




## **MINUTES**

### **CERTIFICATION OF CONFIRMATION OF AUDIT COMMITTEE MINUTES**

**3 SEPTEMBER 2015**

I, Cr Steve Wolff hereby certify that the minutes from the Audit Committee Meeting held on 3 September 2015 pages (1) to (136) were confirmed at a Committee meeting held on 10 March 2016.

  
\_\_\_\_\_  
**Signature**

**Cr Steve Wolff  
Person presiding at Meeting**

## AUDIT COMMITTEE

### MINUTES

3 September 2015

(REF: D2015/08925 )

A meeting of the Audit Committee was held at the EMRC Administration Office, 1<sup>st</sup> Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 3 September 2015**. The meeting commenced at **6:30pm**

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## 1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Chairman opened the meeting at 6:30pm and welcomed Mr Tony Macri and Mr Mit Gudka from Macri Partners as well as Mr James Cottrill from Stantons International.

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

### Councillor Attendance

Cr David Färdig ( <b>Chairman</b> )	EMRC Member	City of Swan
Cr Steve Wolff ( <b>Deputy Chairman</b> )	EMRC Member	City of Belmont
Cr Gerry Pule	EMRC Member	Town of Bassendean
Cr Chris Cornish	EMRC Member	City of Bayswater
Cr Dylan O'Connor	EMRC Member	Shire of Kalamunda
Cr Bob Perks (Deputising for Cr Pilgrim)	EMRC Deputy Member	Shire of Mundaring

### Apologies

Cr Alan Pilgrim	EMRC Member	Shire of Mundaring
Cr Tony Cuccaro	EMRC Member	Shire of Mundaring

### EMRC Officers

Mr Peter Schneider	Chief Executive Officer
Mr Hua Jer Liew	Director Corporate Services
Mr David Ameduri	Manager Financial Services
Mrs Annie Hughes-d'Aeth	Personal Assistant to Director Corporate Services (Minutes)

### Visitors

Mr Tony Macri	Macri Partners
Mr Mit Gudka	Macri Partners
Mr James Cottrill	Stantons International

## 3 DISCLOSURE OF INTERESTS

Nil

## 4 ANNOUNCEMENTS BY THE CHAIRMAN OR PRESIDING MEMBER WITHOUT DISCUSSION

Nil

## 5 PETITIONS, DEPUTATIONS AND PRESENTATIONS

Nil



**6 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

**6.1 MINUTES OF AUDIT COMMITTEE MEETING HELD ON 4 JUNE 2015**

That the Minutes of the Audit Committee meeting held 4 June 2015, which have been distributed, be confirmed.

**AC RESOLUTION(S)**

MOVED CR PULE

SECONDED CR WOLFF

THAT THE MINUTES OF THE AUDIT COMMITTEE HELD ON 4 JUNE 2015, WHICH HAVE BEEN DISTRIBUTED, BE CONFIRMED.

**CARRIED UNANIMOUSLY**

**7 QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN**

Nil

**8 QUESTIONS BY MEMBERS WITHOUT NOTICE**

Nil

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

Nil

**10 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING**

Nil





## 11 REPORTS OF EMPLOYEES

### 11.1 INTERNAL AUDIT REPORT PROGRAMME 2014/2015

REFERENCE: D2015/08927

#### PURPOSE OF REPORT

The purpose of this report is to present the Audit Committee (AC) with the internal audit report of the 2014/2015 internal audit programme.

#### KEY ISSUES AND RECOMMENDATION(S)

- At the September 2011 round of meetings, Council endorsed a four year internal audit programme consisting of 16 auditable areas.
- This year represents the fourth year of the internal audit programme which commenced in May 2015 for the Investment Policies, Taxation, Project Planning and IT Vulnerability Assessment audit areas.
- The internal audit report covering each of the above areas is attached and has been assessed to have demonstrated significant strengths with a minor risk gap identified.

#### Recommendation(s)

That Council notes the 2014/2015 internal audit reports forming attachments 1 and 2 to this report.

#### SOURCE OF REPORT

Chief Executive Officer

#### BACKGROUND

At the Audit Committee (AC) meeting held on 22 September 2011 (Ref: D2014/154361), the Committee endorsed a four year audit programme, which was subsequently adopted by Council at its meeting of 22 September 2011.

The four year programme consisted of:

Auditable Area	Year			
	2011/2012	2012/2013	2013/2014	2014/2015
Contract Management	✓			
IT General Controls	✓			
Payroll	✓			
Procurement	✓			
Accounts Payable		✓		
Corporate Governance		✓		
Grants Management		✓		
Risk Management		✓		
Human Resource Management			✓	



*Item 11.1 continued*

Auditable Area	Year			
	2011/2012	2012/2013	2013/2014	2014/2015
Waste Management			✓	
Accounts Receivable			✓	
Records Management			✓	
Investment Policies				✓
Taxation				✓
Project Planning				✓
IT Vulnerability Assessment				✓

## REPORT

The internal audit programme for this year commenced in May 2015 for the following audit areas, specifically:

- Investment Policies;
- Taxation;
- Project Planning; and
- IT Vulnerability Assessment.

The overall assessments of the quality of management controls for the Investment Policies, Taxation, Project Planning and IT Vulnerability Assessment audit areas reflected significant strengths with EMRC's processes. Minor risk gaps were identified and appropriate remedial actions are being implemented.

The reports for the 2014/2015 internal audit programme are attached.

Arrangements have been made for a representative of the EMRC's internal auditors, Stantons International, to be in attendance at the meeting to give an overview of their findings and address any queries the Audit Committee may have.

## STRATEGIC/POLICY IMPLICATIONS

Key Result Area 4 – Good Governance

- 4.3 To provide responsible and accountable governance and management of the EMRC
- 4.4 To continue to improve financial and asset management practices

## FINANCIAL IMPLICATIONS

The annual budget provides for the internal audit function.



*Item 11.1 continued*

## **SUSTAINABILITY IMPLICATIONS**

The internal audit function assists in ensuring the EMRC remains economically sustainable.

## **MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	} Nil
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

## **ATTACHMENT(S)**

1. Internal Audit Report July 2015 (Ref: D2015/15273)
2. IT Vulnerability Assessment Audit Report 2015 (Ref: D2015/15276)

## **VOTING REQUIREMENT**

Simple Majority

## **RECOMMENDATION(S)**

That Council notes the 2014/2015 internal audit reports forming attachments 1 and 2 to this report.

The Chairman announced that the Internal Audit report was attached for Councillors' review and commented that the report was very positive for two of the modules, being Investments and Taxation. Items identified on the IT Security were being addressed with the EMRC's external supplier and the report had identified improvement opportunities for Project Management within the EMRC.

The Chairman commented that the internal report represented the final year of the current four-year Internal Audit Plan and thanked the Internal Auditors for their contribution over the past four years.

Mr James Cottrill of Stanton's International responded to AC member queries.

## **AC RECOMMENDATION(S)**

MOVED CR CORNISH

SECONDED CR PERKS

That Council notes the 2014/2015 internal audit report forming attachments 1 and 2 to this report.

**CARRIED UNANIMOUSLY**

**Stantons International**

Chartered Accountants and Consultants

# **Eastern Metropolitan Regional Council (EMRC)**

## **INTERNAL AUDIT REPORT**

**August 2015**

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## EXECUTIVE SUMMARY

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### ***Audit Objectives***

The objective of the Internal Audit was to assess the adequacy and effectiveness of EMRC's controls including processes and procedures in relation to the selected auditable areas detailed in the scope section below.

### ***Broad Scope of Work***

The audit was carried out in accordance with the broad agreed scope of works defined as auditable areas. Four auditable areas below were identified, approved and scheduled for audit.

- Investment Policies
- Taxation
- Project Planning
- Vulnerability Assessment(See IT Vulnerability Assessment)

A detailed scope of works is provided in the body of this report under each auditable area heading.

### ***Audit Approach***

Our audit approach included interactive discussions with selected relevant EMRC members of staff to obtain an overview of the audit area under examination. We made direct audit inquiries through scheduled meetings to obtain explanations, documentation, data and spreadsheets. We examined information and data provided through the application of appropriate relevant auditing techniques which supported our audit observations and conclusions. Where our audit observations and conclusions indicated key strengths in any part of the auditable area, we still ascertained if there was any scope for further improvements. The audit approach was independent in nature yet integrated value through using input by all key members of staff who participated.

### ***Overall Observations***

EMRC has continued to demonstrate overall maturity in its controls and business practices. This observation is primarily based on the current auditable areas assessed during this period and our ongoing audit assessment of the entity over a number of years. Our audit identified significant strengths and a minor risk gap for which we have made appropriate recommendations for implementation by EMRC. The identified strengths and identified gap have been summarised below under each auditable area and further detailed in the body of this report.

### ***Identified strengths***

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Our audit has identified key strengths in the auditable areas as detailed below. Despite the identified strengths, there is scope for further business improvements where we found that room for such improvements is warranted.

**Investment Policies**

Overall, investments policy processes have demonstrated to be compliant with legislation, effectively communicated to the relevant staff, and adequately reported and appropriately authorised by the relevant officers.

An appropriate risk assessment process is in place and is understood to be working effectively. In addition, we have identified a strong cash management analysis practice is performed on a daily basis to contribute in offering the best possible return on investments through interest maximisation. While not a requirement from the investments policy per se, it has been identified as good practice performed by the finance and management team.

