with Admin Regs 34B and 34C to be observed by council members, committee members and employees?*	Yes	The EMRC adopted a new code of conduct for Council Members, Committee Members and Candidates on 25 March 2021.	Izabella Krzysko
		*Question not applicable after 2 Feb 2021			
21	Admin Reg 34B(5)	Has the CEO kept a register of notifiable gifts in accordance with Admin Reg 34B(5)?*	Yes		Izabella Krzysko
		*Question not applicable after 2 Feb 2021			



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No	Reference	Question	Response	Comments	Respondent
22	s5.104(1)	Did the local government prepare and adopt, by absolute majority, a code of conduct to be observed by council members, committee members and candidates within 3 months of the prescribed model code of conduct coming into operation (3 February 2021)?	Yes	Council adopted a code of conduct to be observed by council members, committee members and candidates within 3 month of the prescribed model code of conduct coming into operation.	Izabella Krzysko
23	s5.104(3) & (4)	Did the local government adopt additional requirements in addition to the model code of conduct? If yes, does it comply with section 5.104(3) and (4)?	N/A		Izabella Krzysko
24	s5.104(7)	Did the CEO publish an up-to-date version of the adopted code of conduct on the local government's website?	Yes		Izabella Krzysko
25	s5.51A(1) & (3)	Did the CEO prepare, and implement and publish an up-to-date version on the local government's website, a code of conduct to be observed by employees of the local government?	Yes		Izabella Krzysko

Disposal of Property

No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Where the local government disposed of property other than by public auction or tender, did it dispose of the property in accordance with section 3.58(3) (unless section 3.58(5) applies)?	N/A		Izabella Krzysko
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property?	N/A		Izabella Krzysko



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Finance					
No	Reference	Question	Response	Comments	Respondent
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act?	N/A	Council members were last appointed to the Audit Committee on 4 November 2021. The Audit Committee was established before 4 November 2021.	Izabella Krzysko
2	s7.1B	Where the council delegated to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority?	N/A		Izabella Krzysko
3	s7.9(1)	Was the auditor's report for the financial year ended 30 June 2021 received by the local government by 31 December 2021?	Yes		Izabella Krzysko
4	s7.12A(3)	Where the local government determined that matters raised in the auditor's report prepared under s7.9 (1) of the Act required action to be taken, did the local government ensure that appropriate action was undertaken in respect of those matters?	N/A		Izabella Krzysko
5	s7.12A(4)(a) & (4)(b)	Where matters identified as significant were reported in the auditor's report, did the local government prepare a report that stated what action the local government had taken or intended to take with respect to each of those matters? Was a copy of the report given to the Minister within three months of the audit report being received by the local government?	N/A		Izabella Krzysko
6	s7.12A(5)	Within 14 days after the local government gave a report to the Minister under s7.12A(4)(b), did the CEO publish a copy of the report on the local government's official website?	Yes		Izabella Krzysko
7	Audit Reg 10(1)	Was the auditor's report for the financial year ending 30 June received by the local government within 30 days of completion of the audit?	Yes		Izabella Krzysko



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Integrated Planning and Reporting

No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 19DA (1) & (4)	Has the local government adopted by absolute majority a corporate business plan? If Yes, please provide the adoption date or the date of the most recent review in the Comments section?	Yes	The EMRC Corporate business plan 2021/2022 to 2025/2026 was adopted by Council by absolute majority on 24 June 2021.	Izabella Krzysko
2	Admin Reg 19DA (2) & (3)	Does the corporate business plan comply with the requirements of Admin Reg 19DA(2) & (3)?	Yes		Izabella Krzysko
3	Admin Reg 19C	Has the local government adopted by absolute majority a strategic community plan? If Yes, please provide the adoption date or the date of the most recent review in the Comments section?	N/A	The EMRC ten year strategic plan 2017 - 2027 was adopted by Council on 18 August 2016 and is due for a mid term review in 2022.	Izabella Krzysko

Local Government Employees

No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve a process to be used for the selection and appointment of the CEO before the position of CEO was advertised?	N/A	There was no recruitment for the role of CEO in 2021.	Izabella Krzysko
2	s5.36(4) & s5.37 (3) Admin Reg 18A	Were all CEO and/or senior employee vacancies advertised in accordance with Admin Reg 18A?	N/A		Izabella Krzysko
3	Admin Reg 18E	Was all information provided in applications for the position of CEO true and accurate?	N/A		Izabella Krzysko
4	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position under section 5.36(4)?	N/A		Izabella Krzysko
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss senior employee?	N/A		Izabella Krzysko
6	s5.37(2)	Where council rejected a CEO's recommendation to employ or dismiss a senior employee, did it inform the CEO of the reasons for doing so?	N/A		Izabella Krzysko



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Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Has the local government designated a senior employee as defined by section 5.37 to be its complaints officer?	No		Izabella Krzysko
2	s5.121(1) & (2)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that resulted in a finding under section 5.110(2)(a)? Does the complaints register include all information required by section 5.121 (2)?	Yes		Izabella Krzysko
3	s5.121(3)	Has the CEO published an up-to-date version of the register of the complaints on the local government's official website?	Yes		Izabella Krzysko

Optional Questions					
No	Reference	Question	Response	Comments	Respondent
1	Financial Management Reg 5 (2)(c)	Did the CEO review the appropriateness and effectiveness of the local government's financial management systems and procedures in accordance with Financial Management Reg 5(2)(c) within the three years prior to 31 December 2021? If yes, please provide the date of council's resolution to accept the report.	Yes	Council resolved to accept the report on the CEO's review of the appropriateness and effectiveness of the local government's financial management systems and procedures in accordance with Financial Management Reg 5(2)(c) on 25 November 2021	Izabella Krzysko
2	Audit Reg 17	Did the CEO review the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance in accordance with Audit Reg 17 within the three years prior to 31 December 2021? If yes, please provide date of council's resolution to accept the report.	Yes	Council resolved to accept the report on the CEO's review of the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance in accordance with Audit Reg 17 on 25 November 2021	Izabella Krzysko
3	s5.87C	Where a disclosure was made under sections 5.87A or 5.87B, was the disclosure made within 10 days after receipt of the gift? Did the disclosure include the information required by section 5.87C?	Yes		Izabella Krzysko
4	s5.90A(2) & (5)	Did the local government prepare, adopt by absolute majority and publish an up-to-date version on the local government's website, a policy dealing with the attendance of council members and the CEO at events ?	Yes		Izabella Krzysko



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No	Reference	Question	Response	Comments	Respondent
5	s5.96A(1), (2), (3) & (4)	Did the CEO publish information on the local government's website in accordance with sections 5.96A(1), (2), (3), and (4)?	Yes	The CEO published information on the local government's website in accordance with sections 5.96A(1), (2), (3), and (4) where relevant to a regional local government.	Izabella Krzysko
6	s5.128(1)	Did the local government prepare and adopt (by absolute majority) a policy in relation to the continuing professional development of council members?	Yes	[Note - to be approved by Council in Feb 2022] IK to confirm that this has occurred and adjust this answer accordingly	Izabella Krzysko
7	s5.127	Did the local government prepare a report on the training completed by council members in the 2020/2021 financial year and publish it on the local government's official website by 31 July 2021?	Yes	[Note - to be approved by Council in Feb 2022] IK to confirm that this has occurred and adjust this answer accordingly	Izabella Krzysko
8	s6.4(3)	By 30 September 2021, did the local government submit to its auditor the balanced accounts and annual financial report for the year ending 30 June 2021?	Yes		Izabella Krzysko
9	s6.2(3)	When adopting the annual budget, did the local government take into account all its expenditure, revenue and income?	Yes		Izabella Krzysko

Tenders for Providing Goods and Services

No	Reference	Question	Response	Comments	Respondent
1	F&G Reg 11A(1) & (3)	Did the local government comply with its current purchasing policy [adopted under F&G Reg 11A(1) & (3)] in relation to the supply of goods or services where the consideration under the contract was, or was expected to be, \$250,000 or less or worth \$250,000 or less?	Yes		Izabella Krzysko
2	s3.57 F&G Reg 11	Subject to F&G Reg 11(2), did the local government invite tenders for all contracts for the supply of goods or services where the consideration under the contract was, or was expected to be, worth more than the consideration stated in F&G Reg 11(1)?	Yes		Izabella Krzysko
3	F&G Regs 11(1), 12(2), 13, & 14(1), (3), and (4)	When regulations 11(1), 12(2) or 13 required tenders to be publicly invited, did the local government invite tenders via Statewide public notice in accordance with F&G Reg 14(3) and (4)?	Yes		Izabella Krzysko
4	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than a single contract?	Yes		Izabella Krzysko



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No	Reference	Question	Response	Comments	Respondent
5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer notice of the variation?	Yes		Izabella Krzysko
6	F&G Regs 15 & 16	Did the local government's procedure for receiving and opening tenders comply with the requirements of F&G Regs 15 and 16?	Yes		Izabella Krzysko
7	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17 and did the CEO make the tenders register available for public inspection and publish it on the local government's official website?	Yes		Izabella Krzysko
8	F&G Reg 18(1)	Did the local government reject any tenders that were not submitted at the place, and within the time, specified in the invitation to tender?	N/A		Izabella Krzysko
9	F&G Reg 18(4)	Were all tenders that were not rejected assessed by the local government via a written evaluation of the extent to which each tender satisfies the criteria for deciding which tender to accept?	Yes		Izabella Krzysko
10	F&G Reg 19	Did the CEO give each tenderer written notice containing particulars of the successful tender or advising that no tender was accepted?	Yes		Izabella Krzysko
11	F&G Regs 21 & 22	Did the local government's advertising and expression of interest processes comply with the requirements of F&G Regs 21 and 22?	Yes		Izabella Krzysko
12	F&G Reg 23(1) & (2)	Did the local government reject any expressions of interest that were not submitted at the place, and within the time, specified in the notice or that failed to comply with any other requirement specified in the notice?	No		Izabella Krzysko
13	F&G Reg 23(3) & (4)	Were all expressions of interest that were not rejected under F&G Reg 23 (1) & (2) assessed by the local government? Did the CEO list each person as an acceptable tenderer?	N/A	The EOI process in relation to EOI 2021-009 has not yet been finalised.	Izabella Krzysko
14	F&G Reg 24	Did the CEO give each person who submitted an expression of interest a notice in writing of the outcome in accordance with F&G Reg 24?	N/A	The EOI process in relation to EOI 2021-009 has not yet been finalised.	Izabella Krzysko
15	F&G Regs 24AD(2) & (4) and 24AE	Did the local government invite applicants for a panel of pre-qualified suppliers via Statewide public notice in accordance with F&G Reg 24AD(4) and 24AE?	N/A	The EMRC did not invite applicants to a panel of pre-qualified suppliers.	Izabella Krzysko



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No	Reference	Question	Response	Comments	Respondent
16	F&G Reg 24AD(6)	If the local government sought to vary the information supplied to the panel, was every reasonable step taken to give each person who sought detailed information about the proposed panel or each person who submitted an application notice of the variation?	N/A	The EMRC did not invite applicants to a panel of pre-qualified suppliers.	Izabella Krzysko
17	F&G Reg 24AF	Did the local government's procedure for receiving and opening applications to join a panel of pre-qualified suppliers comply with the requirements of F&G Reg 16, as if the reference in that regulation to a tender were a reference to a pre-qualified supplier panel application?	N/A	The EMRC did not invite applicants to a panel of pre-qualified suppliers.	Izabella Krzysko
18	F&G Reg 24AG	Did the information recorded in the local government's tender register about panels of pre-qualified suppliers comply with the requirements of F&G Reg 24AG?	N/A	The EMRC did not invite applicants to a panel of pre-qualified suppliers.	Izabella Krzysko
19	F&G Reg 24AH(1)	Did the local government reject any applications to join a panel of pre-qualified suppliers that were not submitted at the place, and within the time, specified in the invitation for applications?	N/A	The EMRC did not invite applicants to a panel of pre-qualified suppliers.	Izabella Krzysko
20	F&G Reg 24AH(3)	Were all applications that were not rejected assessed by the local government via a written evaluation of the extent to which each application satisfies the criteria for deciding which application to accept?	Yes		Izabella Krzysko
21	F&G Reg 24AI	Did the CEO send each applicant written notice advising them of the outcome of their application?	Yes		Izabella Krzysko
22	F&G Regs 24E & 24F	Where the local government gave regional price preference, did the local government comply with the requirements of F&G Regs 24E and 24F?	N/A	The EMRC does not have a regional price preference policy.	Izabella Krzysko

I certify this Compliance Audit Return has been adopted by council at its meeting on _____

Signed Mayor/President, Eastern Metropolitan
Regional Council

Signed CEO, Eastern Metropolitan Regional
Council

11.3 HALF YEAR BUDGET REVIEW 2021/2022

D2021/24767

PURPOSE OF REPORT

The purpose of this report is to provide Council, via the Audit Committee, with details of the Eastern Metropolitan Regional Council's (EMRC's) 2021/2022 half year budget review for adoption and subsequent submission to the Department of Local Government, Sport and Cultural Industries.

KEY POINT(S)

- It is a requirement of r.33A of the *Local Government (Financial Management) Regulations 1996* that a local government, between 1 January and 31 March in each year, is to carry out a review of its annual budget for that year.
- Council receives monthly financial reports inclusive of end of year forecasts. Forecasts have been constantly monitored and reviewed based on current information and circumstances available to provide a more accurate forecast of the year end result.

RECOMMENDATION(S)

That Council, by an absolute majority in accordance with r.33A of the *Local Government (Financial Management) Regulations 1996*, adopts the review of the 2021/2022 budget and approves its submission to the Department of Local Government, Sport and Cultural Industries within 30 days.

SOURCE OF REPORT

Chief Financial Officer

BACKGROUND

- 1 It is a requirement of r.33A of the *Local Government (Financial Management) Regulations 1996* that a local government, between 1 January and 31 March in each year, is to carry out a review of its annual budget for that year.
- 2 Regulation 33A also states that within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the Council who is to consider the review submitted to it and is to determine, by absolute majority, whether or not to adopt the review, any parts of the review or any recommendation made to the review.
- 3 Submitted to each meeting of Council is a financial report and summaries which provide an overview of year to date budget performance for operating activities and capital works. Variances greater than 10% or \$20,000, whichever is the greater, within each nature and type category on the Statement of Comprehensive Income are reported on in the body of the report. Also included are end of year forecasts by nature and type for operating activities and end of year forecasts for each capital works project. These forecasts are reviewed regularly in order to provide an accurate forecast of the end of year result.
- 4 The half year budget review was undertaken during January/February 2022 and is reflected in this report.

REPORT

- 5 Whilst the budget review is a statutory requirement, due to the commercial nature of the EMRC's waste operations, forecasts are conducted throughout the year in order to adjust costs (where possible) in relation to available tonnage throughput.