**Taxation**

EMRC has strong and adequate internal controls in place in relation to tax related matters which are performed by qualified and well experienced staff, allowing EMRC to be compliant with ATO requirements and relevant legislation.

**Project Planning**

EMRC has a very robust approval process in place for project funding and other resourcing. Strategic planning is well documented and it adequately sets the right tone for managing significant projects.

**Identified gaps**

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A gap was identified in relation to Project Planning only. A minor scope for business improvement was identified with regards to the development of a Project Register.

**Project Planning**

Our audit identified inconsistencies in the application and use of Project Planning documentation within EMRC. Waste Services does not complete the Project Plan as part of its project planning process. While this document is identified by the Risk Management Plan as essential with regards to risk identification and management at project level, Waste Services indicated that this was not the current practice. Notwithstanding the absence of the Project Plans, Waste Services projects are appropriately approved and monitored accordingly.

**Conclusion**

Overall, EMRC has demonstrated maturity in all the areas audited despite the gap identified above. Maturity was demonstrated by a number of significant strengths in all audit areas. The control environment is flexible thus providing room for further business improvements. We therefore conclude that EMRC has demonstrated adequacy and effectiveness of controls including processes and procedures in relation to the selected auditable areas detailed above.

**DETAILED REPORT****RISK RATINGS AND INTERPRETATION**

<b>Risks Ratings</b>	<b>Rating Interpretation</b>	<b>Suggested timing of implementing recommendations</b>
<b>CRITICAL</b>	<i>The finding poses a severe risk to EMRC if not appropriately and timely addressed.</i>	<i>Commence remedial action immediately</i>
<b>MAJOR</b>	<i>The finding poses significant risk to EMRC if not appropriately and timely addressed.</i>	<i>Commence remedial action within 3 months</i>
<b>MODERATE</b>	<i>The finding poses less significant risk to EMRC if not appropriately and timely addressed.</i>	<i>Commence remedial action within 6 months</i>
<b>MINOR</b>	<i>The finding poses minimal risk to EMRC if not appropriately and timely addressed, the risk may develop more or cause other risks to develop.</i>	<i>Commence remedial action within 12 months</i>

***We have conducted our review in accordance with the applicable Performance Standards of the International Standards for the Professional Practice of Internal Auditing.***

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**Inherent Limitations**

*Because of the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected.*

*An Audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis.*

*Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.*

*Liability limited by a scheme approved under Professional Standards Legislation.*

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**ACRONYMS AND DEFINITIONS**

Acronyms	Description
<b>ABN</b>	Australia Business Number
<b>ATO</b>	Australian Taxation Office
<b>GST</b>	Goods and Services Tax
<b>BAS</b>	Business Activity Statement

Definitions	Description
<b>Risk</b>	What may go wrong
<b>Finding</b>	A finding is a shortfall against a criteria which poses a possible risk to the entity for which audit recommendations need to be developed
<b>Business Improvement</b>	Comes about when there are no shortfalls that pose a possible risk to the entity but indicate an opportunity to do better exists
<b>Strengths</b>	Performance(s) that meet and or exceed expectations when assessed against an audit criteria

## DETAILED AUDIT ASSEMENT

The key observations listed in the Executive Summary above, have been detailed below under each auditable area.

### 1.1 Investment Policies

Audit reviewed the adequacy of EMRC's processes to ensure that budgeting procedures are operating as intended to ensure information is reliable and timely, and controls over Investment Policies are adequate. The audit focused on the following aspects of Investment Policies:

- Investments processes
- Adequacy and frequency of reporting
- Compliance with legislation governing investments policies
- Authorisation by Council
- Effectiveness of communication to users
- Review of investments' compliance with EMRC policy
- Risk assessment process.

Our assessment of the above, took into account the legislative requirements with regards to investments. The Local Government (Financial Management) Regulation 1996 is explicit in its requirements with regards to investments within local government. Relevant to our audit was sections r.19 (1) and r.19 (2) which have the following requirements:

*(1) A local government is to establish and document internal control procedures to be followed by employees to ensure control over investments.*

*(2) The control procedures are to enable the identification of —*

- (a) the nature and location of all investments; and*
- (b) the transactions related to each investment.*

While we assessed investment policies against the specified criteria above, our audit also performed detailed walkthrough of the investment processes with the accounting staff to validate the application of the Investment Policy requirements and compliance with the fundamentals of the Financial Management Regulation requirements. It was pleasing to note that on completion of the above, the audit did not identify any shortfalls or gaps that exposed EMRC to business risks and requiring audit recommendations. Instead, the following strength was observed:

***EMRC investments policy processes reflect not only compliance with legislation, adequate reporting and effective communication, but also management's good practice***  
**<Strength>**

Through our audit, we were pleased to see EMRC has adequate reporting processes in place, allowing for investment information to be meaningful and received in a timely manner. The existing Investments Policy which has been appropriately authorised by the Council has sufficient detail and is readily accessible to the relevant members of staff.

In addition, we are also satisfied that EMRC has the appropriate processes in place to ensure Council is receiving the best possible return on investment, while complying with the policy. The daily cash management analysis practice performed by the Finance Manager in identifying any excess funds to be transferred to the Maxi Bank Account for the purpose of maximising interests and ensuring returns on funds reflects good and sound management practices with regards to investments.

## 1.2 Taxation

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Audit reviewed the adequacy of EMRC's processes to ensure that tax related processes are operating as intended to ensure information is reliable and timely; and controls over tax related processes are adequate. The audit focused on the following aspects of taxation:

- Determine whether procedures meet the requirements of the respective Acts
- Withholding tax is charged where no ABN is provided
- GST adjustments are in accordance with legislation
- Timely reconciliation of control accounts are performed
- GST is accurately charged against creditor and debtor invoices and creditable supplies
- Creditable and input tax credits are appropriately calculated
- The Business Activity Statement (BAS) is complete, accurate, timely and supported by source documentation.

Our assessment of compliance with Taxation requirements was made against the ATO's requirements with regards to the management of GST. GST is a fixed percentage being 10% on most goods and services. Key to complying with the requirements of the GST by any business entity is the proper accounting which includes processing of goods and services invoices and ultimately disclosing the value of the inputs credits and GST charged to the ATO through lodging an annual GST return (BAS statement)

Our audit assessed the adequacy of the EMRC control environment primarily by identifying the existence of any policies and procedures for managing GST. Our audit identified that EMRC has recently updated its relevant policy and was due for endorsement in the current financial year. Further our assessment of the effectiveness, efficiencies, reliability and integrity of information did not identify any shortfalls.

On completion of the above, audit did not identify any gaps and noted the following strength:

***Strong and effective internal controls in place allowing for compliance with ATO requirements and relevant legislation <Strength>***

EMRC's finance team is qualified and well structured. Proper segregation of duties exists as required and responsible staff are experienced and up to date with tax related legislation (including "A New Tax System (GST) Act 1999" and "Fringe Benefits Tax Act 1986 (Acts)") and ATO requirements.

Our audit assessment has not identified any weaknesses in the processes related to GST withholding taxes. Supporting documentation was available for each audit focus area. The performance and independent review of the monthly GST reconciliations (for the purpose of BAS lodgement) reduces the risks for unexplained variances or errors.

### 1.3 Project Planning

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EMRC carries out its business through the following key EMRC services:

- Waste Services
  - Waste Management
  - Waste Engineering
  - Resource Recovery
  - Environmental Operations
- Regional Services
  - Regional Development
  - Environmental Services
- Corporate Services.

In achieving its objectives under the above service categories, project activities are carried out on a once-off or recurring basis to achieve objectives and drive the EMRC's overall strategies.

Our audit examined EMRC to determine its effectiveness with regards to project Planning:

- Identify the scope for project managers to access expert advice as and when required
- Identify the accuracy and timeliness of project financial reporting
- Identify whether project milestones are approved in accordance with the project plan
- Determine whether the scope of projects is clearly defined and understood
- Assess the effectiveness of project planning
- Provide pro-active advice to enhance the prevention of project risks.

The projects and activities that are undertaken by EMRC are in line with their aims, objectives and overall strategies. Ten-year and five-year financial plans are in place to deliver projects and services. The Corporate Business Plan is an essential management tool designed to ensure that the organisation as a whole is able to deliver on the EMRC's high level priorities. It summarises the services, operations and projects EMRC will deliver over the next five years.

Our audit did not identify shortfalls apart from a gap provided below. We also identified the following strengths:

**EMRC has a very robust approval process in place for project funding and other resourcing <Strength>**

Key strengths were identified with regards to the approval practices of all projects prior to them being initiated and executed. The approval also underpins the allocation of funds and resources for the duration of the projects. Approval levels were identified at both internal process levels and also at stakeholder engagement level for projects which are partly funded by external Councils.

**Strategic planning process identifies and sets the right tone for managing significant projects <Strength>**

Corporate Business Plan which outlines services, operations and projects to be delivered by EMRC in the foreseeable future period and is reviewed annually for relevance. The corporate business plan provides that "planned capital projects in excess of \$100,000 and key projects..." are included as part of the Corporate Business Plan and that the "Corporate Business Plan provides high level information on capital and operating projects planned over the next five years." Projects are also identified under key results areas. Key results areas allow for performance monitoring and ensuring that EMRC is achieving its intended objectives.