Format of Budget Review

- 6 The format of the statutory review undertaken is based on an examination by officers of all EMRC accounts (operating income, operating expenditure and capital expenditure accounts) within their area of responsibility.
- 7 A review of the tonnages budgeted to be received at the Red Hill Waste Management Facility is also undertaken. Tonnage budgets are reviewed to provide a forecast of volumes expected to be received by 30 June 2022. These forecasts, when calculated against the previously adopted disposal rates, provide financial forecasts relating to the following:
 - Income from normal operations (including landfill levy);
 - Secondary Waste Income;
 - Landfill Levy Expenditure;
 - Waste Education Levy Income; and
 - Cell usage and depreciation.
- 8 All forecasts, which are an actual review of the budgets set against each account, are entered into the financial management system in order to provide a more accurate forecast of the end of year result.
- 9 The year to date monthly budget allocations are also reviewed in order to match the appropriate timing for the various projects budgeted to be undertaken. A review is undertaken to ensure that the year to date budget allocations best reflect the timing applicable either to expenditure expected to be incurred or income to be received. This process commences immediately following adoption of the budget and is constantly being monitored and reviewed based on current information and circumstances available. This process provides a better comparison between the year to date actual and year to date budget figures.

Adjustments resulting from Budget Review

- 10 EMRC officers undertook the latest review based on the actual financial data provided for the period ended 31 December 2021. The financial report relating to the period ended 31 January 2022 was submitted to Council at its meeting held on 24 February 2022. However, that report did not include the revised forecasts that have result from the half year budget review.
- 11 In accordance with the process followed in previous years, the original budget is not updated with the revised forecasts, as relevant regulations require the end of year results to be compared to the original adopted annual budget, rather than the reviewed budget.
- 12 Whilst it is accepted that many costs are incurred generally within a specific pattern, many are not. These include significant costs incurred relating to operating and capital projects, which depend solely on the timing of when the project is undertaken.



- 13 The following is a summary of the forecast changes to operating budget provisions resulting from the half year budget review:

Changes In	Total
Increase / (Decrease) in Operating Income	\$789,064
(Increase) / Decrease in Operating Expenditure	(\$1,159,423)
Increase / (Decrease) in Net Assets from Operations	(\$370,359)

- 14 Provided below is a summary of changes between the original budget and the forecast for the financial year ending 30 June 2022. Comments are provided for significant variances using Council's adopted criteria of 10% or \$20,000, whichever is the greater, as a guide:

Operating Income

15 User Charges

➤ Current Budget: \$33,566,196 Forecast Budget: \$35,746,768 Variance: \$2,180,572; 6.50%

16 Net User Charges (User Charges less Landfill Levy charges)

➤ Current Budget: \$20,746,731 Forecast Budget: \$22,510,443 Variance: \$1,763,711; 8.50%

17 Special Charges

➤ Current Budget: \$556,739 Forecast Budget: \$605,925 Variance: \$49,186; 8.83%

18 Secondary Waste Charge (Other Revenues)

➤ Current Budget: \$4,121,290 Forecast Budget: \$4,493,804 Variance: \$372,514; 9.04%

19 Contributions

➤ Current Budget: \$239,460 Forecast Budget: \$167,121 Variance: (\$72,339); (30.21%)

- 20 The full year forecast for Contributions is below the annual budget by \$72,339 (30.21%). The variance relates to lower than budgeted contributions to Sustainability projects from the City of Swan (\$22k - ERCMP & Regional Spatial Mapping), Shire of Mundaring (\$19k - ERCMP & Regional Spatial Mapping) & Other Organisations (\$31k - Regional Spatial Mapping & Environmental Sustainability & Net Zero programs).



21 Operating Grants

➤ Current Budget: \$398,000 Forecast Budget: \$203,000 Variance: (\$195,000); (48.99%)

22 The full year forecast for Operating Grants is below the annual budget by \$195,000 (48.99%). The variance is due to the following grants that were budgeted for but will not be received (associated costs relating specifically to these grants have not been incurred):

- ⇒ \$105,000 - Co-ordination of Community Led NRM Projects due to the Environmental Services Section no longer existing effective from July 2021;
- ⇒ \$100,000 - Farm Dam Project; and
- ⇒ \$20,000 - Regional Integrated Transport Strategy including Net Zero; and

23 This is offset by the following successful grant not previously budgeted for that has been received:

- ⇒ \$20,000 - Circular Economy in the Community project.

24 Interest Municipal Cash & Investments

➤ Current Budget: \$132,000 Forecast Budget: \$137,029 Variance: \$5,029; 3.81%

25 Interest Restricted Cash Investments

➤ Current Budget: \$799,975 Forecast Budget: \$439,869 Variance: \$360,106; (45.01%)

26 The full year forecast for Interest on Municipal Fund Cash and Investment is \$360,105 (45.01%) below the budget of \$799,975. The variance is due to the lower interest rates on investments being obtained and the low value of term deposit maturities by year end.

27 Reimbursements

➤ Current Budget: \$1,536,722 Forecast Budget: \$1,610,688 Variance: \$73,966; 4.81%

28 Other Income

➤ Current Budget: \$2,844,278 Forecast Budget: \$2,018,380 Variance: (\$825,898); (29.04%)

29 The full year forecast for Other Income is below the annual budget by \$825,898 (29.04%). The variance is attributable to:

- ⇒ \$506,000 - Nil Electricity Sale as a result of the WWtE project not being commissioned in the 2021/2022 financial year;
- ⇒ \$66,109 - Lowered Sale of Products Income; and
- ⇒ \$290,000 - Lower Royalty Income as a result of the low level of return on the sale of the EMRC LGC's. The sale of the LGC's is undertaken by EDL who operate the Landfill Gas operation at the Red Hill Waste Management Facility. The rate for the LGC's fluctuates based on market conditions. The recent sale in February 2022 achieved a sale price of \$24 compared to \$84 that was achieved in 2018.

30 This is off-set by a forecast increase in Rebate Income - Other of \$33,000. This relates to a forecast increase in the diesel fuel rebate due to the increased usage of diesel fuel expected by the year end.

31 Proceeds from Sale of Assets (Other Revenues)

➤ Current Budget: \$351,000 Forecast Budget: \$329,000 Variance: (\$22,000); (6.27%)



32 Operating Expenditure

33 Salary Expenses

➤ Current Budget: \$11,174,794 Forecast Budget: \$10,064,688 Variance: (\$1,110,106); (9.93%)

34 Contract Expenses

➤ Current Budget: \$6,429,257 Forecast Budget: \$6,985,567 Variance: \$556,310; 8.65%

35 Material Expenses

➤ Current Budget: \$1,347,539 Forecast Budget: \$1,305,145 Variance: (\$42,394); (3.15%)

36 Utility Expenses

➤ Current Budget: \$310,375 Forecast Budget: \$340,150 Variance: \$29,775; 9.59%

37 Fuel Expenses

➤ Current Budget: \$720,135 Forecast Budget: \$835,218 Variance: \$115,083; 15.98%

38 The full year forecast for Fuel Expenses is \$115,083 above the budget of \$720,135 (15.98%). The variance is attributable to the higher purchase price of diesel fuel compared to budget together with the higher level of tonnages forecast to be received as at year end compared to budget.

39 Insurance Expenses

➤ Current Budget: \$310,604 Forecast Budget: \$309,404 Variance: \$1,200; (0.39%)

40 Depreciation Expenses

➤ Current Budget: \$4,826,380 Forecast Budget: \$5,029,558 Variance: \$203,178; 4.21%

41 Miscellaneous Expenses (excluding Landfill Levy expenses)

➤ Current Budget: \$1,261,747 Forecast Budget: \$1,147,559 Variance: (\$114,188); (9.05%)

42 Provision Expenses

➤ Current Budget: \$793,871 Forecast Budget: \$2,262,682 Variance: \$1,468,811; 185.02%

43 Following instructions from the OAG regarding the method of calculation of provisions, the full year forecast for Provision Expenses is \$1,468,811 (185.02%) above the budget of \$793,871. This variance relates to a higher than budgeted rate per tonne for the Post Closure Site Rehabilitation provision and the Environmental Monitoring provision that was recalculated following the completion of the 2020/2021 Annual Financial Report. The 12-month CPI rate and discount factor rates as at 30 June each year are used to calculate the provisions. As the rates can vary significantly from year to year, the budgeting for these provisions is based on an average of the 3 previous years rates with the actual value being calculated as at year end. Although this has an impact on the Net Result in the Statement of Comprehensive Income, these non-cash additional provisions do not affect the cash flow.

44 Costs Allocated

➤ Current Budget: (\$89,343) Forecast Budget: (\$91,195) Variance: (\$1,852); (2.07%)

45 Carrying Amount of Assets Disposed Of (Other Expenses)

➤ Current Budget: \$284,165 Forecast Budget: \$340,171 Variance: \$56,006; 19.71%

46 The full year forecast for Carrying Amount of Assets Disposed Of (Other Expenses) is \$56,006 (19.71%) above the budget of \$284,165. This relates to the Written Down Value of Plant and Vehicles that have achieved their change over period and have been sold.

Capital Expenditure

➤ Current Budget: \$16,333,004 Forecast Budget: \$18,486,196 Variance: \$2,153,192; 13.18%

47 The Capital Expenditure budgets as at year end have been reviewed throughout the year and in particular as part of the half year budget review undertaken during January/February 2022 in order to reflect the actual timing of various projects and match expenditure requirements in relation to tonnage forecasts.

48 Full Year Capital Expenditure has been forecast to be \$2,153,192 (13.18%) above the budget of \$16,333,004.

49 Significant reductions to capital budgets where savings have been achieved, or where project expenditure has been deferred due to delays and/or carried forward or not required include the following:

- ⇒ Air Pollution Control Residue Facility (APCR) - RHLF - \$721,085 (c/fwd);
- ⇒ Purchase / Replace Plant - RHLF - \$544,461;
- ⇒ Liquid Waste Project - RHLF - \$350,000 (c/fwd);
- ⇒ Construct Class III Cell Stage 17 - RHLF - \$200,000 (c/fwd);
- ⇒ Install Power to Lots 8, 9 and 10 - RHLF - \$150,000 (c/fwd);
- ⇒ Implementation of the FOGO Recovery Strategy - RHLF - \$113,577 (c/fwd);
- ⇒ Refurbish Plant - RHLF - \$100,000;
- ⇒ Upgrade Power to Workshop No 2 - RHLF - \$100,000 (c/fwd);
- ⇒ Noise Barrier for Hammer Mill - HRRP - \$99,900 (c/fwd);
- ⇒ Purchase Vehicles - Ascot Place - \$69,000
- ⇒ Undertake FOGO Reference Site Tours - \$62,000 (c/fwd); and
- ⇒ Digital Sign - HRRP - \$50,000 (c/fwd).

50 This is offset by an increase in the following Capital Expenditure budget provision following a review of the capital expenditure program:

- ⇒ Construct Commercial Transfer Station (HRRP) - \$2,900,249;



- 51 This was subject to a report submitted to Council and approved by Council at its meeting held on 26 August 2021 (Ref: D2021/12261) for an additional sum of \$4,041,126 (\$3,500,000 was forecast in the 2022/2023 financial year and was bought forward to 2021/2022). Due to the timing of works \$1,140,877 of the approved amount is to be carried forward into the 2022/2023 financial year;
- ⇒ Construct Class III Stage 16 Landfill Cell - RHLF - \$585,475;
- 52 The construction of the Class III Stage 16 Cell was expected to be completed by 30 June 2021 at a forecast cost of \$3,171,717. As a result, no carried forward provision was made in the 2021/2022 Annual Budget. However, due to the cell liner which was found to be out of specification and had to be replaced at the contractors expense, as well as inclement weather, the construction of the cell was not completed by the end of June 2021. The actual expenditure as at 30 June 2021 totalled \$1,923,859 being \$1,247,858 below the expected forecast value of \$3,171,717. The Class III Stage 16 Cell has now been completed.
- ⇒ Construct Site Workshop (HRRP) - \$563,983;
- 53 This was subject to a report submitted to Council and approved by Council at its meeting held on 25 November 2021 (Ref: D2021/23177) for an additional sum of \$846,384 to accommodate a higher than budgeted tender submission. Due to the timing of works \$282,401 of the approved amount is to be carried forward into the 2022/2023 financial year;
- ⇒ Purchase/Replace Plant - HRRP - \$350,000
- 54 This additional forecast expenditure relates to the purchase of a 16 Tonne Forklift and a Walking Floor at the HRRP.
- ⇒ Wood Waste to Energy Building Project (Pre-Commissioning Cost) - HRRP - \$204,108;
- 55 This expenditure relates to the additional capitalisation of WWtE pre-commissioning operating costs. It was expected that the WWtE project would be commissioned by April 2022, however due to delays it is now not expected to be commissioned during 2021/2022. The operating costs for the April - June 2022 period have therefore been transferred from the operating budget to the capital budget as on-going pre-commissioning expenses.
- ⇒ Construct FOGO Processing Area - RHLF - \$108,460;
- 56 This was subject to a report submitted to Council and approved by Council at its meeting held on 26 August 2021 (Ref: D2021/15757).

STRATEGIC/POLICY IMPLICATIONS

- 57 Key Result Area 3 – Good Governance
- 3.3 To provide responsible and accountable governance and management of the EMRC
- 3.4 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

- 58 As detailed in the report.

SUSTAINABILITY IMPLICATIONS

- 59 Nil



RISK MANAGEMENT

Risk – Non-compliance with Financial Regulations		
Consequence	Likelihood	Rating
Moderate	Unlikely	Moderate
Action/Strategy		
<ul style="list-style-type: none"> ➤ The financial report is scrutinised by the EMRC Council to ensure that all statutory requirements are met. ➤ Internal Audit reviews to ensure compliance with Financial Regulations. ➤ External Audit confirms compliance. 		

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean City of Bayswater City of Kalamunda Shire of Mundaring City of Swan	As outlined in the report.

ATTACHMENT(S)

1. Statement of Comprehensive Income by Nature and Type (D2022/03108)
2. Capital Expenditure Statement (D2022/03109)
3. Statement of Financial Position (D2022/03111)
4. Statement of Cash and Investments (D2022/03112)

VOTING REQUIREMENT

Absolute Majority

RECOMMENDATION(S)

That Council, by an absolute majority in accordance with r.33A of the *Local Government (Financial Management) Regulations 1996*, adopts the review of the 2021/2022 budget and approves its submission to the Department of Local Government, Sport and Cultural Industries within 30 days.

AC RECOMMENDATION(S)

MOVED

SECONDED

STATEMENT OF COMPREHENSIVE INCOME

Nature and Type

Year to Date				JANUARY 2022		Full Year		
Actual	Budget	Variance			Forecast	Budget	Variance	
Operating Income								
\$19,467,556	\$19,795,331	(\$327,775)	(U)	User Charges	\$35,746,768	\$33,566,196	\$2,180,572	(F)
(\$7,373,994)	(\$7,478,016)	\$104,022	(F)	<u>Less</u> Landfill Levy Charges	(\$13,236,325)	(\$12,819,464)	(\$416,861)	(U)
\$12,093,562	\$12,317,315	(\$223,753)	(U)	Net User Charges	\$22,510,443	\$20,746,732	\$1,763,711	(F)
\$343,200	\$333,556	\$9,644	(F)	Special Charges	\$605,925	\$556,739	\$49,186	(F)
\$2,548,154	\$2,469,323	\$78,831	(F)	Secondary Waste Charge	\$4,493,804	\$4,121,290	\$372,514	(F)
\$157,383	\$159,387	(\$2,004)	(U)	Contributions	\$167,121	\$239,460	(\$72,339)	(U)
\$193,000	\$173,000	\$20,000	(F)	Operating Grants	\$203,000	\$398,000	(\$195,000)	(U)
\$89,699	\$76,993	\$12,706	(F)	Interest Municipal Cash Investments	\$137,029	\$132,000	\$5,029	(F)
\$174,835	\$437,620	(\$262,785)	(U)	Interest Restricted Cash Investments	\$439,869	\$799,975	(\$360,106)	(U)
\$924,138	\$882,190	\$41,948	(F)	Reimbursements	\$1,610,688	\$1,536,722	\$73,966	(F)
\$1,067,764	\$1,312,300	(\$244,536)	(U)	Other	\$2,018,380	\$2,844,278	(\$825,898)	(U)
\$230,636	\$239,581	(\$8,945)	(U)	Proceeds from Sale of Assets	\$329,000	\$351,000	(\$22,000)	(U)
\$17,822,371	\$18,401,265	(\$578,894)	(U)	Total Operating Income	\$32,515,260	\$31,726,196	\$789,064	(F)
Operating Expenditure								
\$5,316,248	\$6,006,042	\$689,794	(F)	Salary Expenses	\$10,064,688	\$11,174,794	\$1,110,106	(F)
\$3,165,655	\$3,729,243	\$563,588	(F)	Contract Expenses	\$6,985,567	\$6,429,257	(\$556,310)	(U)
\$553,345	\$772,695	\$219,350	(F)	Material Expenses	\$1,305,145	\$1,347,539	\$42,394	(F)
\$168,314	\$179,662	\$11,348	(F)	Utility Expenses	\$340,150	\$310,375	(\$29,775)	(U)
\$485,454	\$445,403	(\$40,051)	(U)	Fuel Expenses	\$835,218	\$720,135	(\$115,083)	(U)
\$182,000	\$180,320	(\$1,680)	(U)	Insurance Expenses	\$309,404	\$310,604	\$1,200	(F)
\$4,076,195	\$2,753,281	(\$1,322,914)	(U)	Depreciation Expenses	\$5,029,558	\$4,826,380	(\$203,178)	(U)
\$541,642	\$709,759	\$168,117	(F)	Miscellaneous Expenses	\$1,147,559	\$1,261,747	\$114,188	(F)
\$633,267	\$463,085	(\$170,182)	(U)	Provision Expenses	\$2,262,682	\$793,871	(\$1,468,811)	(U)
(\$106,512)	(\$57,495)	\$49,017	(F)	Costs Allocated	(\$91,195)	(\$89,343)	\$1,852	(F)
\$214,315	\$212,480	(\$1,835)	(U)	Carrying Amount of Assets Disposed Of	\$340,171	\$284,165	(\$56,006)	(U)
\$15,229,923	\$15,394,475	\$164,552	(F)	Total Operating Expenditure	\$28,528,947	\$27,369,524	(\$1,159,423)	(U)
\$2,592,448	\$3,006,790	(\$414,342)	(U)	NET RESULT BEFORE OTHER COMPREHENSIVE INCOME	\$3,986,313	\$4,356,672	(\$370,359)	(U)
Surplus	Surplus				Surplus	Surplus		
Other Comprehensive Income								
\$0	\$0	\$0	(F)	Revaluation of Assets/Accumulated Depreciation Reversal	\$0	\$0	\$0	(F)
\$0	\$0	\$0	(F)	Total Other Comprehensive Income	\$0	\$0	\$0	(F)
\$2,592,448	\$3,006,790	\$414,342	(U)	CHANGE IN NET ASSETS FROM OPERATIONS	\$3,986,313	\$4,356,672	(\$370,359)	(U)
Surplus	Surplus				Surplus	Surplus		

Notes:

1. User Charges - include member Councils and casual users pertaining to waste, risk management and environmental services fees and charges;
2. Special Charges - Waste Education Levy;
3. Contributions - member Councils' contributions to projects and services;
4. Operating Grants - grant income predominantly from government agencies; and
5. Other Operating Income - includes income from the sale of products;

(F) denotes Favourable variance and (U) denotes Unfavourable variance



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year				
Actual	Budget	Variance		Forecast	Budget	Variance		
CEO's Team								
\$0	\$0	\$0	\$0	24550/01	Purchase Information Technology & Communication Equipment - Councillors	\$30,000	\$30,000	\$0
\$0	\$0	\$0	\$0	24620/00	Purchase Art Works	\$10,000	\$10,000	\$0
\$0	\$0	\$0	\$0			\$40,000	\$40,000	\$0



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year				
Actual	Budget	Variance				Forecast	Budget	Variance
Business Support								
\$124,505	\$95,855	(\$28,650)	\$65,226	24440/00	Purchase Vehicles - Ascot Place	\$197,000	\$266,000	\$69,000
\$0	\$0	\$0	\$0	24510/01	Purchase Furniture Fittings & Equipment - Corporate Services	\$10,000	\$10,000	\$0
\$90,193	\$90,193	\$0	\$0	24550/00	Purchase Information Technology & Communication Equipment	\$190,000	\$129,000	(\$61,000)
\$0	\$0	\$0	\$520	25240/01	Capital Improvement Administration Building - Ascot Place	\$458,000	\$458,000	\$0
\$0	\$0	\$0	\$0	25530/01	Upgrade Security Equipment - Ascot Place	\$5,000	\$5,000	\$0
\$214,699	\$186,048	(\$28,651)	\$65,746			\$860,000	\$868,000	\$8,000



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year				
Actual	Budget	Variance				Forecast	Budget	Variance
Operations Team								
\$0	\$50,000	\$50,000	\$0	24399/10	Air Supply lines - Waste Management Structures - Red Hill Landfill Facility	\$50,000	\$50,000	\$0
\$216,414	\$200,000	(\$16,414)	\$0	24399/20	Gas Extraction System Wells - Red Hill Landfill Facility	\$216,414	\$200,000	(\$16,414)
\$155,539	\$600,000	\$444,461	\$210,604	24410/00	Purchase / Replace Plant - Red Hill Landfill Facility	\$405,539	\$950,000	\$544,461
\$245,019	\$400,000	\$154,981	\$739,484	24410/01	Purchase / Replace Plant - Hazelmere	\$1,000,000	\$650,000	(\$350,000)
\$226,644	\$175,000	(\$51,644)	\$58,067	24420/00	Purchase / Replace Minor Plant and Equipment-Red Hill Landfill Facility	\$275,000	\$275,000	\$0
\$22,242	\$62,000	\$39,758	\$0	24420/02	Purchase / Replace Minor Plant and Equipment - Hazelmere	\$89,000	\$104,000	\$15,000
\$0	\$66,000	\$66,000	\$0	24430/00	Purchase / Replace Vehicles - Red Hill Landfill Facility	\$132,000	\$132,000	\$0
\$0	\$2,500	\$2,500	\$0	24520/07	Purchase Fire Fighting System/Equipment - Hazelmere	\$5,000	\$5,000	\$0
\$5,060	\$150,000	\$144,940	\$10,120	24530/08	Purchase / Replace Security System - Red Hill Waste Management Facility	\$213,500	\$213,500	\$0
\$19,250	\$10,000	(\$9,250)	\$0	24530/10	Purchase / Replace Security System - Hazelmere	\$19,250	\$10,000	(\$9,250)
\$0	\$0	\$0	\$0	24550/03	Purchase Information Technology & Communication Equipment - Hazelmere	\$30,000	\$30,000	\$0
\$0	\$23,000	\$23,000	\$0	24590/00	Purchase / Replace Other Equipment - Red Hill Landfill Facility	\$40,000	\$40,000	\$0
\$15,000	\$0	(\$15,000)	\$0	24590/02	Purchase / Replace Miscellaneous Equipment - Hazelmere	\$15,000	\$0	(\$15,000)
\$63,478	\$70,000	\$6,522	\$0	24610/10	Purchase Office Furniture and Fittings - Hazelmere Office	\$70,000	\$70,000	\$0
\$0	\$60,000	\$60,000	\$0	24610/11	Purchase Furniture and Fittings - Hazelmere Workshop	\$60,000	\$60,000	\$0
\$0	\$300,000	\$300,000	\$0	25410/00	Refurbish Plant - Red Hill Landfill Facility	\$200,000	\$300,000	\$100,000



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year		
Actual	Budget	Variance		Forecast	Budget	Variance
\$968,646	\$2,168,500	\$1,199,854	\$1,018,276	\$2,820,703	\$3,089,500	\$268,797



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year				
Actual	Budget	Variance				Forecast	Budget	Variance
Projects Team								
\$257	\$0	(\$257)	\$0	24150/02	Purchase Waste Management Land	\$257	\$0	(\$257)
\$10,648	\$100,000	\$89,352	\$0	24250/01	Construct Waste Management Facility Buildings - Red Hill Landfill Facility	\$100,000	\$100,000	\$0
\$74,294	\$309,924	\$235,630	\$1,502,544	24250/08	Construct Workshop No 3 - Red Hill Landfill Facility	\$1,338,794	\$774,811	(\$563,983)
\$39,120	\$234,000	\$194,880	\$26,336	24259/05	Construct Wood Waste to Energy Building - HRRP	\$273,032	\$273,032	\$0
\$94	\$32,500	\$32,406	\$0	24259/06	Construct Community Recycling Centre (CRC) - HRRP	\$130,000	\$130,000	\$0
\$1,850,249	\$3,351,612	\$1,501,363	\$4,391,371	24259/10	Construct Commercial Transfer Station - HRRP	\$6,400,249	\$3,500,000	(\$2,900,249)
\$21,703	\$0	(\$21,703)	\$0	24259/13	Construct Site Workshop - HRRP	\$21,609	\$0	(\$21,609)
\$24	\$0	(\$24)	\$0	24259/15	Upgrade Power Supply to Workshop No 2 - Red Hill Landfill Facility	\$150,000	\$250,000	\$100,000
\$0	\$150,000	\$150,000	\$0	24259/16	Install Power Supply to Lots 8 9 & 10 - Red Hill Landfill Facility	\$0	\$150,000	\$150,000
\$307,649	\$643,160	\$335,511	\$13,487	24259/18	Construct Wood Waste to Energy Building (Pre-Commissioning) - HRRP	\$1,031,028	\$826,920	(\$204,108)
\$10,306	\$0	(\$10,306)	\$0	24259/19	Construct Wood Waste to Energy Dry Char Storage Facility - HRRP	\$60,000	\$60,000	\$0
\$250	\$40,000	\$39,750	\$39,150	24259/20	Construct Wood Waste to Energy Bucket Extension - HRRP	\$40,000	\$40,000	\$0
\$535,475	\$0	(\$535,475)	\$147,328	24310/19	Construct Class III Cell Stage 16 - Red Hill Landfill Facility	\$585,475	\$0	(\$585,475)
\$104	\$0	(\$104)	\$0	24310/21	Construct Class III Cell Stage 17 - Red Hill Landfill Facility	\$150,000	\$350,000	\$200,000
\$846	\$150,000	\$149,154	\$0	24330/05	Design and Construct Class IV Cell Stage 3 - Red Hill Landfill Facility	\$150,000	\$150,000	\$0



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year				
Actual	Budget	Variance		Forecast		Budget	Variance	
Projects Team								
\$4,731	\$50,000	\$45,269	\$0	24350/01	Construct Leachate and Stormwaste Infrastructure and Siltation Ponds - Red Hill Landfill Facility	\$154,731	\$200,000	\$45,269
\$78,492	\$105,000	\$26,508	\$2,652	24370/00	Construct Roads / Carparks - Red Hill Landfill Facility	\$183,492	\$185,500	\$2,008
\$1,269	\$130,000	\$128,731	\$0	24370/02	Construct Access Road to Lots 8 9 10 - Red Hill Landfill Facility	\$130,000	\$130,000	\$0
\$0	\$25,000	\$25,000	\$0	24380/00	Construct Drainage Diversion and Earthworks Infrastructures - Red Hill Landfill Facility	\$100,000	\$100,000	\$0
\$0	\$50,000	\$50,000	\$0	24394/05	Construct Litter Fence - Redhill Landfill Facility	\$50,000	\$50,000	\$0
\$30,634	\$150,000	\$119,366	\$24,784	24394/06	Resource Recovery Park - Noise Control Fencing	\$150,000	\$150,000	\$0
\$33,752	\$55,000	\$21,248	\$0	24395/01	Construct Hardstand and Road - Hazelmere	\$33,752	\$55,000	\$21,248
\$35,198	\$0	(\$35,198)	\$4,055	24395/05	Construct FOGO Processing Area - Red Hill Landfill Facility	\$108,460	\$0	(\$108,460)
\$0	\$0	\$0	\$0	24395/06	Undertake FOGO Reference Site Tours	\$0	\$62,500	\$62,500
\$71,423	\$188,636	\$117,213	\$24,433	24395/07	Implementation of the FOGO Recovery Strategy	\$186,423	\$300,000	\$113,577
\$29,900	\$45,000	\$15,100	\$0	24396/00	Construct Monitoring Bores - Red Hill Landfill Facility	\$70,000	\$70,000	\$0
\$0	\$30,000	\$30,000	\$0	24396/02	Construct Monitoring Bores - Hazelmere	\$0	\$70,000	\$70,000
\$106,948	\$351,566	\$244,618	\$71,481	24399/11	Wood Waste to Energy Utilities/Infrastructure - HRRP	\$408,754	\$408,754	\$0
\$0	\$0	\$0	\$0	24399/16	Liquid Waste Project - Red Hill Landfill Facility	\$150,000	\$500,000	\$350,000
\$28,915	\$0	(\$28,915)	\$81	24399/21	Air Pollution Control Residue Facility (APCR) - Red Hill Landfill Facility	\$1,578,915	\$2,300,000	\$721,085
\$255,228	\$250,000	(\$5,228)	\$0	24399/22	Construct Concrete Pad east of C&I Building - HRRP	\$255,228	\$250,000	(\$5,228)