### There are inconsistencies in the documentation of Project Planning with EMRC <Weakness>

We examined projects for Waste Services and Regional Services to determine if Project Plan documents were consistently completed. Through interviews of key staff, it was evident that the Project Plan document is in place but is not used consistently to plan for projects. Our audit identified, in our sample that Regional Services projects have all Project Plan documents completed. The Waste Services projects do not have Project Plans completed. Interviews with staff relevant to Waste Services projects indicated that Project Plans are not completed as a standard practice in that area. While this is the case, we identified that projects are still appropriately approved.

Our audit can confirm that the Project Plan document currently in place as observed with the Regional Services Projects is well designed to capture a number of the key project planning requirements. It reflects best practice aspects of project planning. As a result of the above we identified further that EMRC has a very robust Risk Management Framework which is built on the principles of AS/NZS ISO 31000:2009 (ISO 31000).

EMRC Risk Management Plan which forms part of the overall risk Management Framework provides that *"The Risk Register documents the identification, analysis and assessment of risks and the Risk Treatments provide for existing and proposed risk controls and measures. The risk register and associated Risk Treatment Plans will all be entered into and be available from the Risk Management Software. This will also cover new Projects and Programs. Project Plans will contain a section that identified a project risk and outlines how they will be mitigated, treated or avoided"*.

Our analysis of the Waste Services projects selected during the audit revealed that there is no effective and consistent practice of identifying risks and documenting or entering them into the risk register through the Project Plans as required by the EMRC Risk Management Framework. The Risk Management Plan further provides that "those staff directly managing such Projects would be heavily involved in this process". This means that the responsibility to identify project level risks lies with those that are charged with governing such projects until delivery.

<b>Risk</b>	Where the project plans are not consistently completed for all projects there is a risk that project risks may not be adequately identified, mitigated and monitored for the duration of the projects. EMRC Risk Management Framework requires the use of the Project Plans to allow adequate and effective identification of project risks.
<b>Risk Rating</b>	Minor
<b>Recommendations</b>	High risk and those projects that are considered major should have project plans completed.

### Management Comments

As identified in the Risk Management Plan, it is imperative that Project Plans are to be developed by all areas, including Waste Services. At present each major project is reviewed as a stand-alone project and reviewed as part of the budget process. For larger projects,

business cases are developed to assess the financial viability. Additionally, external consultants are also engaged to assist with the development, planning and implementation.

The listing of the projects is currently reflected in two areas where the projects are monitored. As major projects require funding, these projects are identified and adopted as part of the budget process. This in turn is reflected in our financial management system - Synergysoft. Additionally, this is included in our business planning and reporting system – Interplan.

However, it is acknowledged that there is a gap in the consistency in the management of projects and development of Project Plans within Waste Services. The use of Project Plans for all major projects will be enforced.

## Opportunity for business improvement

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### Introducing an organisational wide project register

Currently EMRC utilises Interplan and Action and Task Reports. We were advised that evidently this is one of the best centralised systems for tracking progress actions. Our audit identified that a project register may need to be implemented to list all projects based on the following suggested (but not limited to) project parameters:

- Project Name
- Project Overall Risk Rating
- Project Priority
- Project Approved Amount
- Project Commencement Date
- Project Plan Endorsement
- Project expected Completion date
- Project Actual Completion date.

### Implementing the Project Register Suggested Options

#### Option 1

Enhance Interplan to include specific projects showing the above project parameters. Link Interplan to synergy soft and include budget data and information associated with each project.

#### Option 2

Develop a centralised simple spreadsheet project register with all the projects and including the above parameters. Refer to the project sample in Appendix 1. Option 2 can also be exercised as an interim measure while waiting for the development of option 1 if adopted by EMRC.

#### Associated benefits

A project register, provides a very clear dash board, high level (strategic view) of project status, risks and budgets.

## Appendix 1

### Option 2 – Project Register (Suggested sample based on real EMRC Projects)

Project Ref	Budget Code	Project Name	Project Description	Project Budget	Actual Costs (to date)	Estimated Start Date	Estimated End Date	Actual Start Date	Practical Completion Date	Actual End Date	Project Manager	EMRC Business Unit	Open Status	Project Type/Mgmt Area	Director Responsible	CEO Approved Responsible
		<b>Engineering</b>														
TN 2014-006	(24310/16)	Stage 15 Landfill Cell	Construction of Class III landfill cell	\$ 3,810,000		15/01/2015	30/06/2015	23/01/2015	30/06/2015		Gilbert	EWS	In Progress	Capital	Steve	
2015-10-ST15B	(24310/16)	Stage 15B Landfill Cell	Extension of Stage 15 landfill cell	\$ 1,000,000		-	-	-	-		Gilbert	EWS	Not started	Capital	Steve	
TN 2012-010	(24310/11)	Farm Stage 2 Landfill Cell	Cover/Protection layer	\$ 166,500		2/04/2015	30/06/2015	29/04/2015	N/A		Gilbert	EWS	Ongoing	Capital	Steve	
2015-02-FS3	(24310/13)	Farm Stage 3 Landfill Cell	Clearing, Exploration & Materials Extraction.	\$ 2,000,000		-	18/12/2015	-	-		Gilbert	EWS	Not started	Capital	Steve	
	(24396/00)	Drilling and Bores Installation	Monitoring bores for Farm Stage 3	\$154,000		-	18/12/2015	-	-		Gilbert	EWS	Not started	Capital	Steve	
	(24394/05)	Landfill Litter Fence	Litter fence for Stage 15 landfill cell	\$ 50,000		-	-	-	-		Gilbert	EWS	Not started	Capital	Steve	
TN 2014-008	(24320/02)	Leachate Treatment System	Plant for treating leachate in Class IV Cell	\$ 1,300,000		-	-	-	-		Gilbert	EWS	June Council Meeting	Capital	Steve	
TN 2014-007	(24320/02)	Assisted Evaporation System	Mechanical blowers for leachate evaporation	\$ 350,000		1/04/2015	30/06/2015	4/05/2015	8/05/2015		Gilbert	EWS	Ongoing	Capital	Steve	
	(24320/01)	Landfill Leachate Pond	Evaporation pond for leachate	\$ 500,000		-	-	-	-		Gilbert	EWS	Not started	Capital	Steve	
	(24320/01)	Leachate Ponds Repair Work	Leak detection and fixing	\$ 10,000		2/06/2015	30/06/2015	-	N/A		Gilbert	EWS	Ongoing	Capital	Steve	
TN 2012-002	72862/02	Crush & Screen Lateritic Caprock	Production of ferricrete material	\$ 600,000		19/01/2015	10/06/2015	18/03/2015	7/08/2015		Gilbert	EWS	Ongoing	OpEx	Steve	
2014-10-LGP	72859/06	Fugitive Gas Covers	Landfill gas mitigation at the wells	\$ 5,750		4/05/2015	30/06/2015	4/05/2015	N/A		Gilbert	EWS	In progress	OpEx	Steve	
2015-01-CDR	64310/10	Contour Banks & Rehabilitation Works		\$ 269,135		4/05/2015	30/06/2015	28/05/2015	When obligations discharged and performed		Gilbert	EWS	In progress	OpEx	Steve	
	(24399/10)	Air reticulation Network	Upgrade air supply for pumps	\$ 25,000		2/06/2015	-	-	N/A		Gilbert	EWS	Ongoing	Capital	Steve	
2015-08-C452	(24330/04)	Class IV Landfill Cell Stage 2	Repairs and Upgrade to existing cell	\$ 300,000		-	-	-	-		Gilbert	EWS	Not started	Capital	Steve	
	(24380/00)	Site Drainage and Earthworks	Diversions culverts and drainage control bunds	\$ 500,000		-	-	-	-		Gilbert	EWS	Not started	Capital	Steve	
	(24370/00)	Site Internal Road	Construction of internal road to lot 10	\$ 490,000		-	-	-	-		Gilbert	EWS	Not started	Capital	Steve	



**Stantons International**

Chartered Accountants and Consultants

# **Eastern Metropolitan Regional Council (EMRC)**

## **IT VULNERABILITY ASSESSMENT**

**August 2015**

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## EXECUTIVE SUMMARY

The Eastern Metropolitan Regional Council (EMRC) engaged Stantons International to undertake a review of EMRC's Information Technology (IT) Vulnerability Assessment in line with the Strategic Audit Plan 2012-2014. A separate audit report in relation to the IT vulnerability assessment has been created due to the later timing of the engagement, to improve readability and maintain security over the sensitive contents.

### Audit Objectives

The objectives of the audit were to:

1. Conduct an external vulnerability assessment using no knowledge of the organisation using a set of defined tools
2. Conduct an external vulnerability assessment using detailed knowledge of key devices and services using a set of defined tools
3. Provide pro-active advice to enhance the prevention of malicious attacks to information systems.