CAPITAL EXPENDITURE STATEMENT

JANUARY 2022

Year to Date			On Order	Full Year				
Actual	Budget	Variance				Forecast	Budget	Variance
Projects Team								
\$330	\$200,000	\$199,670	\$0	24399/23	Extension of Sewer Line from WWtE to Sewer Sump & existing ATU - HRRP	\$200,000	\$200,000	\$0
\$1,278	\$300,000	\$298,722	\$0	24399/24	Sewer Line from Lakes Rd to Mary St - HRRP	\$300,000	\$300,000	\$0
\$121,653	\$120,000	(\$1,653)	\$0	24399/25	Extension of Concrete Pad with Workshop area - HRRP	\$121,653	\$120,000	(\$1,653)
\$97	\$100,000	\$99,903	\$0	24399/26	Noise Barrier for Hammer Mill - HRRP	\$100	\$100,000	\$99,900
\$0	\$50,000	\$50,000	\$0	24399/27	Digital Sign (DWER Requirement) - HRRP	\$0	\$50,000	\$50,000
\$19,383	\$75,000	\$55,617	\$20,980	24410/03	Purchase Wood Waste to Energy Plant & Equipment - HRRP	\$103,987	\$103,987	\$0
\$2,800	\$0	(\$2,800)	\$0	24410/10	Purchase FOGO Processing Plant - Red Hill Landfill Facility	\$2,800	\$0	(\$2,800)
\$21,754	\$0	(\$21,754)	\$0	24410/14	Regional Waste Collection Project	\$21,754	\$0	(\$21,754)
\$0	\$0	\$0	\$814	24550/02	Purchase Information Technology & Communication Equipment - Projects	\$25,000	\$25,000	\$0
\$3,694,803	\$7,286,398	\$3,591,595	\$6,269,497			\$14,765,493	\$12,335,504	(\$2,429,989)
\$4,878,147	\$9,640,946	\$4,762,799	\$7,353,519		TOTAL CAPITAL EXPENDITURE	\$18,486,196	\$16,333,004	(\$2,153,192)



STATEMENT OF FINANCIAL POSITION

JANUARY 2022

Actual June 2021	Actual Year to Date	(F) = Favourable variation (U) = Unfavourable variation	Full Year			
			Forecast	Budget	Variance	
Current Assets						
\$5,861,145	\$3,040,811	Cash and Cash Equivalents	\$4,717,848	\$4,010,280	\$707,568	(F)
\$82,123,503	\$76,600,685	Investments	\$75,340,283	\$65,875,435	\$9,464,848	(F)
\$3,431,287	\$4,347,990	Trade and Other Receivables	\$2,987,058	\$2,987,058	\$0	(F)
\$36,424	\$8,552	Inventories	\$39,035	\$39,035	\$0	(F)
\$32,382	\$588,062	Other Assets	\$67,382	\$67,382	\$0	(F)
\$91,484,741	\$84,586,100	Total Current Assets	\$83,151,606	\$72,979,190	\$10,172,416	(F)
Current Liabilities						
\$12,624,600	\$3,087,880	Trade and Other Payables	\$6,160,299	\$6,160,299	\$0	(F)
\$1,814,744	\$1,814,744	Provisions	\$1,892,645	\$1,892,645	\$0	(F)
\$14,439,344	\$4,902,624	Total Current Liabilities	\$8,052,944	\$8,052,944	\$0	(F)
\$77,045,397	\$79,683,476	Net Current Assets	\$75,098,662	\$64,926,246	\$10,172,416	(F)
Non Current Assets						
\$47,850,000	\$47,850,257	Land	\$52,586,164	\$52,585,907	\$257	(F)
\$6,506,875	\$7,908,465	Buildings	\$19,955,050	\$16,583,375	\$3,371,675	(F)
\$21,977,142	\$19,300,848	Structures	\$29,231,936	\$30,428,680	(\$1,196,744)	(U)
\$13,136,462	\$12,686,829	Plant	\$14,500,132	\$14,867,626	(\$367,494)	(U)
\$638,147	\$646,430	Equipment	\$1,214,005	\$1,123,575	\$90,430	(F)
\$126,449	\$130,152	Furniture and Fittings	\$246,488	\$250,604	(\$4,116)	(U)
\$25,179,667	\$27,479,397	Work in Progress	\$17,536,763	\$17,536,763	\$0	(F)
\$115,414,742	\$116,002,378	Total Non Current Assets	\$135,270,538	\$133,376,530	\$1,894,008	(F)
Non Current Liabilities						
\$6,707,161	\$7,340,428	Provisions	\$9,421,651	\$9,039,362	(\$382,289)	(U)
\$6,707,161	\$7,340,428	Total Non Current Liabilities	\$9,421,651	\$9,039,362	(\$382,289)	(U)
\$185,752,978	\$188,345,426	Net Assets	\$200,947,549	\$189,263,414	\$11,684,135	(F)
Equity						
\$76,354,391	\$82,641,476	Accumulated Surplus/Deficit	\$84,606,081	\$84,606,081	\$0	(F)
\$65,953,610	\$65,953,610	Cash Backed Reserves	\$76,866,559	\$64,812,065	\$12,054,494	(F)
\$37,157,892	\$37,157,892	Asset Revaluation Reserve	\$35,488,596	\$35,488,596	\$0	(F)
\$6,287,085	\$2,592,448	Net change in assets from operations	\$3,986,313	\$4,356,672	(\$370,359)	(U)
\$185,752,978	\$188,345,426	Total Equity	\$200,947,549	\$189,263,414	\$11,684,135	(F)

Actual June 2021	Actual Year to Date	(F) = Favourable variation (U) = Unfavourable variation	Full Year			
			Forecast	Budget	Variance	
Municipal Cash and Investments						
5,857,095	3,036,761	Cash at Bank - Municipal Fund 01001/00	4,006,230	2,006,230	2,000,000	(F)
4,050	4,050	Cash on Hand 01019/00 - 02	4,050	4,050	0	(F)
16,046,391	10,532,631	Investments - Municipal Fund 02021/00	707,568	2,000,000	(1,292,432)	(U)
21,907,536	13,573,442	Total Municipal Cash	4,717,848	4,010,280	707,568	(F)
Restricted Cash and Investments						
749,821	752,067	Restricted Investments - Plant and Equipment 02022/01	1,877,760	704,819	1,172,941	(F)
2,943,263	2,952,078	Restricted Investments - Post Closure Site Rehabilitation Red Hill 02022/02	3,442,229	6,090,227	(2,647,998)	(U)
11,460,995	11,495,320	Restricted Investments - Future Development 02022/03	22,950,099	9,086,393	13,863,706	(F)
1,349,161	1,353,202	Restricted Investments - Environmental Monitoring Red Hill 02022/04	1,623,250	2,951,545	(1,328,295)	(U)
59,639	0	Restricted Investments - Environmental Insurance Red Hill 02022/05	0	65,714	(65,714)	(U)
15,813	0	Restricted Investments - Risk Management 02022/06	0	16,002	(16,002)	(U)
600,945	602,745	Restricted Investments - Class IV Cells Red Hill 02022/07	626,916	551,046	75,870	(F)
41,177,833	41,273,149	Restricted Investments - Secondary Waste Processing 02022/09	35,699,868	37,275,373	(1,575,505)	(U)
1,158,161	1,161,630	Restricted Investments - Class III Cells 02022/10	2,383,246	2,231,556	151,690	(F)
79,842	0	Restricted Investments - Building Refurbishment (Ascot Place) 02022/11	0	80,683	(80,683)	(U)
5,325,000	5,340,948	Restricted Investments - EastLink Relocation 02022/13	5,343,168	5,325,000	18,168	(F)
123,503	100,685	Restricted Investments - Accrued Interest 02022/19	338,109	433,707	(95,598)	(U)
1,033,136	1,036,230	Restricted Investments - Long Service Leave 02022/90	1,055,638	1,063,370	(7,732)	(U)
66,077,112	66,068,054	Total Restricted Cash	75,340,283	65,875,435	9,464,848	(F)
87,984,648	79,641,496	TOTAL CASH AND INVESTMENTS	80,058,131	69,885,715	10,172,416	(F)

The Cash at Bank - Municipal Fund represents the balance on the last day of the relevant month. Any portion of the balance available for investment is transferred into the Investment - Municipal Fund account in the following period. Funds held in the Cash at Bank - Municipal Fund continue to accrue interest as per the Westpac commercial rates.



11.4 RISK MANAGEMENT UPDATE

D2021/24768

PURPOSE OF REPORT

The purpose of this report is to provide Council with an update on the EMRC's risk management profile.

KEY POINT(S)

- Sound corporate governance requires an integrated risk management approach including management processes, strategic planning, reporting and performance management.
- In accordance with the Risk Management Framework, an overview of the management of risk is reported approximately 3 – 4 times a year to the Audit Committee.

RECOMMENDATION(S)

That Council notes the update on the status of the Council's risk management profile.

SOURCE OF REPORT

Chief Financial Officer

BACKGROUND

- 1 At the Ordinary Council meeting on 3 December 2020 it was resolved that (D2020/21187):
THAT COUNCIL:
 1. *CANCELS 7.1 - RISK MANAGEMENT POLICY, FORMING ATTACHMENT 1 OF THIS REPORT.*
 2. *ADOPTS A NEW 7.1 - RISK MANAGEMENT POLICY, FORMING ATTACHMENT 3 OF THIS REPORT.*
 3. *ENDORSES THE NEW RISK MANAGEMENT FRAMEWORK, FORMING ATTACHMENT 4 OF THIS REPORT AND THE NEW RISK APPETITE STATEMENT, FORMING ATTACHMENT 5 OF THIS REPORT TO ENSURE THAT THE APPROPRIATE GOVERNANCE OF RISK MANAGEMENT WITHIN THE EMRC IS PROVIDED.*
- 2 The EMRC has quantified its broad risk appetite through the EMRC's risk assessment and acceptance criteria. The criteria are included within the EMRC's Risk Management Policy, Risk Management Framework and the Risk Appetite Statement.
- 3 The EMRC is to continue to monitor and review process and to report on the progress of its achievement of the risk management objectives, the management of individual risks and the ongoing identification of issues and trends.
- 4 The last risk performance objectives were reported to the Audit Committee and Council in June 2021.

REPORT

- 5 The EMRC's Risk Management Framework provides the guidance to integrate risk management into significant activities and functions performed by the EMRC and supporting the EMRC's ability to use risk management as part of the decision making processes.

- 6 The current EMRC risk appetite accepts the taking of controlled risks, the use of innovative approaches and the development of new opportunities to improve service delivery and to achieve EMRC objectives provided that the risks are properly identified, evaluated and managed to ensure that any exposures are acceptable.
- 7 The current risk management profile (heat map report), forming attachment 1 to this report, is a heat map report generated using the CAMMS risk software following its implementation and shows all of the EMRC's strategic risks. The heat map offers a visualised, comprehensive view of the likelihood and impact of the EMRC's strategic risks and helps the organisation improve its risk management and risk governance by prioritising risk management efforts.
- 8 The table below summarises the current risk management update associated with all of the EMRC's strategic risks that are included in the attachment to this report.

Risk Code	Risk Title	Risk Owner	Risk Status Update
SR-1	Excessive Employee Benefits leave liability	Chief Executive Officer	Introduced Competency Framework Management Guideline, monthly Executive Leadership Team reporting and included this into performance reviews.
SR-2	Inadequate succession planning	Chief Executive Officer	A succession planning workshop was held in September 2021.
SR-3	Ineffective Operational Reporting (timely and relevant)	Chief Operating Officer	All reports are effective with clear KPI's. The effectiveness of the reports is tested regularly.
SR-4	Over-use of single-source suppliers	Chief Financial Officer	Reports are reviewed monthly by the Executive Leadership Team to ensure compliance are met. The risk will remain major for non-compliance as it is a likely outcome. Continual vigilance is required.
SR-5	Legacy issues restricting innovation and performance	Chief Executive Officer	Set up business improvement group, it is now an agenda items at monthly Executive Leadership Team meetings and the strategic review has been finalised.
SR-6	Under/poor performance	Chief Executive Officer	Monthly P&L management reporting and review process in place.
SR-7	Reduced Grant Funding	Chief Sustainability Officer	Reduced Grant Funding is likely if existing programs are not continued and new opportunities not identified.

Risk Code	Risk Title	Risk Owner	Risk Status Update
SR-8	Inadequate leachate control	Chief Operating Officer	All leachate controls put in place are adequate. The leachate ponds are monitored on a daily basis. To date there are no issues in this area as the current set-up meets all requirements.
SR-9	Odour, noise, dust and traffic complaints	Chief Operating Officer	There are internal processes that allow neighbours and others to report on any of the items highlighted in this code. All complaints are acted on within a timely manner and signed off by both the Site Manager and Chief Operating Officer and filed in accordance with EMRC's internal requirements.
SR-10	WWTE (Pyrolysis) Project underperformance	Chief Project Officer	No change to the level of risk rating however progress on this project is being reported to Council every month; this includes updates on expenditure and progress.
SR-11	Fire in operational sites	Chief Operating Officer	All inductions and internal processes are adequate to manage all EMRC sites in the unlikely event of a fire on site. This includes all reporting requirements.
SR-12	By-passing established Tender or Procurement procedures	Chief Financial Officer	Following the initial risk rating, additional training was conducted. Working with other teams on various projects also provided the opportunity to reinforce best practice principles in relation to procurement processes.

Risk Code	Risk Title	Risk Owner	Risk Status Update
SR-13	Cyber attack	Chief Financial Officer	Following the initial risk rating and review, the Data Security Guideline continues to be reviewed and improved and supported by staff training to provide guidance to staff on how to avoid downloading malicious files. The Cyber Incident Response Plan was developed to provide guidelines for a timely and effective response to a cyber attack and is supported by Cyber Security Insurance which provides risk cover in the event of a cyber attack.
SR-14	Poor Stakeholder Engagement	Chief Executive Officer	Report presented to Council in September 2021.
SR-15	By-passing established administrative (non-financial) procedures	Chief Financial Officer	Ongoing monitoring and review.
SR-16	Injury to Operational Field Officers	Chief Executive Officer	Introduction of revised pre-starts, an OHS focus at recruitment and accountability/corrective action.
SR-17	COVID-19 Infection	Chief Executive Officer	Review scheduled.
SR-18	Capex project objectives/targets not achieved	Chief Project Officer	No change to the level of risk rating; spreadsheet developed to assist with monitoring of expenditure against forecast; weekly reviews are taking place.
SR-19	Licencing conditions breach	Chief Project Officer	No change to the level of risk rating; regular monitoring takes place at the EMRC's facilities as set out in licence conditions and our own internal quality management procedures.
SR-20	Lack of interest from Member Councils regarding Sustainability Programs	Chief Sustainability Officer	Lack of Interest from Member Councils regarding Sustainability Programs has already been evidenced.

Risk Code	Risk Title	Risk Owner	Risk Status Update
SR-21	Employment related litigation	Chief Executive Officer	Audits by LGIS and Internal auditors of management guidelines and procedures took place as well as training regarding employee relations, OHS and site procedures enforcement.
SR-22	Sub-surface landfill fires	Chief Operating Officer	There is a process in place to follow in the unlikely event there is a sub-surface fire. This process also includes the reporting of the actual incident as well.
SR-23	Methane gas explosion	Chief Operating Officer	All areas are monitored on a daily basis by the EMRC site contractor (EDL) as well as EMRC site leaders. All inductions as well as EMRC's site emergency plan covers the requirements in the event of an incident. The EMRC conducts regular drills on evacuation procedures etc. This is to ensure that all personnel understand what is required in the unlikely event of a methane gas explosion.
SR-24	Light vehicle or pedestrian interaction with heavy equipment	Chief Operating Officer	All external visitors are inducted to highlight all operational active areas as well as issued with two-way radios & escorted safely by an EMRC site employee. No one enters EMRC sites without been inducted first. Inductions cover off on all site requirements when it comes to light vehicles or pedestrian activity. There are set safety KPI's for all managers and leaders of the sites. This is to ensure that EMRC leaders auditing the process to ensure all process are followed and adhered too. These results and mitigations are highlighted in our regular operational reports.