### Broad Scope of Work

The scope of this audit included the following:

1. EMRC's web facing / external security controls.

### Audit Approach

The following is an overview of the key testing phases of the engagement:

Phase / Date	Approach
<b>Metadata Assessment</b>	Timing: 16 June 2015 The approach used for testing included the following phase: <ul style="list-style-type: none"> <li>• Single round testing of EMRC key web sites.</li> </ul>
<b>EMRC External Security Testing</b>	Timing: 16 June – 30 June 2015  <u>Scope:</u> <ul style="list-style-type: none"> <li>• EMRC managed devices and services which are visible externally.</li> </ul> <u>The approach used for testing included the following key phases:</u> <ul style="list-style-type: none"> <li>• Walkthrough of architecture with Information Services</li> <li>• Definition of scope of testing and boundaries</li> <li>• Initial discovery</li> <li>• First round external security testing</li> <li>• Second round external security testing (ratification / clarification).</li> </ul>
<b>EMRC Externally Hosted / Managed Web Services</b>	Timing: 18 June – 30 June 2015  <u>Scope:</u>

Phase / Date	Approach
	<p>emrc.org.au perthtourism.com.au rgang.com.au</p> <p><u>The approach used for testing included the following key phases:</u></p> <ul style="list-style-type: none"> <li>• Advise to the provider that testing will be undertaken</li> <li>• Initial discovery</li> <li>• First round web site testing</li> <li>• Second round web site testing.</li> </ul>
<b>Technical Results</b>	A spreadsheet with the technical results of the assessment was provided to Information Services at the conclusion of the fieldwork. This remains a separate document to separate technical details on vulnerabilities and exploits, maintain security and allow the report to be more management focussed.

See Appendix 1 in relation to a detailed overview of the vulnerability assessment methodology and approach.

### Overall Observations

Our audit identified significant strengths with EMRC's implementation of security controls and risks associated with the externally hosted web site services for which we have made appropriate recommendations for implementation by EMRC. The identified strengths and identified gap have been provided below.

The following is a summary of the types of vulnerabilities and potential vulnerabilities identified during the testing processes and the overall area of responsibility (EMRC or externally managed services):

Description of potential vulnerabilities	Instances	Rating	Area of Impact:	
			EMRC	Externally managed services
Unsupported Operating System	1	Major	-	1
Web Server Unsupported / Obsolete	2	Moderate – Major	-	2
Web server Vulnerability	35	Moderate – Major	-	35
Injection Attack to web server	3	Moderate	-	3
Debugging Function Vulnerability	2	Minor	-	2
Information Disclosure Vulnerability	1	Minor	-	1
Information Only / Default Installation Page / Un-configured Web Page	6	Information only	6	-
<b>Total:</b>	50	-	6	44

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**Identified strengths**

---

**EMRC Managed External Security Controls**

Based on the scope and extent of the testing, security controls which are managed by Information Services within EMRC were considered adequate.

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**Identified gaps**

---

**EMRC Externally Hosted / Managed Web Services**

While EMRC managed external security controls were considered adequate per the comments above, externally hosted / managed services had material vulnerabilities and risk exposures. The vulnerabilities are limited to the web sites managed by the provider so are somewhat contained, however defacement, loss of data on the services managed and public facing image are key risks.

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**Conclusion**

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Overall, external security controls which are directly managed by EMRC were considered adequate. There were some minor considerations for Information Services which were not considered to present material risk to EMRC.

Externally managed web services presented a significant number of vulnerabilities including outdated operating systems and unpatched third party software critical for delivery of services.

**DETAILED RESULTS****RISK RATINGS AND INTERPRETATION**

<b>Risks Ratings</b>	<b>Rating Interpretation</b>	<b>Suggested timing of implementing recommendations</b>
<b>CRITICAL</b>	<i>The finding poses a severe risk to EMRC if not appropriately and timely addressed.</i>	<i>Commence remedial action immediately</i>
<b>MAJOR</b>	<i>The finding poses significant risk to EMRC if not appropriately and timely addressed.</i>	<i>Commence remedial action within 3 months</i>
<b>MODERATE</b>	<i>The finding poses less significant risk to EMRC if not appropriately and timely addressed.</i>	<i>Commence remedial action within 6 months</i>
<b>MINOR</b>	<i>The finding poses minimal risk to EMRC if not appropriately and timely addressed, the risk may develop more or cause other risks to develop.</i>	<i>Commence remedial action within 12 months</i>
<b>INFORMATION ONLY</b>	<i>The item is presented for information purposes and does not present material risk. The nature of security testing includes a greater level of information only items to assist management in decision making.</i>	<i>No timing / remedial controls suggested</i>

*We have conducted our review in accordance with the applicable Performance Standards of the International Standards for the Professional Practice of Internal Auditing.*

.....

**Inherent Limitations**

*Because of the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected.*

*An Audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis.*

*Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.*

*Liability limited by a scheme approved under Professional Standards Legislation.*

\*\*\*\*\*

**ACRONYMS AND DEFINITIONS**

Definitions	Description
<b>Risk</b>	What may go wrong?
<b>Finding</b>	A finding is a shortfall against a criteria which poses a possible risk to the entity for which audit recommendations need to be developed.
<b>Business Improvement</b>	Comes about when there are no shortfalls that pose a possible risk to the entity but indicate an opportunity to do better exists.
<b>Strengths</b>	Performance(s) that meet and or exceed expectations when assessed against an audit criteria.
<b>Vulnerability</b>	Considered as a weakness which may allow a potential attacker to impact security of information, operation or performance of IT devices or systems.
<b>Device(s)</b>	In the context of this report, devices are considered computers or virtualised computers providing services visible from the internet.
<b>Host</b>	A device or software program that provides services.
<b>Metadata</b>	In the context of the audit, metadata is data publicly available from the internet which provides varying degrees of useful data / information about the Department's system / users / configurations etc.
<b>Port</b>	When the term port is used, it refers to a logical connection using virtual ports. There are many hundreds of virtual ports used to communicate two different applications over physical hardware. This is a component which IT security staff must strongly manage as these 'ports' are paths that external parties use to connect to specific applications from the Internet and can be exploited if not secured.
<b>Patching</b>	A process which typically involves a piece of software for the purpose of fixing known issues / problems / or updating functionality of a software product. In the context of the audit, patching reduces the potential of vulnerabilities to be exploited.
<b>Third Party Software Applications</b>	For the purpose of the report third party software applications are considered software applications which support delivery of services from a device / host.

## DETAILED AUDIT ASSEMENT

The key observations are divided into the following key areas of the IT vulnerability assessment:

- EMRC managed services and physical sites
- Externally hosted / managed web services.

### 1.1 IT Vulnerability Assessment – EMRC Managed Services

We performed testing in relation to EMRC managed services which included the following locations:

- Head Office
- Hazelmere
- Red Hill.

We noted that testing did impact connectivity, performance and internet services throughout the duration of the fieldwork. On multiple occasions we modified the verbosity (speed and number of concurrent tests) and approach in relation to testing to reduce the impact to IT services within EMRC. The overall timeframes of the engagement were extended to accommodate the slower speed at which we could perform testing. Two devices were not fully assessed due to impacting performance, however, based on the testing we have reasonable confidence that the security configurations were nearly identical to those fully assessed and consider that there is not material risk with the devices. Ongoing discussions throughout the course of the fieldwork outlined that these are known limitations of interconnectivity with sites such as Hazelmere and Red Hill and options to address these are ongoing.

We provided six information only items to Information Services through a spreadsheet supporting this report, the following is an overview of the type of information provided:

Description of potential vulnerabilities	Instances	Classification
Information Only / Default Installation Page / Un-configured Web Page	6	Information only
Information only, default installation pages and un-configured web pages were not considered to present material risk to EMRC and are only provided for greater awareness.		

Based on the testing there were not any material vulnerabilities identified in relation to the EMRC managed devices. We ran additional tools and techniques to confirm and clarify the level of security controls in place within the EMRC. This confirmed a strong emphasis on external security.

### 1.2 IT Vulnerability Assessment – Externally Hosted / Managed Web Services

We performed two key types of testing in relation to web sites hosted and maintained by Cirrena on behalf of the EMRC, these included:

- Metadata Assessment
- External Security Testing.

The scope of the testing included three web sites managed (and associated host) by the service provider Cirrena on behalf of the EMRC, these included:

- emrc.org.au
- perthtourism.com.au



- rgang.com.au.

The following sections below detail the results of the testing.

### **1.2.1 Externally Hosted / Managed Services – Metadata Assessment**

We performed an assessment of publicly available metadata associated with common files uploaded onto EMRC web sites. Metadata testing utilises a tool which downloads files such as Microsoft Word, Excel, PowerPoint and PDF documents and extracts data such as usernames captured when saving the document, software utilised and network file locations.

The scope of the assessment was over the following sites:

Site Assessed	Instances of <u>potential</u> network usernames identified	Classification
emrc.org.au	14	Information only / minor
perthtourism.com.au	8	Information only / minor
rgang.com.au.	No results	--

We note that metadata itself does not present a vulnerability, when combined with other vulnerabilities or potential exposures it can increase the likelihood of security controls being compromised or IT services being impacted.

The following is an overview of the finding:

#### **FINDING**

##### **1. Metadata Assessment – Results**

The following instances of metadata were noted in relation to an assessment of the three key web sites:

Site Assessed	Instances of potential network usernames identified	Classification
emrc.org.au	14	Information only / minor
perthtourism.com.au	8	Information only / minor
rgang.com.au.	No results	--

Results were provided to Information Services during the fieldwork and further discussions were held in relation to the impact of instances. Approximately three quarters of the instances were noted as false positives and did not present risk to EMRC. Approximately one quarter of the results were a valid username of EMRC.

#### **RISK**

***Risk Rating: Minor***

There is an increased risk that:

- Information obtained from the assessment may be used to assist a potential attacker in either a compromise type of attack or disruption to IT services.

Comparatively to other organisations we noted a very low number of instances where metadata was extracted, overall risk is reflective of this.

**RECOMMENDATIONS**

We recommend that:

1. Information Services be aware of sources of Metadata which can be analysed and extracted with a view to enhance policies / processes to include reference or controls to address embedded metadata in documents published online.

**MANAGEMENT COMMENTS**

This matter has been noted. Procedures will be reviewed to include the removal of metadata as part of the process before documents are posted to EMRC web sites.

**RESPONSIBLE OFFICER**

Manager Information Services in conjunction with the Communications Coordinator.

**TARGET COMPLETION DATE**

1 December 2015

**1.2.2 Externally Hosted / Managed Services – External Testing Results**

We performed testing in relation to all three web sites managed and the underlying device / host managed by the external web hosting service provider. The extent of testing was limited to reflect the type of services provided (web services hosting). The following is an overview of the vulnerabilities identified from the testing process:

Description of potential vulnerabilities	Instances	Classification
Unsupported Operating System	1	Major
Web Server Unsupported / Obsolete	2	Moderate - Major
Web server Vulnerability	35	Moderate - Major
Injection Attack to web server	3	Moderate
Debugging Function Vulnerability	2	Minor
Information Disclosure Vulnerability	1	Minor

The above vulnerabilities present isolated risk to the web site and web services managed by the external services provider, this is separate to the management of security by Information Services within EMRC. The following further details the potential vulnerabilities:

**FINDING****2. Vulnerabilities Managed Web Hosting Services****FINDINGS**

The following types of potential vulnerabilities were identified in relation to the externally hosted web sites and underlying host:

Description of potential vulnerabilities	Instances	Classification
<b>Unsupported Operating System</b>	1	Major
Based on the current version of the software obtained from the assessment, the underlying operating system is not currently supported. Typically no security patches to address vulnerabilities are provided in these circumstances.		
<b>Web Server Unsupported / Obsolete</b>	2	Moderate – Major
Based on the version information obtained from external assessment, the software applications used for delivery of the web sites is not supported. Typically security patches are not developed to address vulnerabilities.		
<b>Web server Vulnerability</b>	35	Moderate – Major
Based on the current version of software application which is used for delivering web services there are a number of vulnerabilities due to software not being actively patched and updated.		
<b>Injection Attack to web server</b>	3	Moderate
There were three types of injection attacks that the web server appears to be vulnerable to. Validation of the mechanisms to isolate and identify malicious requests typically is required to be discussed and ratified with the provider of the services.		
<b>Debugging Function Vulnerability</b>	2	Minor
There are instances of functions being available for the delivery of web servers which are for the purpose of debugging / troubleshooting. In isolation this presents minimal risk, however used in conjunction with other potential vulnerabilities identified this poses an overall greater level of risk.		
<b>Information Disclosure Vulnerability</b>	1	Minor
An information disclosure vulnerability cannot be exploited in itself, it typically represents that some minor information can be derived which may assist a potential attacker.		

**RISK****Risk Rating: Major (overall rating)**

There is an increased risk that:

- There is a risk that security vulnerabilities exist on the operating system which may be leveraged by an attacker to deface or compromise the web sites
- Known and published vulnerabilities associated with the unsupported version of the web server and underlying scripting language may be exploited impacting delivery of service, defacement or potentially loss of data
- Vulnerabilities associated with an unpatched system may be exploited to impact delivery of services, defacement or potentially loss of data
- Vulnerabilities associated with injection attacks may be used to impact delivery of service, defacement or potentially loss of data
- Debugging methods utilised in conjunction with other attack methods, increasing the exposure of other potential vulnerabilities
- Information available through information disclosure techniques may be used to assist a potential attacker obtain further information in relation to the Commission's managed systems.

*The model used for security testing for this engagement was that the provider was advised of the testing processes and requested to ensure that access for testing purposes was not blocked. We have considered this approach in the overall security ratings with these findings / recommendations. Additionally, the context and scope of information available on the external web sites was considered in establishing the risk ratings.*

**RECOMMENDATIONS**

We recommend that:

Operating System and Software supporting the Web Server Unsupported / Obsolete:

1. In conjunction with the service provider, determine if the underlying operating system and key software applications for delivery of web services can be upgraded and updated to currently supported products.

Web Server Vulnerability:

2. In conjunction with the service provider, determine if key software applications can be patched and updated to latest versions.

Injection Attack to Web Server:

3. In conjunction with the services provider determine if the scripts and parameters used would be adequately identified and sanitised, typical consideration would include:
  - a. Confirmation whether there are controls to sanitise request which may have malicious injection / code
  - b. Ascertain that the controls are adequate.

*Note: the Nature of the testing being non-destructive, whilst having a very high likelihood that a vulnerability exists was not used to compromise the system. As such providing this information to the provider for further comment and context should be undertaken.*

Debugging Function Vulnerability:

4. In conjunction with the service provider, review the use of the debugging functions and determine if the methods can be disabled without adversely impacting delivery of web services.

Information Disclosure Vulnerability:

5. In conjunction with the service provider, determine if additional filtering of error messages per the results of the supporting spreadsheet should be investigated with the service provider.

**MANAGEMENT COMMENTS**

- a) The company responsible for managing EMRC's external web services will be contacted to perform maintenance on the web services platform to ensure current versions, and regular updates are performed and implemented on an ongoing basis.
- b) A meeting with the external web services provider is to be held to review the controls in place on the web server to:
  - i. restrict the information that can be obtained from error messages,
  - ii. prevent attacks on EMRC's web sites from malicious requests, and
  - iii. identify improvements that can be made to existing controls.

**RESPONSIBLE OFFICER**

Manager, Information Services

**TARGET COMPLETION DATE**

15 October 2015

Based on the types of vulnerabilities identified, common areas of concern with other clients where we have performed these engagements and supported through discussions with Information Services, future iterations of contractual documentation for third party services providers can be improved. Due consideration of documenting baseline security requirements for the provision of external web hosting / management servers and including endorsement of EMRC's fundamental security practices can be further investigated to ensure contractual requirements relating to patching / updates / upgrades and management of security is explicitly defined.

**FINDING****3. CONTRACTUAL CONDITIONS TO ENFORCE SECURITY CONTROLS FOR SERVICE PROVIDERS****FINDINGS**

The vulnerabilities identified throughout the fieldwork should be a requirement of contractual documentation to identify key security controls and processes expected of a services provider. Based on discussions with key staff there is minimal enforcement within the current contractual services agreement with the web hosting / maintenance provider in relation to security controls.

From our experience with ongoing web hosting and maintenance type contracts there is often an exposure in relation to explicitly requiring security patching, maintaining current operating systems and security obligations in general to a service provider.

**RISK**

***Risk Rating: Moderate***

There is an increased risk that:

- Contractual arrangements do not explicitly state core requirements for maintaining security of EMRC data and services which may increase the risk of security vulnerabilities being leveraged for externally managed EMRC content and minimal ability to reference expectations from a contractual perspective.

**RECOMMENDATIONS**

We recommend that:

1. Future contract iterations for web based services or external providers hosting / maintaining EMRC content should include consideration of minimal expectations in security management for services, including:
  - a. Ongoing updates and patching requirements (operating system and third party applications used for the delivery of web services)
  - b. Anti-virus solutions and management
  - c. Periodic status reporting around updates and patching
  - d. Assurances / confirmation of security controls:
    - i. Confirmation of processes devices and controls in place for maintaining security
    - ii. Intrusion detection and prevention functionality (including monitoring)

2. Any relevant and unique requirements of EMRC's Information Security Policy environment be reflected in contractual arrangements with service providers.

**MANAGEMENT COMMENTS**

EMRC will identify security requirements relevant to managing EMRC's external web sites for inclusion in the Service Level Agreement of future maintenance contracts. These requirements will be in alignment with EMRC's Information Security Guideline wherever possible.

**RESPONSIBLE OFFICER**

Manager, Information Services

**TARGET COMPLETION DATE**

31 December 2015

## APPENDIX 1: APPROACH AND METHODOLOGY

We adopted a modified approach / methodology in relation to vulnerability assessment and penetration testing which is detailed below:

### Typical Approach

Our approach was initially clarify the scope, objectives and expected outcomes of the engagement. Further planning in relation to timing was undertaken to ensure that convenient timeframes are established and standards are set for communications and on-going liaison.

COMPONENT	OUTPUT
<b>Approach (General)</b>	<ul style="list-style-type: none"> <li>We utilised a combination of professional and publicly available tools for the purposes of security testing of external security</li> <li>Our general approach is a non-destructive assessment process which involves collaboration with relevant business areas on potential issues. Our testing is typically undertaken during business hours, thorough and transparent. Where confirmation of an issue can be undertaken with minimal risk we will progress to penetration testing to confirm the issue, where there is an increased risk that this may impact services, we will use a more collaborative approach with relevant staff</li> <li>While we are undertaking testing, organisations can use the opportunity to review their logging and alert processes depending on the environment which is being tested</li> <li>Software and processes used for the assessment processes are continually updated.</li> </ul>
-	
<b>External Phase 1</b>	<ul style="list-style-type: none"> <li>Vulnerability testing with no knowledge of the client environment. This includes: <ul style="list-style-type: none"> <li>Assessment of public information</li> <li>Assessment of the external security controls and routing</li> <li>Assessment includes identification of web facing applications and devices</li> <li>Vulnerability assessment of the devices identified</li> <li>Penetration testing / follow up in relation to the devices / services identified</li> </ul> </li> <li>We can confirm that the IP address is located within Australia and under Stantons control. This will be provided as part of the testing processes</li> <li>The only exception to the above is if we are simulating an attack through anonymous proxies / we will notify if this is going to be used.</li> </ul>
-	
<b>Metadata Assessment</b>	<ul style="list-style-type: none"> <li>Metadata assessment, the process involves running a spider and common search engine queries over external web sites managed by the organisation to identify public information which may pose a security risk (there is no risk of impacting availability of systems here as testing is exactly the same as loading public web pages).</li> </ul>
-	
<b>External Phase II (if applicable)</b>	<ul style="list-style-type: none"> <li>Second round of testing with enhanced knowledge of the client environment in conjunction with results from the first phase of testing.</li> </ul>