Risk Code	Risk Title	Risk Owner	Risk Status Update
SR-25	Fraudster changing a Creditor's bank account details	Chief Financial Officer	This risk remains the same as the initial risk rating of moderate & unlikely, reflecting the likelihood & risk level. The verification process continues to be reviewed & has been reinforced to ensure that any changes to a creditor's bank account details are not changed without confirmation from the creditor.
SR-26	No scheduled maintenance program for all buildings	Chief Financial Officer	Review in progress.
SR-27	Intentional activities in excess of delegated authority (PID Officer)	Chief Executive Officer	Review scheduled.
SR-28	Large numbers of Ibis and Pelicans scavenging on open tip face	Chief Operating Officer	There are internal procedures in place to ensure that this is managed in accordance with EMRC's requirements. The Operations team is also heavily supported by the Environmental team.

STRATEGIC/POLICY IMPLICATIONS

9 Key Result Area 3 – Good Governance

3.3 To provide responsible and accountable governance and management of the EMRC

FINANCIAL IMPLICATIONS

10 Nil

SUSTAINABILITY IMPLICATIONS

11 Nil

RISK MANAGEMENT

Risk – The EMRC is required to ensure that all risks are reviewed, monitored and controlled on a regular basis		
Consequence	Likelihood	Rating
Moderate	Likely	High
Action/Strategy		
➤ Council to note the update on the status of the Council's risk management objectives.		



MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	Nil
City of Bayswater	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. Current risk management profile (D2022/24768)

VOTING REQUIREMENT

Simple Majority

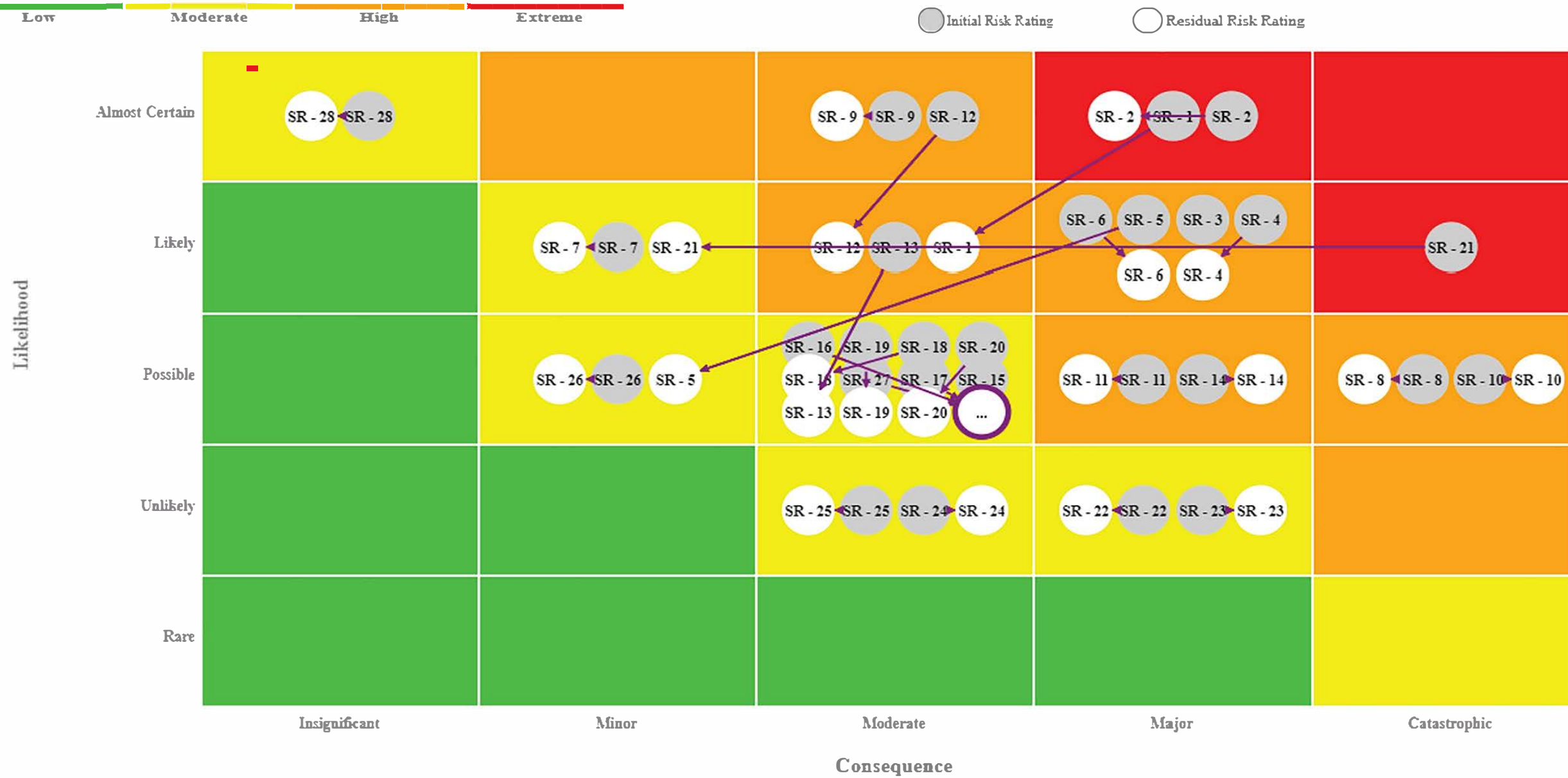
RECOMMENDATION(S)

That Council notes the update on the status of the Council's risk management profile.

AC RECOMMENDATION(S)

MOVED

SECONDED



Risk Code	Risk Title
SR - 10	WWTE (Pyrolysis) Project underperformance
SR - 9	Odour, noise, dust and traffic complaints
SR - 18	Capex project objectives/targets not achieved
SR - 24	Light vehicle or pedestrian interaction with heavy equipment
SR - 13	Cyber attack
SR - 25	Fraudster changing a Creditor's bank account details
SR - 1	Excessive Employee Benefits leave liability
SR - 21	Employment related litigation
SR - 19	Licencing conditions breach
SR - 3	Ineffective Operational Reporting (timely and relevant)
SR - 12	By-passing established Tender or Procurement procedures
SR - 20	Lack of interest from Member Councils regarding Sustainability Programs
SR - 16	Injury to Operational Field Officers
SR - 8	Inadequate leachate control
SR - 5	Legacy issues restricting innovation and performance
SR - 14	Poor Stakeholder Engagement
SR - 23	Methane gas explosion
SR - 4	Over-use of single-source suppliers
SR - 28	Large numbers of Ibis and Pelicans scavenging on open tip face
SR - 22	Sub-surface landfill fires
SR - 7	Reduced Grant Funding
SR - 26	No scheduled maintenance program for all buildings
SR - 17	Covid-19 Infection
SR - 27	Intentional activities in excess of delegated authority (PID Officer)
SR - 6	Under/poor performance
SR - 11	Fire in operational sites
SR - 2	Inadequate succession planning
SR - 15	By-passing established administrative (non-financial) procedures

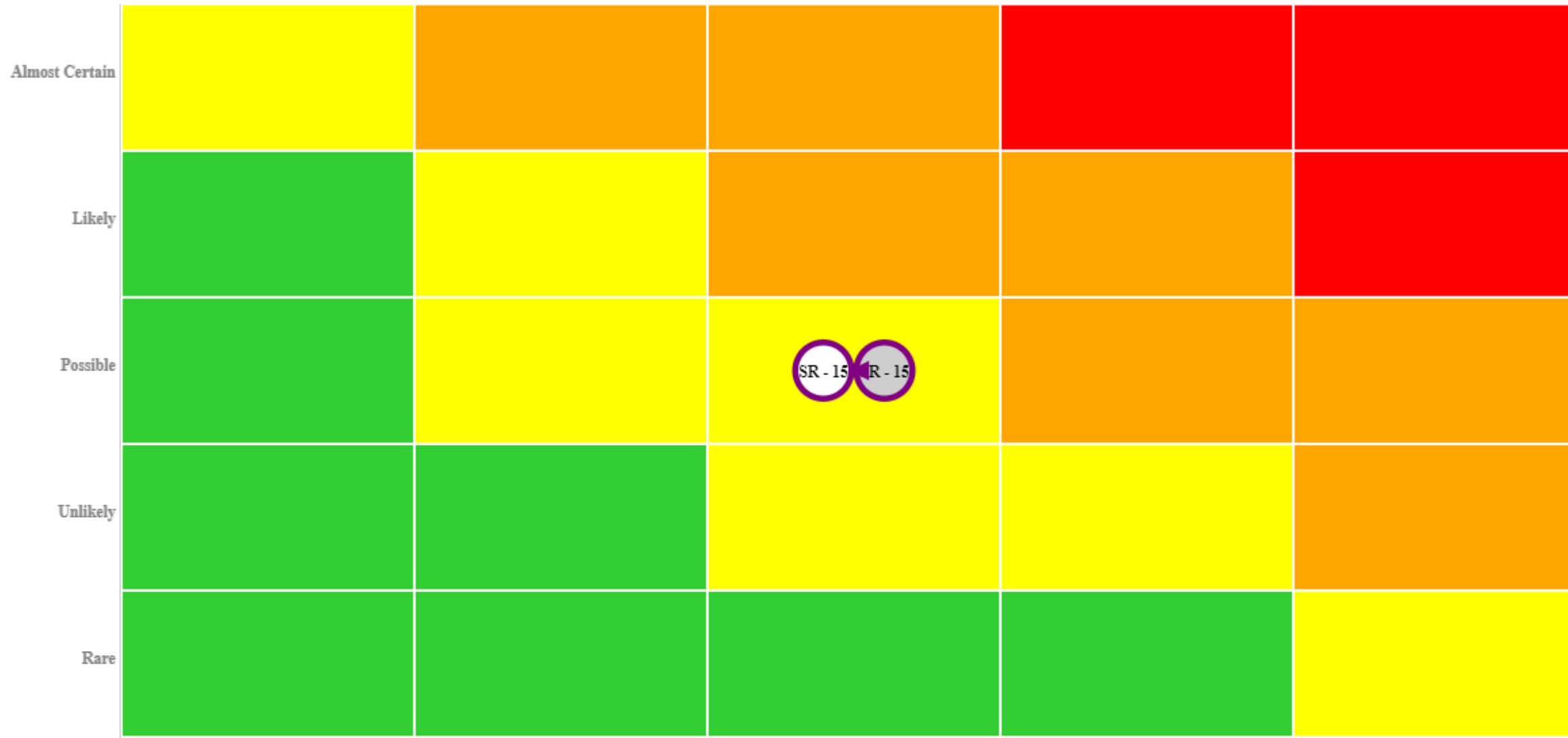


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Initial Risk Rating

Residual Risk Rating

Likelihood



Almost Certain

Likely

Possible

Unlikely

Rare

Insignificant

Minor

Moderate

Major

Catastrophic

Consequence

Risk Code	Risk Title
SR - 15	By-passing established administrative (non-financial) procedures

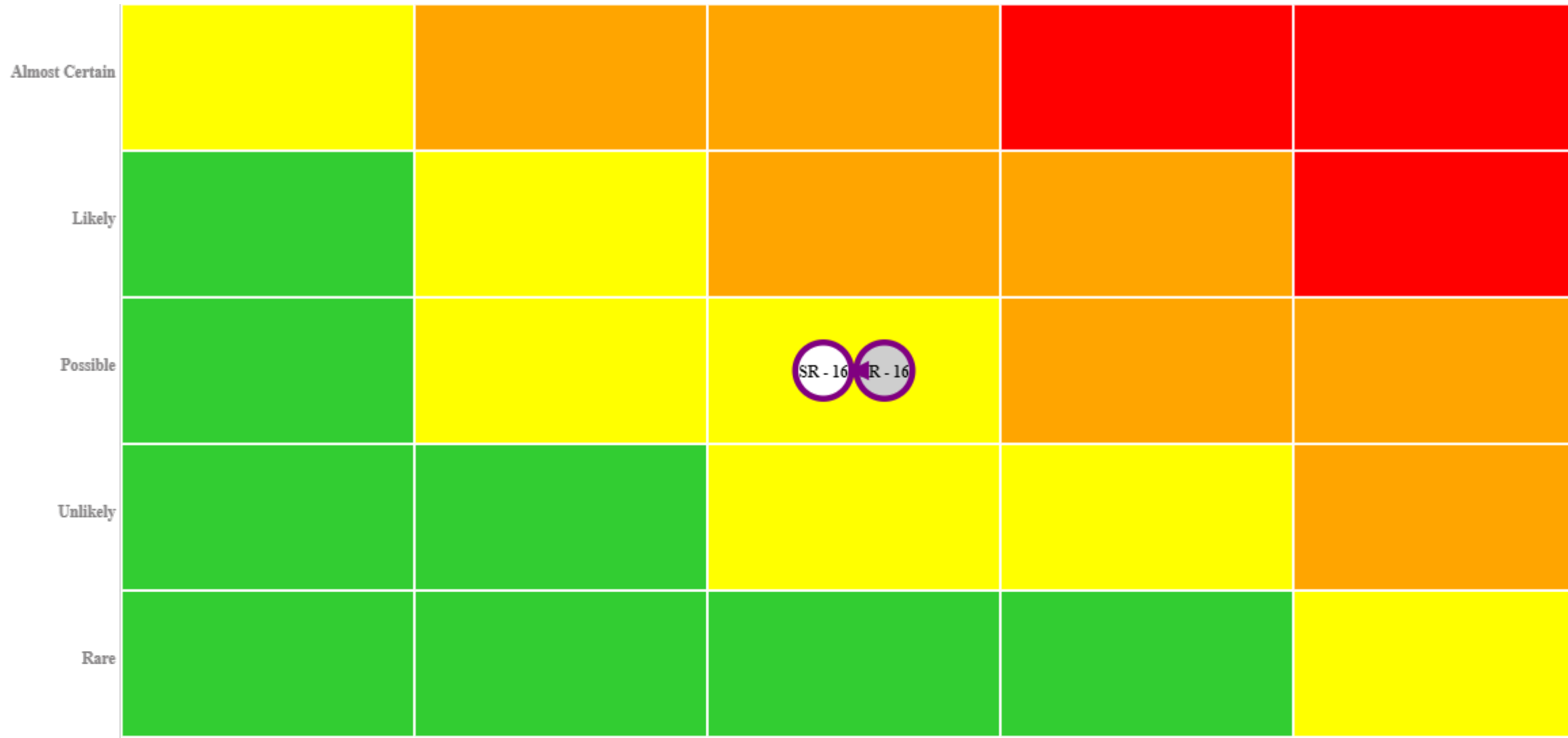


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Initial Risk Rating

Residual Risk Rating

Likelihood



SR - 16 R - 16

Consequence

Risk Code	Risk Title
SR - 16	Injury to Operational Field Officers

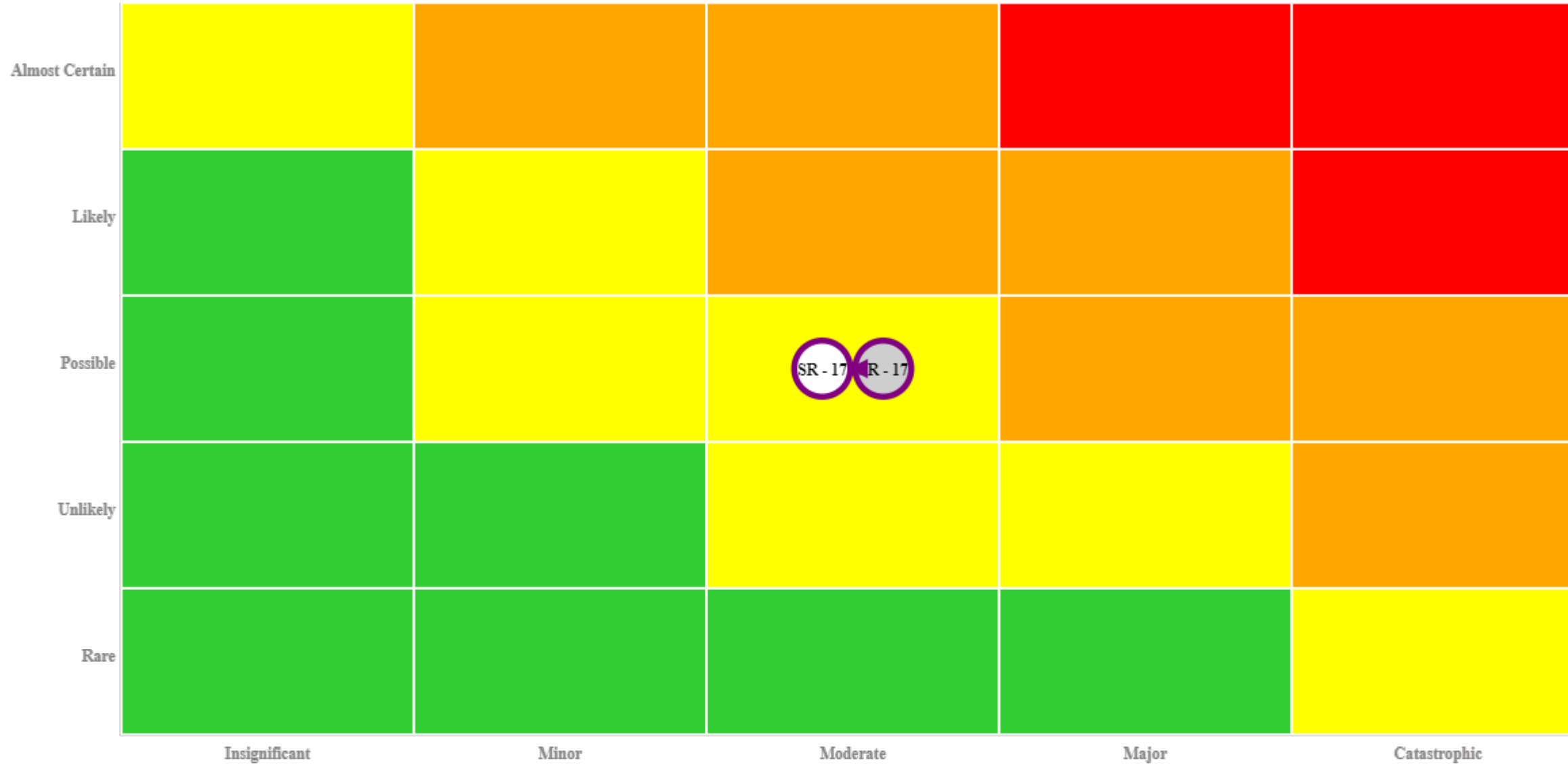


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Initial Risk Rating

Residual Risk Rating

Likelihood



Consequence

Risk Code	Risk Title
SR - 17	Covid-19 Infection

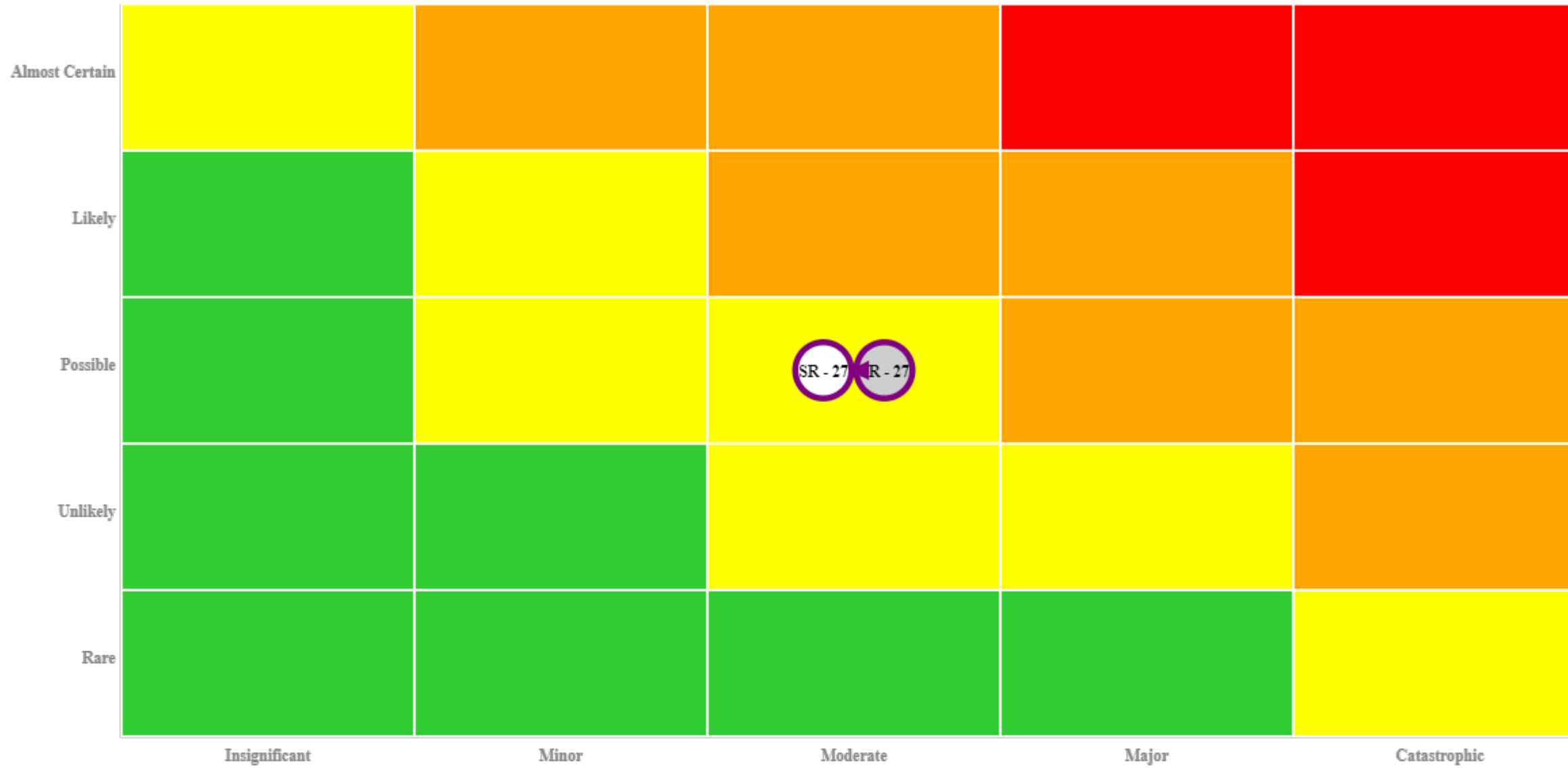


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Initial Risk Rating

Residual Risk Rating

Likelihood



Consequence

Risk Code	Risk Title
SR - 27	Intentional activities in excess of delegated authority (PID Officer)



11.5 CYBER SECURITY IN LOCAL GOVERNMENT

D2021/24766

PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee (AC) a report by the Office of the Auditor General (OAG) on Cyber Security in Local Government.

KEY POINT(S)

- The OAG issued a report on Cyber Security in Local Government on 24 November 2021.
- The report is an audit of a sample of 15 local government entities and whether they manage cyber security risks and respond to cyber threats effectively.
- The EMRC has engaged its Internal Auditors to conduct an internal review of EMRC systems benchmarking against the expectations identified in the OAG report.
- The review is currently in progress and will be tabled at a future AC meeting.

RECOMMENDATION(S)

That Council notes this report including the OAG report on Cyber Security in Local Government.

SOURCE OF REPORT

Chief Financial Officer

BACKGROUND

- 1 Local Government (LGs) entities are increasingly using online services to conduct business and connect with their communities. This brings about increased risks including the risk of cyber-attack.
- 2 The number of cyber-attacks across government has increased notably during the COVID pandemic.

REPORT

- 3 The OAG *Report 9 Cyber-Security-in-Local-Government* was released on 24 November 2021.
- 4 Key findings of the report were:
 - Most LGs did not have effective cyber security policies and procedures;
 - Most LGs did not manage all their cyber risks;
 - Most LGs conducted cyber security awareness training, but remain at significant risk;
 - LGs did not address vulnerabilities in a timely manner; and
 - LGs need to improve their response and recovery strategies.
- 5 It is noted that the OAG Report has raised the bar regarding the expectation of how LGs manage and respond to cyber security.



- 6 While the EMRC has in place cyber security measures and infrastructure, it is timely that the EMRC review them in light of the OAG report and the cyber expectations.
- 7 The EMRC has engaged its internal auditors, Stantons, to conduct a review and assessment of our systems and infrastructure against these new expectations and benchmarks.
- 8 It is also intended for the review to identify gaps which may require addressing against the tolerable risk levels.
- 9 It is anticipated the report will be finalised and presented to the June 2022 round of meetings.

STRATEGIC/POLICY IMPLICATIONS

- 10 Key Result Area
- 3.3 To provide responsible and accountable governance and management of the EMRC
- 3.4 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

- 11 Nil

SUSTAINABILITY IMPLICATIONS

- 12 Nil

RISK MANAGEMENT

Risk – Risk of a successful cyber-attack which could compromise EMRC operations.		
Consequence	Likelihood	Rating
Moderate/High	Likely	Moderate/High
Action/Strategy		
➤ Identify and address shortfalls in the EMRC's Cyber Security framework and infrastructure.		

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	Nil
City of Bayswater	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

OAG Report-9 Cyber-Security-in-Local-Government. (D2022/03039)

VOTING REQUIREMENT

Simple Majority

**RECOMMENDATION(S)**

That Council notes this report including the OAG report on Cyber Security in Local Government.

AC RECOMMENDATION(S)

MOVED

SECONDED

Western Australian Auditor General's Report



Cyber Security in Local Government



Report 9: 2021-22
24 November 2021

**Office of the Auditor General
Western Australia**

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We can deliver this report in an alternative format for those with visual impairment.

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Cyber Security in Local Government

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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

CYBER SECURITY IN LOCAL GOVERNMENT

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This audit assessed if a sample of 15 local government entities manage cyber security risks and respond to cyber threats effectively.

I wish to acknowledge the entities' staff, my Information Systems Audit team, and the staff and students at Edith Cowan University's Security Research Institute for their cooperation and expertise with this audit.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
24 November 2021

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Auditor General's overview

Western Australian local government (LG) entities are increasingly using online services to connect with their communities and conduct government business. Alongside the many benefits that arise from this digital connectivity are just as many, if not more, risks. None more challenging than the attempts of cybercriminals to gain unlawful access to government systems and information, disrupting supply chains and services. The number of cyber-attacks across government rose sharply during the COVID-19 pandemic and will continue to present challenges for governments who are entrusted with citizen information and ongoing delivery of essential services.



LG entities use key systems to deliver services to their communities and in doing so collect and store vast amounts of information about their residents and operations. This information is attractive to cybercriminals. LG entities need to understand and mitigate their cyber security risks. In doing so, entity capability and public confidence in digital initiatives and government processes will be strengthened.

This report summarises important findings and recommendations from our cyber security audit at 15 LG entities. Through our examination of control frameworks and ethical simulated cyber-attacks (ethical hacking), we found that LG entities had not managed their cyber security risks well. Out-of-date software accounted for a large number of cyber security vulnerabilities and despite staff awareness training, over half of the audited LG entities did not have controls to prevent their staff falling victim to social engineering attacks (for example phishing emails). Most of the LG entities we audited also lacked appropriate incident response and recovery plans to respond to cyber security incidents and recover key systems. LG entities must fix these weaknesses and improve their cyber security maturity.

LG entities should give regard to good practice principles in the Australian Government Information Security Manual and the Essential Eight controls to protect systems and information. While remediations will require an investment of time and money, support from senior management is equally important to uplift cyber security maturity. We have included recommendations and better practice guidance at Appendix 1 to help entities manage and address their cyber risks.

It was encouraging to see that most of the audited LG entities addressed some of our findings during the audit. All State and LG entities should take note of the findings and recommendations in this report.

Introduction

In this audit we assessed if a sample of 15 Western Australian LG entities manage cyber security risks and respond to cyber threats effectively. Appropriate management and response make it harder for cybercriminals to infiltrate LG entity networks to disrupt and compromise the confidentiality, integrity and availability of their systems and information.

LG entities manage vast amounts of operational information as well as personal information about their staff and communities. It is important that key systems and information are protected from internal and external malicious attacks. Cyber security is an essential part of that protection.

We have anonymised weaknesses and graphics throughout this report so as not to compromise the security of systems and information at the LG entities we audited.

Background

Australian government entities and organisations are constantly targeted in cyber-attacks aimed to unlawfully obtain information and disrupt essential services. The Australian Cyber Security Centre received over 67,500 reports of cyber security incidents in 2020-21, an increase of nearly 13% from the previous year. Government entities accounted for 35% of these incidents. Self-reported losses from cybercrime totalled more than \$33 billion.¹ Earlier in 2021 cyber security incidents disrupted the Western Australian Parliament's emails² and Queensland's essential healthcare services.³ Cyber security is one of the most significant issues facing organisations worldwide.

To manage their cyber security risks, we expected LG entities to have:

1. a cyber security policy and framework
2. a cyber security incident response plan
3. processes to manage cyber risks
4. cyber security awareness training for employees
5. intrusion detection and prevention systems
6. processes to manage technical vulnerabilities
7. a disaster recovery plan
8. a business continuity plan.