COMPONENT	OUTPUT
	<p>This includes both vulnerability and penetration testing where applicable:</p> <ul style="list-style-type: none"> <li>○ Assessment of the external security controls and routing</li> <li>○ Assessment includes identification of web facing applications and devices</li> <li>○ Additional services / devices which may not have been apparent in the first phase of testing</li> <li>○ Vulnerability assessment of the devices identified</li> <li>○ Penetration testing / follow up in relation to the devices / services identified</li> </ul> <ul style="list-style-type: none"> <li>• Confirmation of the issues with various areas within the organisation</li> <li>• Further discussions with staff to validate false positives / issues which could not be directly confirmed during the testing.</li> </ul>
-	
<p style="text-align: center;"><b>Internal Assessment (if applicable)</b></p>	<ul style="list-style-type: none"> <li>• Internal security assessment of nominated key devices within the client's network</li> <li>• Typically undertaken through a network port such as those located in offices</li> <li>• Assessment of visible devices from key locations within the organisation</li> <li>• Confirmation of the issues with various areas within the organisation</li> <li>• Further discussions with staff to validate false positives / issues which could not be directly confirmed during the testing.</li> </ul>
-	
<p style="text-align: center;"><b>Configuration</b></p>	<ul style="list-style-type: none"> <li>• To the extent possible, our processes are non-destructive, however upon request we can undertake a more aggressive regime. An example is for a DB (database) injection vulnerability, the tools and physical verification are initially designed to only produce an error code or simple responses from a service and not attempt to update underlying database etc. In most cases this is sufficient to identify version information / susceptibility to certain vulnerabilities</li> <li>• Manual testing is undertaken in a similar manner to identify the service running and exploit / confirm areas</li> <li>• The toolset we utilise is configured to reduce the number of threads and bandwidth used during the scanning processes. We actively monitor the network traffic incoming and outgoing from the device(s) used for the assessment. Should this go over what we consider is a reasonable threshold the scan is aborted and the settings changed to reduce bandwidth usage (particularly important for internal scans)</li> <li>• Timing in relation to the testing phases will be mutually agreed with you. Each round of testing is usually undertaken in one week with a failover of two to three days into the next week. Where there are a significant number of devices or web pages included in the scope, timing can run over. We will make a judgement call where we reach the above timing to determine if we believe additional testing will be adding value to the process or if the information collected is sufficient.</li> </ul>
-	
<p style="text-align: center;"><b>Results / Reporting</b></p>	<ul style="list-style-type: none"> <li>• Once complete we rationalised the results in the first instance with key staff. Where appropriate we will hand over results of the testing. We note that the results are potential issues in the first instance and feedback is a vital component of the engagement</li> </ul>



COMPONENT	OUTPUT
	<ul style="list-style-type: none"> <li>For both phases 1 / 2 and additional phases agreed we will compile results for feedback</li> <li>We have a standard reporting format in relation to the vulnerability assessment / penetration testing services, this can be tailored as required</li> <li>We also recognise changing needs and requirements for reporting and will further refine and adapt our reporting.</li> </ul>
-	
<b>Risks</b>	<ul style="list-style-type: none"> <li>We do stress that in any assessment of this nature it is possible that a device may become unavailable. To date we have only had devices fail in the event where we are doing destructive testing</li> <li>The originating device undertaking the testing has been limited to a 1.5mb connection so we do not envisage any issues in relation to risks such as denial of services from an excessive volume of traffic.</li> </ul>
-	
<b>Communications</b>	<ul style="list-style-type: none"> <li>Prior to conducting testing, an email notification went out to nominated staff that the testing is commencing</li> <li>Upon conclusion of the test for that day an email confirmation went out</li> <li>During the course of the assessment were available should any issues arise in relation to the systems/applications or supporting infrastructure.</li> </ul>
-	
<b>Confirmation</b>	<ul style="list-style-type: none"> <li>That primary IP address(s) are Stantons controlled</li> <li>All devices contain up to date virus scanning software (some exceptions are required due to the nature of the tools being used)</li> <li>We monitor traffic through both bandwidth and sniffer tools / any anomalous communications are rectified immediately</li> <li>During the testing we will be immediately contactable should there be an issue.</li> </ul>



## 11.2 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE

2015 REFERENCE: D2015/08928

### PURPOSE OF REPORT

The purpose of this report is to review and adopt Council's draft Annual Financial Report for the year ended 30 June 2015.

### KEY ISSUES AND RECOMMENDATION(S)

- The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which is a requirement for the Committee to:
  - Review Council's draft annual financial report; and
  - Recommend adoption of the Annual Financial Report to Council.
- Council's auditors have completed their audit of the 2014/2015 Financial Report, which is attached for Council adoption.

#### Recommendation(s)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2015 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response forming attachment 2 of this report.
3. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2015 forming attachment 3 of this report.
4. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2014/2015 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

### SOURCE OF REPORT

Director Corporate Services  
Manager Financial Services

### 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.

### REPORT

The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which (clauses 2.5 (a) (v) and (vi) are requirements for the Committee to:

- (i) Review Council's draft annual financial report, focusing on:
  - Accounting policies and practices;
  - Changes to accounting policies and practices;
  - The process used in making significant accounting estimates;
  - Significant adjustments to the financial report (if any) arising from the audit process;
  - Compliance with accounting standards and other reporting requirements; and
  - Significant variances from prior years.
- (ii) Recommend adoption of the annual financial report to Council.



*Item 11.2 continued*

Council's auditor, Mr A Macri of Macri Partners has completed the audit of the Eastern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2015, which is attached for Council adoption (refer attachment 1).

The Auditor will be represented, as required by Clause 2.2 (e) of the Audit Committee Terms of Reference, when the Committee is reviewing the draft Annual Financial Report.

The following comments are provided on key elements of the financial results for 2014/2015:

**Statement of Comprehensive Income (pg 6 - 7 of 67)**

Total Revenue of \$41,026,464 for the period ending 30 June 2015 is \$1,098,940 above the 2013/2014 actual revenue and \$7,079,239 below budget for 2014/2015.

Total Expenses of \$31,230,798 is \$401,336 below the 2013/2014 expenses and \$9,918,974 below budget for 2014/2015.

A profit of \$545,682 was realised from the Disposal of Assets for the period ending 30 June 2015 and is \$545,415 above the 2013/2014 actual profit on disposals of \$267 and \$508,140 above the budget for 2014/2015 of \$37,542.

Unrealised gains or losses represent a fair market value measurement of the financial instruments during the period in which they are held, i.e. marked to market. It should be noted that actual gains or losses on financial instruments will not be realised until such time as the individual investments are sold. No unrealised gains or losses occurred in 2014/2015.

The changes in revaluation of non-current assets have resulted in an increase of \$4,212,233 for 2014/2015, which relates to the revaluation undertaken on the Infrastructure and Artworks classes of assets. This compares with \$32,170,872 in 2013/2014.

Total Comprehensive Income of \$14,553,581 for the period ending 30 June 2015 is \$25,912,948 below the 2013/2014 result and \$7,560,108 above the 2014/2015 budget.

**Statement of Financial Position (pg 8 - 9 of 67)**

Current assets as at 30 June 2015 have increased by \$6,748,087 to \$79,150,818 from \$72,402,731 as at 30 June 2014. This is primarily due to the increase in the level of cash and cash equivalents.

The overall impact on cash and investments at the close of the financial year is an increase of \$6,363,649 to \$74,387,347 as at 30 June 2015 compared to the level of cash and investments from the previous year.

Current liabilities as at 30 June 2015 have increased by \$613,878 to \$5,986,220 compared to \$5,372,342 as at 30 June 2014.

The balance in the Reserves has increased by \$7,467,582 to \$58,606,878 over the past 12 months.

Overall equity has increased during the 2014/2015 financial year by \$14,553,581 to \$147,616,331.



*Item 11.2 continued*

**Cash Flow Statement (pg 10 of 67)**

The overall impact on the cash position at the end of the 2014/2015 financial year is an increase of \$6,363,649 to \$74,387,347 from the previous corresponding period (2013/2014) of \$68,023,698.

Net Cash provided by Operating Activities of \$15,078,468 in the 2014/2015 financial year reflects a decrease of \$242,544 from the cash generated in 2013/2014 of \$15,321,012.

The cash flows utilised in investing activities for 2014/2015 reflects capital expenditure totalling \$12,442,702 compared to capital expenditure totalling \$1,538,900 during 2013/2014.

Significant items of capital expenditure during the year included:

- Resource Recovery Park Land, Hazelmere - \$4,103,510;
- Construct Class III Stage 15 Cell - Red Hill Landfill Facility - \$3,501,871;
- Wood Waste to Energy Plant & Equipment (Contract payment) - \$2,698,516;
- Purchase / Replace Plant - Hazelmere - \$531,870;
- Purchase / Replace Plant - Red Hill Landfill Facility - \$248,101;
- Leachate Project - Red Hill Landfill Facility - \$246,140;
- Purchase Vehicles - Red Hill Landfill Facility - \$169,133;
- Construct Class III Farm Stage 2 Cell - Red Hill Landfill Facility - \$166,049;
- Purchase Information Technology & Communications Equipment - \$161,952;
- Construct and Commission Resource Recovery Park - Site Infrastructure - \$160,957; and
- Purchase Vehicles - Ascot Place - \$104,326.