During the audit, we examined policies and procedures and carried out black box⁴ simulated cyber-attacks and sent test phishing emails to assess LG entities' cyber security controls and defences. These approaches simulated real outside-in scenarios and without inside knowledge of the LG entities. The phishing emails contained non-malicious links designed to collect basic information, if opened, such as the network, user and operating system details. LG staff were then redirected to a website that asked for their username and password. We tested if entity controls could prevent phishing emails and whether appropriate security

¹ <https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020-21> (current as at 22/11/2021)

² <https://www.abc.net.au/news/2021-03-17/wa-parliament-targeted-cyber-attack/13253926> (current as at 22/11/2021)

³ <https://ia.acs.org.au/article/2021/australian-hospitals-hit-by-cyber-attack.html> (current as at 22/11/2021)

⁴ The black box approach is used to simulate a real world scenario where tests are undertaken without any inside knowledge of the organisation's IT environment or systems.

awareness programs were in place. We destroyed all usernames and passwords collected during the testing.

We engaged the Security Research Institute at Edith Cowan University to assist us with the audit and acknowledge our long-standing relationship with them. Publicly available tools and resources (such as LG entity websites, professional networking sites and news articles) were used to map the LG entities' cyber footprints and to identify staff email addresses and potential weaknesses in the LG entities' systems and networks.

Conclusion

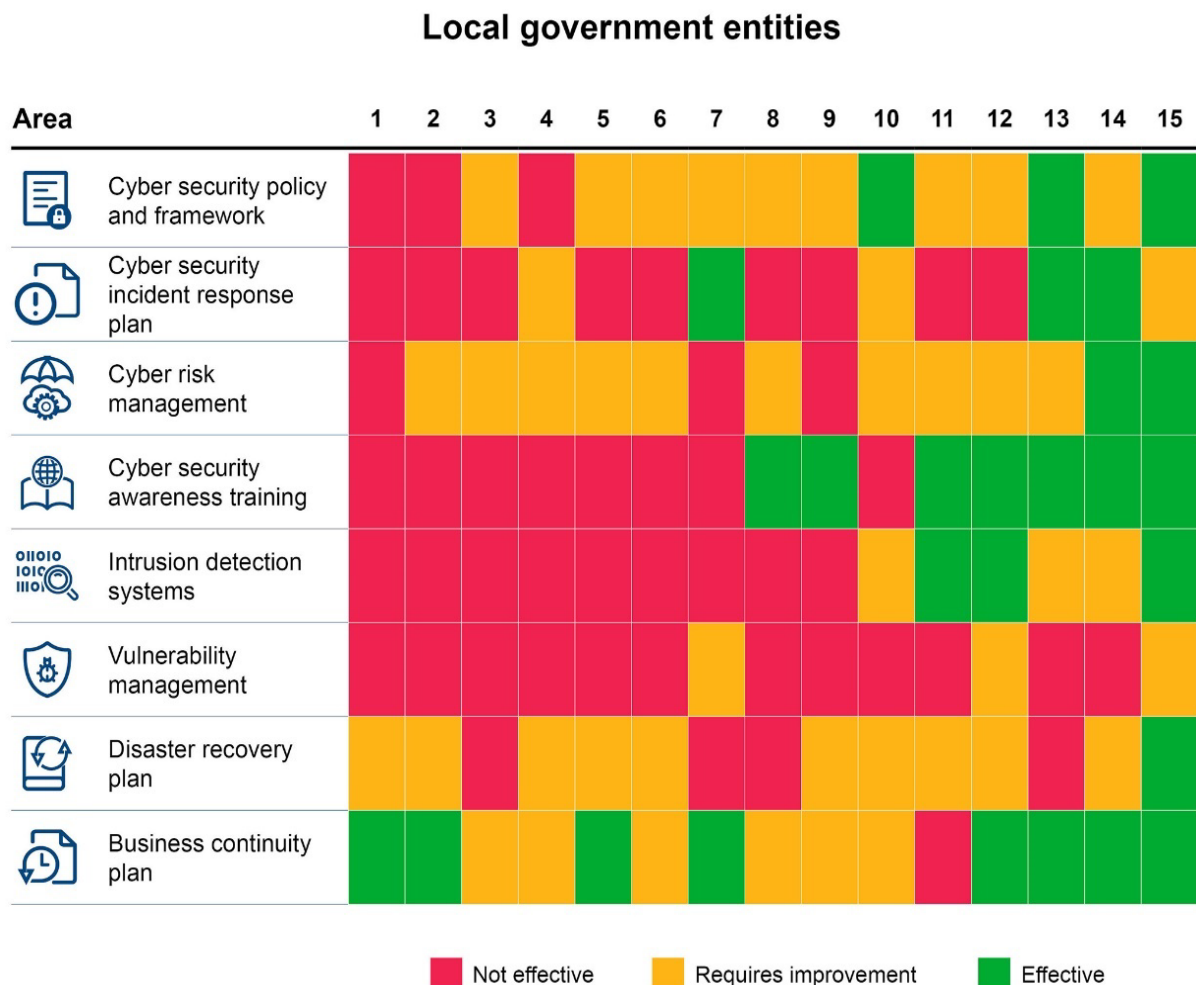
LG entities need to improve their management of cyber risks and response to cyber threats. Most did not have current and complete cyber security policies and processes to help them manage the risks and effectively respond.

Despite LG entities providing cyber security awareness training for employees, staff at 8 of the 15 audited LG entities accessed links and, in some cases, provided their credentials (username and password) in response to our test phishing emails. Technical controls to prevent phishing emails, coupled with focussed training to remind staff of their obligations and cyber security risks, would help LG entities manage these risks.

LG entities did not have appropriate mechanisms to detect and respond to cyber security incidents and their systems and networks were vulnerable because of out-of-date software. Nine of the 15 audited LG entities did not detect or respond to our simulated cyber-attacks, and those that did still needed to improve their processes.

What we found

Figure 1 summaries our findings for the 15 audited LG entities. We have anonymised the findings so as not to expose those LG entities with weaknesses to cyber-criminals.



Source: OAG

Figure 1: LG entity findings for key audit areas

Most LG entities did not have effective cyber security policies and procedures

Only 3 LG entities had adequate cyber security policies to govern and manage cyber security. Nine LG entities had policies that were out of date or did not cover important areas. The remaining 3 LG entities did not have a policy or framework. Without policies that clearly outline the principles and expectations of systems and employees, entities are at higher risk of compromise by cyber threats. This may result in financial loss, reputational damage or disruption to the delivery of important services to their communities.

LG entities need to support their cyber security policies with good practice procedures and controls. Good practice principles, such as the *Australian Government Information Security Manual*⁵ and the Australian Cyber Security Centre's Essential Eight⁶ mitigation strategies, provide useful guidance on how to protect systems and information from cyber threats. LG

⁵ <https://www.cyber.gov.au/acsc/view-all-content/ism> (current as at 22/11/2021)

⁶ <https://www.cyber.gov.au/acsc/view-all-content/essential-eight> (current as at 22/11/2021)

entities should give regard to these principles when implementing their cyber security policies.

We identified important areas that were not defined in most of the audited LG entities' policies or procedures. These included:

- **cyber security responsibilities** to manage cyber security risks had not been clearly assigned
- **end-point security** requirements to secure devices were not established (for example anti-malware controls, hardening, and encryption)
- **access management** requirements and responsibilities to request, grant, review, and revoke access to key systems had not been defined
- **authentication requirements** to access systems had not been established or minimum requirements had not been enforced (for example password composition and multifactor authentication)
- **application controls** to ensure that only allowed applications can run on devices had not been established
- **information and system backups** to regularly backup systems and information had not been defined
- **system monitoring** to detect and respond to malicious behaviour and system events had not been established.

Most LG entities did not manage all their cyber risks

Only 2 LG entities had identified all their cyber risks, and 3 had not identified any. Ten LG entities had considered some, but not all, of their cyber risks. If LG entities are not aware of their cyber risks, they cannot mitigate them. This exposes them to higher risk of compromise which may adversely impact their business plans and objectives.

Risks that LG entities did not consider include:

- malware and ransomware
- data breaches
- unauthorised access to systems or networks (external hack)
- theft of IT devices
- third-party supply chain / cloud risks.

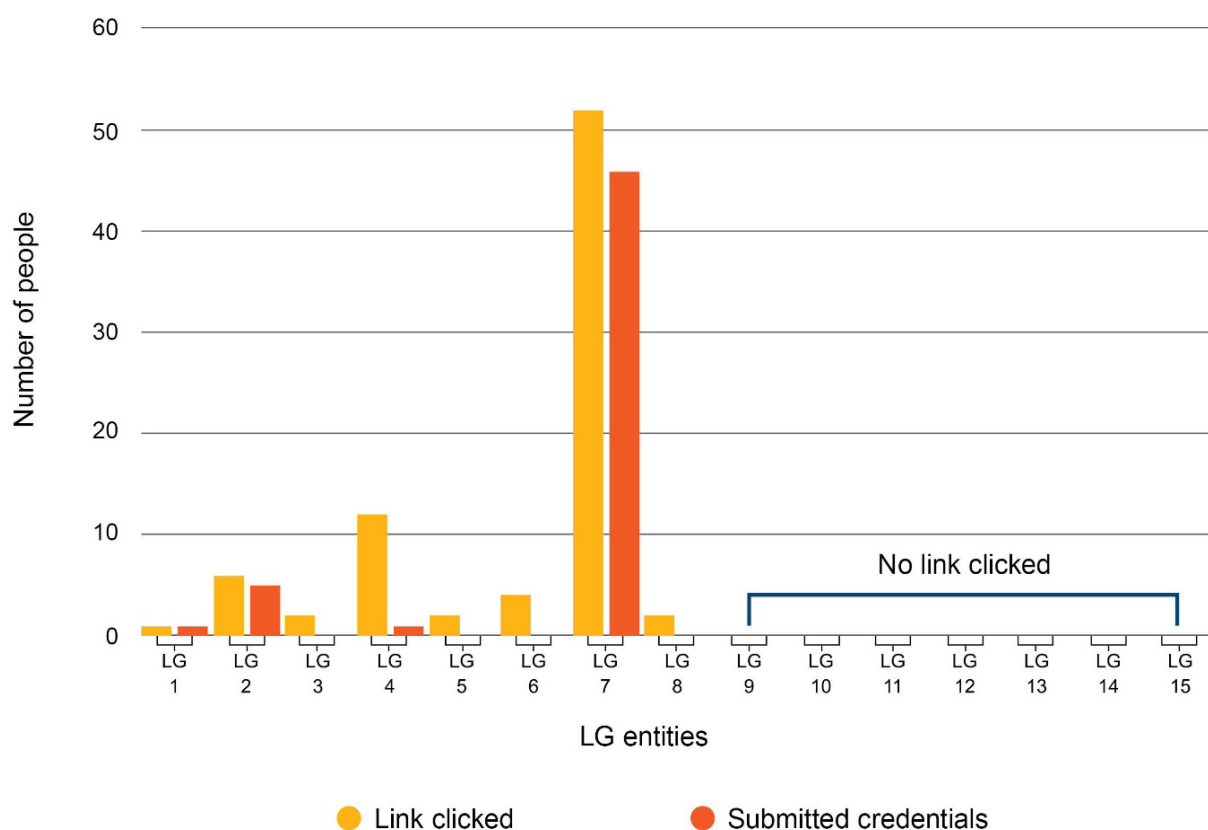
Case study 1: LG entities had not identified the risks of email compromise from external breaches

Staff might use their work email address and the same or a similar password to sign up for personal or work-related third-party services (such as Dropbox and LinkedIn). We found that all of the audited LG entities had one or more of their emails listed in historic external breaches. Ten LG entities did not have a process in place to know if their email addresses or domain appeared in external breaches and the risks this posed to them. Cybercriminals could use information from these beaches to gain unauthorised access to LG email accounts to commit fraud. Without clearly defined expectations of staff and processes to know if such incidents occur, LG entities are at higher risk of cyber security breaches.

In one publicly reported private sector example, an Australian organisation suffered reputational and financial damage after cybercriminals gained unauthorised access to the organisation's email account and used the access to send false invoices. While most of the \$8.7 million paid by the organisation to the cybercriminals was recovered, the organisation declared bankruptcy after it could not sustain operations due to the reputational damage from this cyber breach.⁷

Most LG entities conducted cyber security awareness training, but remain at significant risk

Awareness programs alone will not protect LG entities from cyber-attacks. We found staff from 8 LG entities (7 with training in place, 1 without) clicked on the links in our test phishing emails and, in some cases, submitted their credentials (username and password) (Figure 2). This type of information can be used to compromise key systems or deliver malware to maintain long-term access into entity networks.



Source: OAG

Figure 2: Number of people who responded to test phishing emails at each LG entity

Cyber security awareness programs should be ongoing and focus on current trends (for example soft skills to counter cyber-attacks that exploit human behaviour). Further, if awareness programs are overly technical, individuals will not understand the cyber risks posed to their entity and their personal responsibilities. Entity systems and information can be compromised by one individual clicking on one malicious link.

⁷ <https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020-21> (current as at 22/11/2021)

In 2020-21, phishing attacks was 1 of the highest categories for cyber incidents.⁸ Our black box test exercise found LG entities were at significant risk from these attacks.

Case study 2: Forwarded email increased the number of people who accessed the link and gave their credentials

At 1 audited entity, 4 staff clicked on the link in our test phishing email and 2 submitted their credentials. One of the 4 staff forwarded our test email to other staff and external contacts who were not part of our initial target list. This resulted in an additional:

- 29 staff clicking the link and providing their credentials
- 15 external contacts clicking the link and providing their credentials
- 4 who clicked the link but did not provide any credentials.

This case study shows that people generally trust and are more likely to respond to emails from known contacts. Regular and up-to-date cyber security awareness training and controls to detect and prevent phishing emails are important to combat such attacks.

LG entities did not address vulnerabilities in a timely manner

We found that only 3 audited LG entities had a process to manage vulnerabilities⁹ and none of these were fully effective. We expected LG entities to have timely processes to address vulnerabilities.

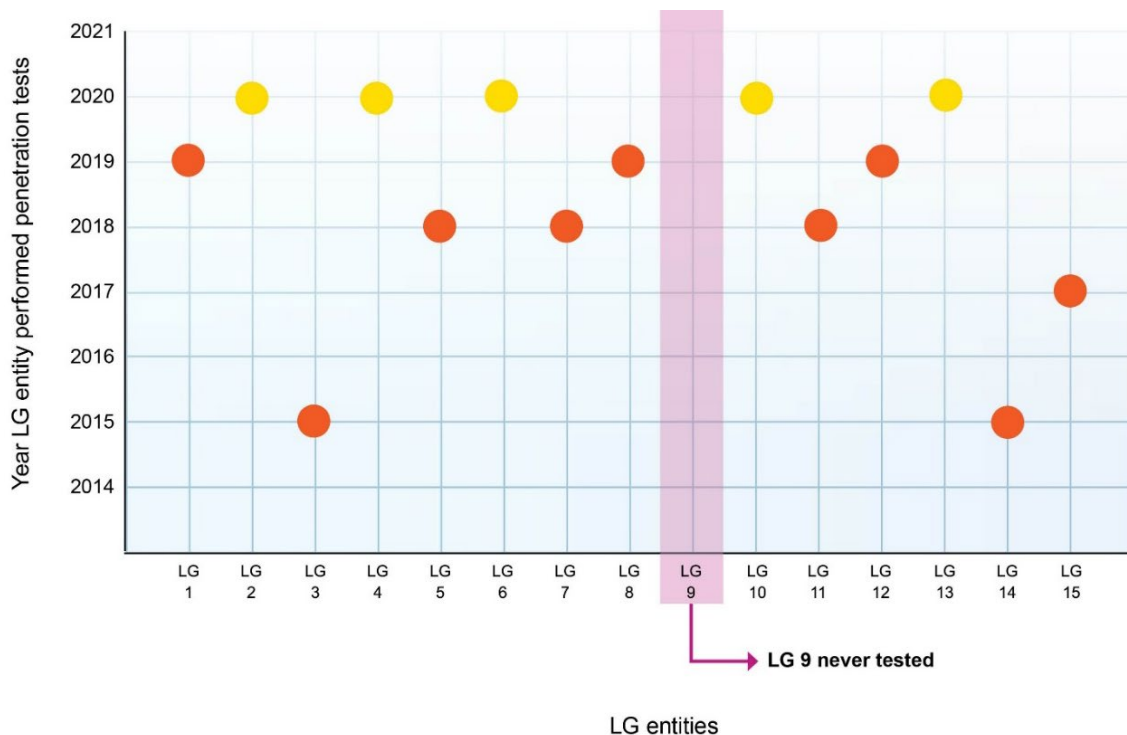
State sponsored actors and cybercriminals exploit vulnerabilities to disrupt and compromise systems. For example, using specially crafted malware that bypasses basic security controls. The Australian Cyber Security Centre observed that in some cases, known vulnerabilities were exploited within hours after they are made public.¹⁰ Vulnerabilities can be due to things such as flawed, misconfigured and unpatched software, misconfigured devices, and poor security controls.

Only 5 audited LG entities had recently tested (penetration tests) the effectiveness of their security controls which protect them from cyber-attacks. Two LG entities had not conducted tests since 2015 (Figure 3) and 1 had never tested. LG entities are at higher risk of compromise if they do not identify and address weaknesses.

⁸ <https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020-21> (current as at 22/11/2021)

⁹ Vulnerabilities are weaknesses that can be exploited by cybercriminals to compromise systems and information.

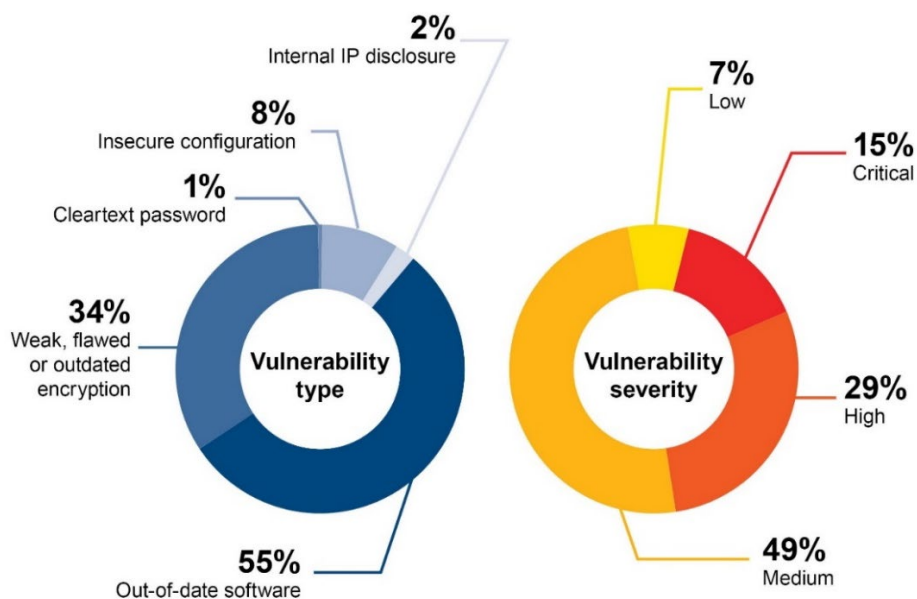
¹⁰ <https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020-21> (current as at 22/11/2021)



Source: OAG

Figure 3: Entities' most recent network penetration tests

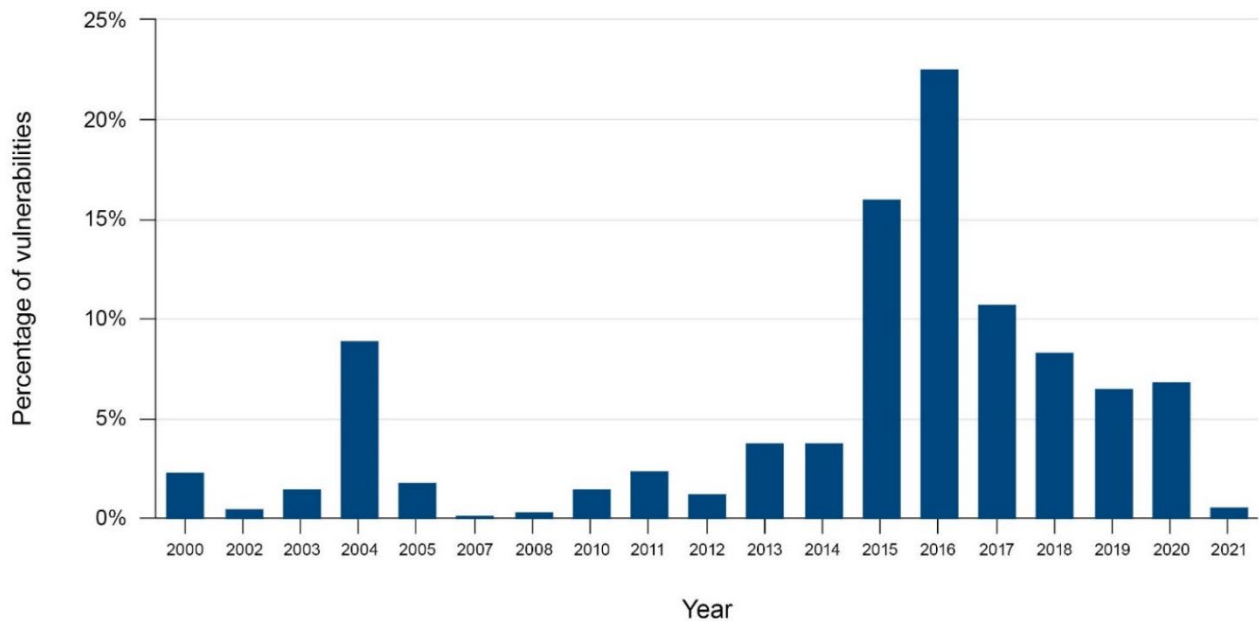
We tested the audited LG entities' publicly accessible IT infrastructure and found vulnerabilities of varying types, severity and age. The vulnerabilities included disclosure of technical information, out-of-date software, flawed or weak encryption, insecure software configuration and passwords sent in cleartext over the internet. Out-of-date software accounted for most of the vulnerabilities identified (Figure 4). Forty four percent of vulnerabilities were of critical and high severity, with a further 49% of medium severity. Known critical and high severity vulnerabilities are generally easy to exploit and expose LG entities to increased risk of compromise.



Source: OAG

Figure 4: Type and severity of vulnerabilities

Most vulnerabilities were older than 12 months, with some dating back over 15 years (Figure 6). LG entities need a process to address vulnerabilities in a timely manner if they are to reduce the risk of disruption to services and systems from cyber-attacks.



Source: OAG

Figure 6: Age of vulnerabilities

The following case study shows why it is important for LG entities to identify and fix vulnerabilities in a timely manner.

Case study 3: Out-of-date software and a weak password leaves LG entity websites vulnerable

We found an audited metropolitan LG entity with an active legacy website that it did not know still existed. We identified several vulnerabilities affecting the website including:

- out-of-date software components
- disclosure of server configuration details.

Using the above vulnerabilities, we bypassed authentication to access this legacy site. The site contained historic information on application approvals (such as business names, liquor licence application data, business permit application data, and resident names) and server logs which disclosed further technical information.

This entity also had an old library website which was vulnerable due to a very weak password. We guessed the password and accessed protected parts of the old library website. This access could be used to change the website.

A cybercriminal could post offensive materials on these websites to cause reputational damage to the entity or access sensitive information for inappropriate use.

The LG entity informed us of its intent to decommission the legacy sites.

LG entities need to improve their response and recovery strategies

To effectively respond to cyber-attacks, we expected LG entities to have:

- **cyber security incident response plan** – to assess and respond to cyber security related incidents
- **disaster recovery plan** – to recover key systems from any disaster situation
- **business continuity plan** – to continue the delivery of key services in a disaster scenario and resume normal operations
- **intrusion detection systems** – to detect, alert and prevent cyber intrusions.

Twelve LG entities did not have an effective incident response plan to adequately respond, report and escalate cyber security incidents in a timely manner. This could impact LG entities' key IT systems and services and affect business operations. Most LG entities had a business continuity plan and disaster recovery plan, although some needed to be updated and improved. Testing these plans is also vital to familiarise staff with them and implement improvements as required.

We used basic open-source tools to simulate cyber-attacks on the 15 audited LG entities to test their response strategies. Only 3 LG entities had their systems configured to detect and block our simulated attacks in a timely manner. These LG entities demonstrated an effective response to cyber intrusions to protect their systems and information.

It was concerning that 9 LG entities did not detect nor respond to our simulations, and 3 LG entities took up to 14 days to detect the simulations, and only did so after the simulation intensity increased significantly. These 12 LG entities had intrusion detection systems, but processes were not in place to analyse information generated by the systems in a timely manner. Without these processes, LG entities may not effectively respond to cyber intrusions in time to protect their systems and information.

Recommendations

All LG entities should adopt:

1. cyber security policies aligned to relevant cyber security frameworks and standards, such as the *Australian Government Information Security Manual*
2. processes to identify, understand, and address relevant cyber security risks
3. relevant controls from the Australian Cyber Security Centre's Essential Eight mitigation strategies
4. ongoing awareness raising programs to education staff on cyber security risks
5. technical controls to detect and prevent phishing emails
6. processes to identify and address vulnerabilities affecting their internal and external IT infrastructure
7. appropriate cyber security incident response strategies covering:
 - a. cyber security incident response plan
 - b. business continuity plan
 - c. disaster recovery plan
 - d. technical controls to detect, alert and prevent cyber intrusions.

Response from LG entities

All 15 LG entities reviewed during the audit generally accepted the recommendations.

Appendix 1 – Better practice principles to manage cyber security risks

The following table outlines guiding principles for entities to consider when managing their cyber security risks. This is not intended to be an exhaustive list. Further guidance can be obtained from the Australian Cyber Security Centre (ACSC).¹¹

Guiding principles	
Understand cyber security risks	Identify and assess cyber risks to systems and information and implement appropriate plans to address them.
Develop a cyber security policy	Develop and implement a cyber security policy that aligns with better practice frameworks such as the Australian Information Security Manual.
Regularly test control effectiveness	Regularly test the effectiveness of security controls which protect against cyber-attacks and address vulnerabilities in a timely manner.
Develop response plans	Develop incident response, business continuity and disaster recovery plans to manage and recover from cyber security incidents. Test these plans regularly.
Secure emails	Secure emails with controls such as sender policy framework and domain-based message authentication. Implement controls to detect suspicious emails and attachments (e.g. phishing).
Educate staff	Develop awareness programs that are not overly technical to educate staff on cyber and information security risks.
Intrusion detection	Implement controls to identify and block malicious intrusions.
Protect endpoints	Use application control and modern anti-malware software to protect endpoints from threats, including mobile devices.
Use encryption	Use encryption to protect data from theft. This should apply to data at rest and in movement and include mobile devices.
Limit administrative privileges	Administrators should have separate accounts to perform privileged tasks. These should be regularly reviewed to ensure only appropriate staff have these privileges and that they still require it.
Apply software updates	Implement processes to receive alerts when patches are released by vendors and apply them to applications and operating system software in a timely manner.
Use passphrases	Develop and implement passphrase policies to manage authentication on supported systems.
Multi-factor authentication	Implement multi-factor authentication to protect systems from unauthorised access.
Backup systems and information	Regularly backup and test restoration of systems and information. Protect the integrity of backups in case the primary dataset is compromised or infected with malware.
Harden user applications	Disable or remove unwanted applications and features such as unnecessary browser plugins and software frameworks.
Cyber security monitoring/ situational awareness	Use event data to know what is occurring on your network. Develop processes to receive alerts if accounts, passwords or vulnerabilities related to your entity are disclosed through breaches.
Collaborate	Liaise with key cyber security entities such as the ACSC and their Joint Cyber Security Centre.

Source: OAG

¹¹ <https://www.cyber.gov.au/acsc/view-all-content/publications/strategies-mitigate-cyber-security-incidents> (current as at 22/11/2021)

Auditor General's 2021-22 reports

Number	Title	Date tabled
8	WA's COVID-19 Vaccine Roll-out	18 November 2021
7	Water Corporation: Management of Water Pipes – Follow-Up	17 November 2021
6	Roll-out of State COVID-19 Stimulus Initiatives: July 2020 – March 2021	20 October 2021
5	Local Government COVID-19 Financial Hardship Support	15 October 2021
4	Public Building Maintenance	24 August 2021
3	Staff Exit Controls	5 August 2021
2	SafeWA – Application Audit	2 August 2021
1	Opinion on Ministerial Notification – FPC Arbitration Outcome	29 July 2021

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Office of the Auditor General for
Western Australia

12 REPORTS OF DELEGATES

13 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PRESIDING MEMBER OR BY DECISION OF MEETING

14 CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

Nil

15 FUTURE MEETINGS OF THE AUDIT COMMITTEE

Meetings of the Audit Committee are covered under the Audit Committee Terms of Reference as follows:

“4 Meetings

4.1 The Audit Committee will meet as required at the discretion of the chairperson of the committee and at least three times per year to coincide with:

- a. Approval of strategic and annual plans;
- b. Approval of the annual budget; and
- c. The auditor’s report on the annual financial report.”

Future Audit Committee Meetings 2022

Thursday	7	April	(If Required)	at	EMRC Administration Office
Thursday	5	May	(If Required)	at	EMRC Administration Office
Thursday	2	June		at	EMRC Administration Office
Thursday	7	July	(If Required)	at	EMRC Administration Office
Thursday	4	August	(If Required)	at	EMRC Administration Office
Thursday	1	September	(If Required)	at	EMRC Administration Office
Thursday	6	October	(If Required)	at	EMRC Administration Office
Thursday	3	November	(If Required)	at	EMRC Administration Office

16 DECLARATION OF CLOSURE OF MEETING