Significant capital items that were budgeted but not purchased, constructed below budget or construction not completed during the year included:

- Purchase Resource Recovery Park - Wood Waste to Energy Plant and Equipment - \$3,436,484;
- Purchase / Replace Plant - Hazelmere - \$2,318,130;
- Purchase / Replace Plant - Red Hill Landfill Facility - \$1,854,899;
- Purchase Resource Recovery Park - C & I Building Plant and Equipment \$1,700,000;
- Construct and Commission Resource Recovery Park - C & I Building - \$1,529,625;
- Construct Class III Landfill Cell Stage 15 - Red Hill Landfill Facility - \$1,508,129;
- Construct Class III Landfill Cell Farm Stage 3 - Red Hill Landfill Facility - \$1,068,772;
- Construct and Commission Resource Recovery Park - Site Infrastructure - \$1,029,043;
- Construct Class III Landfill Cell Stage 14 - Red Hill Landfill Facility - \$960,000;
- Relocate Greenwaste Processing Area - Red Hill Landfill Facility - \$820,000;
- Leachate Project - Red Hill Landfill Facility - \$753,860;
- Construct and Commission Resource Recovery Park - Wood Waste to Energy Building - \$625,000;
- Purchase Information Technology and Communication Equipment - \$557,698;
- Construct Roads/Carparks - Red Hill Landfill Facility - \$473,120;
- Design and Construct Class IV Cell Stage 2 - Red Hill Facility - \$400,000;
- Construct Nutrient Stripping Pond - Red Hill Landfill Facility - \$286,000;
- Ascot Place Administration Building Capital Improvements - \$260,000;
- Purchase/Replace Other Equipment - Red Hill Landfill Facility - \$250,573; and
- Construct Siltation Ponds - Red Hill Landfill Facility - \$200,000.



*Item 11.2 continued*

Funding for the majority of the capital items listed above has been carried forward into the 2015/2016 financial year.

**Reserves (pg 44 - 47 of 67)**

At the end of the 2014/2015 financial year the amount held in Reserves (page 46 of 67, Note 17) increased by \$7,467,582 to a balance of \$58,606,878. This compares favourably to the 2014/2015 budget of \$39,871,467 by \$18,735,411.

**STRATEGIC/POLICY IMPLICATIONS**

Key Result Area 4 – Good Governance

- 4.3 To provide responsible and accountable governance and management of the EMRC
- 4.4 To continue to improve financial and asset management practices

**FINANCIAL IMPLICATIONS**

As outlined within the report and attachments.

**SUSTAINABILITY IMPLICATIONS**

Nil

**MEMBER COUNCIL IMPLICATIONS**

Member Council	Implication Details
Town of Bassendean	Proportional share in the total equity of the EMRC.
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. Annual Financial Report for the Year Ended 30 June 2015 (Ref: D2015/15274)
2. Interim Audit Report for Year Ended 30 June 2015 (Ref: D2015/15277)
3. Audit Completion Report to the Audit Committee for the Year Ended 30 June 2015 (Ref: D2015/15279)

VOTING REQUIREMENT

Simple Majority



*Item 11.2 continued*

## **RECOMMENDATION(S)**

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2015 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response forming attachment 2 of this report.
3. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2015 forming attachment 3 of this report.
4. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2014/2015 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

The CEO provided a brief overview of the results of the Annual Financial Report and Audit Report for year ended 30 June 2015 and discussion ensued.

Mr Tony Macri of Macri Partners responded to AC member queries.

## **AC RECOMMENDATION(S)**

MOVED CR CORNISH

SECONDED CR PULE

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2015 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response forming attachment 2 of this report.
3. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2015 forming attachment 3 of this report.
4. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2014/2015 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

**CARRIED UNANIMOUSLY**

# **ANNUAL FINANCIAL REPORT**

**For the Year Ended  
30 June 2015**

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **2014/2015 ANNUAL FINANCIAL REPORT**

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## **STATEMENT BY CHIEF EXECUTIVE OFFICER**



**For the Year Ended  
30 June 2015**

**EASTERN METROPOLITAN REGIONAL COUNCIL**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2015**

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

**STATEMENT BY CHIEF EXECUTIVE OFFICER**

The attached financial report of the Eastern Metropolitan Regional Council being the annual financial report and supporting notes and other information for the financial year ended 30 June 2015 are in my opinion properly drawn up to present fairly the financial position of the Eastern Metropolitan Regional Council at 30 June 2015 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and the regulations under that Act.

Signed as authorisation for issue on the 26<sup>th</sup> day of August 2015



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**PETER B. SCHNEIDER**  
*Chief Executive Officer*

## **FINANCIAL REPORT**



**For the Year Ended  
30 June 2015**

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

BY PROGRAM	NOTE	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
<b>REVENUE</b>				
Governance		147,661	181,976	85,018
General Purpose Funding		2,557,709	1,621,686	2,389,270
Community Amenities		36,677,874	44,828,844	35,869,089
Other Property and Services		1,643,220	1,473,197	1,584,147
<b>TOTAL REVENUE</b>		<b>41,026,464</b>	<b>48,105,703</b>	<b>39,927,524</b>
<b>EXPENSES</b>				
Governance		811,025	1,128,246	761,713
Community Amenities		26,309,451	33,564,579	25,750,196
Other Property and Services		4,110,322	6,456,947	5,120,225
<b>TOTAL EXPENSES</b>		<b>31,230,798</b>	<b>41,149,772</b>	<b>31,632,134</b>
<b>INCREASE / (DECREASE)</b>		<b>9,795,666</b>	<b>6,955,931</b>	<b>8,295,390</b>
<b>DISPOSAL OF ASSETS</b>				
Profit on Sale		553,328	37,542	29,143
Loss on Sale		(7,646)	0	(28,876)
<b>PROFIT / (LOSS) ON DISPOSALS</b>	22	<b>545,682</b>	<b>37,542</b>	<b>267</b>
<b>REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS</b>				
General Purpose Funding	7(c)	0	0	0
<b>GAIN / (LOSS)</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>NET RESULT</b>		<b>10,341,348</b>	<b>6,993,473</b>	<b>8,295,657</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Changes in Revaluation of Non-Current Assets	12,13	4,212,233	0	32,170,872
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>4,212,233</b>	<b>0</b>	<b>32,170,872</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>14,553,581</b>	<b>6,993,473</b>	<b>40,466,529</b>

This statement is to be read in accordance with the attached  
notes to the financial report.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

BY NATURE AND TYPE	NOTE	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
<b>REVENUE</b>				
Fees and Charges	4	32,738,714	42,047,963	33,855,734
Grants, Subsidies and Contributions	5	3,182,940	2,484,556	2,379,049
Interest Earnings	2	2,557,709	1,621,686	2,389,269
Other Revenue		2,547,101	1,951,498	1,303,472
<b>TOTAL REVENUE</b>		<b>41,026,464</b>	<b>48,105,703</b>	<b>39,927,524</b>
<b>EXPENSES</b>				
Employee Costs		8,433,189	9,932,859	7,827,857
Materials and Contracts		6,146,789	8,368,370	6,248,393
Utility Expenses		238,167	321,301	297,634
Insurance Expenses		1,239,197	347,638	331,053
Interest Expenses		23,126	21,317	21,115
Other Expenditure		10,350,892	15,144,186	10,521,938
Depreciation Expenses on Non-Current Assets	2	4,799,438	7,014,101	6,384,144
<b>TOTAL EXPENSES</b>		<b>31,230,798</b>	<b>41,149,772</b>	<b>31,632,134</b>
<b>INCREASE / (DECREASE)</b>		<b>9,795,666</b>	<b>6,955,931</b>	<b>8,295,390</b>
<b>DISPOSAL OF ASSETS</b>				
Profit on Sale		553,328	37,542	29,143
Loss on Sale		(7,646)	0	(28,876)
<b>PROFIT / (LOSS) ON DISPOSALS</b>	22	<b>545,682</b>	<b>37,542</b>	<b>267</b>
<b>REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS</b>				
Realised Gain/(Loss)		0	0	0
Unrealised Gain/(Loss)		0	0	0
<b>GAIN / (LOSS)</b>	7(c)	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET RESULT</b>		<b>10,341,348</b>	<b>6,993,473</b>	<b>8,295,657</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Changes in Revaluation of Non-Current Assets	12,13	4,212,233	0	32,170,872
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>4,212,233</b>	<b>0</b>	<b>32,170,872</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>14,553,581</b>	<b>6,993,473</b>	<b>40,466,529</b>

This statement is to be read in accordance with the attached  
notes to the financial report

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	NOTE	ACTUAL 2014/2015 \$	ACTUAL 2013/2014 \$
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	7(a)	74,387,347	68,023,698
Investments	7(b)	0	0
Trade and Other Receivables	9	4,653,943	4,239,474
Inventories	10	67,598	78,895
Other Assets	11	41,930	60,664
<b>TOTAL CURRENT ASSETS</b>	21	<b><u>79,150,818</u></b>	<b><u>72,402,731</u></b>
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	12	63,311,756	60,520,313
Infrastructure	13	18,193,626	12,311,773
<b>TOTAL NON CURRENT ASSETS</b>	21	<b><u>81,505,382</u></b>	<b><u>72,832,086</u></b>
<b>TOTAL ASSETS</b>	21	<b><u>160,656,200</u></b>	<b><u>145,234,817</u></b>
<b>CURRENT LIABILITIES</b>			
Trade and Other Payables	15	4,651,861	4,067,102
Provisions	16	1,334,359	1,305,240
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>5,986,220</u></b>	<b><u>5,372,342</u></b>
<b>NON CURRENT LIABILITIES</b>			
Provisions	16	7,053,649	6,799,725
<b>TOTAL NON CURRENT LIABILITIES</b>		<b><u>7,053,649</u></b>	<b><u>6,799,725</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>13,039,869</u></b>	<b><u>12,172,067</u></b>
<b>NET ASSETS</b>		<b><u>147,616,331</u></b>	<b><u>133,062,750</u></b>
<b>EQUITY</b>			
Retained Surplus		52,975,934	48,612,233
Reserves	17	58,606,878	51,139,296
Revaluation Surplus	14	36,033,519	33,311,221
<b>TOTAL EQUITY</b>		<b><u>147,616,331</u></b>	<b><u>133,062,750</u></b>

This statement is to be read in accordance with the attached  
notes to the financial report

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	RETAINED SURPLUS \$	RESERVES \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 30 June 2013		49,136,149	42,319,723	1,140,349	92,596,221
Net Result		8,295,657	0	0	8,295,657
Total Other Comprehensive Income		0	0	32,170,872	32,170,872
Transfer (from) / to Reserves		(8,819,573)	8,819,573	0	0
<b>Balance as at 30 June 2014</b>		<b>48,612,233</b>	<b>51,139,296</b>	<b>33,311,221</b>	<b>133,062,750</b>
Net Result		10,341,348	0	0	10,341,348
Total Other Comprehensive Income		0	0	4,212,233	4,212,233
Revaluation Surplus Reversal	14	1,489,935	0	(1,489,935)	0
Transfer (from) / to Reserves		(7,467,582)	7,467,582	0	0
<b>Balance as at 30 June 2015</b>		<b>52,975,934</b>	<b>58,606,878</b>	<b>36,033,519</b>	<b>147,616,331</b>

This statement is to be read in accordance with the attached  
notes to the financial report

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Fees and Charges		37,338,999	42,047,961	38,218,156
Grants, Subsidies and Contributions		3,182,940	2,484,556	2,379,049
Interest Earnings		2,565,312	1,621,686	1,884,132
Other Revenue		2,547,101	1,951,500	1,303,471
<b>Total Receipts</b>		<b>45,634,352</b>	<b>48,105,703</b>	<b>43,784,808</b>
<b>Payments</b>				
Employee Costs		(8,461,443)	(9,906,074)	(7,752,515)
Materials and Contracts		(7,497,127)	(8,368,372)	(8,978,177)
Utility Expenses		(238,167)	(321,301)	(297,634)
Insurance Expenses		(1,238,748)	(347,638)	(327,739)
Interest Expenses		(23,126)	(21,317)	(21,115)
Other Expenditure		(10,266,092)	(15,057,385)	(8,529,584)
Goods and Services Tax paid		(2,831,181)	0	(2,557,032)
<b>Total Payments</b>		<b>(30,555,884)</b>	<b>(34,022,087)</b>	<b>(28,463,796)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	18(ii)	<b>15,078,468</b>	<b>14,083,616</b>	<b>15,321,012</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Cash receipts from sale of assets		3,727,883	344,450	219,116
Cash payments for acquisition of assets		(12,442,702)	(30,410,929)	(1,538,900)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(8,714,819)</b>	<b>(30,066,479)</b>	<b>(1,319,784)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash receipts from sale of investments		0	0	0
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>SUMMARY OF CASH FLOWS</b>				
Cash and cash equivalents at the beginning of the year		68,023,698	58,884,841	54,022,470
Net Increase/(Decrease) in Cash Held		6,363,649	(15,982,863)	14,001,228
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	18(i)	<b>74,387,347</b>	<b>42,901,978</b>	<b>68,023,698</b>

This statement is to be read in accordance with the attached  
notes to the financial report



**NOTES TO AND FORMING PART OF THE  
FINANCIAL REPORT**



**For the Year Ended  
30 June 2015**

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise:

#### **Basis of Preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1995* and accompanying regulations.

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

#### **The Local Government Reporting Entity**

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

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

#### **(a) Trust Funds**

Any monies held in the Trust Fund, which Council may hold in a custodian role, are excluded from the Financial Statements.

The EMRC currently does not hold any trust fund monies for the year ended 30 June 2015.

#### **(b) Cash and Cash Equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts, where applicable, are included as short-term borrowings in current liabilities on the Statement of Financial Position.

The EMRC does not have any bank overdrafts for the year ended 30 June 2015.

#### **(c) Fixed Assets**

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

#### **Mandatory Requirements to Revalue Non-Current Assets**

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

The amendments allow for the phasing in of fair value in relation to fixed assets over three years as follows:

- (a) For the financial year ending on 30 June 2013, the fair value of all assets of the local government that are plant and equipment; and

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Fixed Assets (continued)

- (b) For the financial year ending on 30 June 2014, the fair value of all of the assets of the local government -
- (i) that are plant and equipment; and
  - (ii) that are –
    - (I) land and buildings; or-
    - (II) Infrastructure;
- and
- (c) For the financial year ending on or after 30 June 2015, the fair value of all the assets of the local government.

Thereafter, in accordance with the Regulations, each asset class must be revalued every 3 years.

In 2013, Council commenced the process of adopting Fair Value in accordance with the Regulations.

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

#### Land Under Control

In accordance with *Local Government (Financial Management) Regulations 1996, Reg.16(a)*, the Council is required to include as an asset (by 30 June 2013), Crown Land operated by the local government such as a golf course, showground, racecourse or other sporting or recreational facility of State or regional significance.

The Council does not have any Crown land which comes under this Regulation.

#### Land Under Roads

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

Effective from 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in Australian Accounting Standard AASB 1051 *Land Under Roads* and the fact *Local Government (Financial Management) Regulations 1996, Reg. 16 (a)(i)* prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, *Local Government (Financial Management) Regulations 1996, Reg.16(a)(i)* prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of AASB 1051, *Local Government (Financial Management) Regulations 1996, Reg.4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations 1996* prevail.

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

#### Initial Recognition and Measurement between Mandatory Revaluation Dates

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

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

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Fixed Assets (continued)

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

#### Revaluation

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

#### Depreciation

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

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

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

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

• Buildings	0.48 - 6.67% (based on components)
• Structures	
General	1.10 - 18.10% (based on components)
Class III and IV Waste Cells	% of actual usage
• Plant	15.00 - 40.00%
• Furniture and fittings	10.00 - 40.00%
• Equipment	10.00 - 40.00%

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

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

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

When revalued assets are disposed of, amounts included in the revaluation surplus relating to that asset are transferred to retained surplus.

#### Capitalisation Threshold

Expenditure on items of major equipment under \$5,000 and minor equipment under \$1,000 are not capitalised. Rather, they are recorded on an asset inventory listing.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Fair Value of Assets and Liabilities

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

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

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

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

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

#### Fair Value Hierarchy

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

##### **Level 1**

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

##### **Level 2**

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

##### **Level 3**

Measurements based on unobservable inputs for the asset or liability.

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

#### Valuation Techniques

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

##### **Market Approach**

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

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Fair Value of Assets and Liabilities (continued)

##### **Income Approach**

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

##### **Cost Approach**

Valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

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

As detailed above, the mandatory measurement framework imposed by *the Local Government (Financial Management) Regulations 1996* requires, as a minimum, all assets carried at a revalued amount to be revalued at least every 3 years.

#### (e) Intangible Assets

##### **Easements**

Regulation 16 of the *Local Government (Financial Management) Regulations 1996* requires easements to be recognised as assets. The EMRC does not have any easements.

#### (f) Rates

The EMRC does not levy rates. Accordingly rating information as required under the *Local Government (Financial Management) Regulations 1996* has not been presented in this financial report.

#### (g) Grants, Donations and Other Contributions

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

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 6. That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operation for the current reporting period.

#### (h) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Local Government prior to the end of the financial year that are unpaid and arise when the Local Government becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(i) Impairment**

In accordance with Australian Accounting Standards, the Council's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired. Where such an indication exists, an estimate of the recoverable amount of the asset is made in accordance with AASB 136 'Impairment of Assets' and appropriate adjustments are made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. AASB 116) whereby an impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other standard.

#### **(j) Revenue Recognition**

##### **Waste Services**

Revenue from waste services is recognised when the waste is received.

##### **Generation of Gas Services**

Revenue from the generation of gas services is recognised on an accrual basis. Proceeds from the sale of Renewable Energy Certificates are only recognised when the certificates are sold.

##### **Interest Income**

Interest income is recognised on an accrual basis.

##### **Sale of Goods and Disposal of Assets**

Revenue from the sale of goods and disposal of other assets is recognised when the Council has passed control of the goods or other assets to the buyer.

##### **Rendering of Services**

Revenue from the provision of services is recognised on an accrual basis.

##### **Royalties**

Royalty revenue is recognised on an accrual basis.

#### **(k) Inventories**

##### **General**

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

##### **Land Held for Resale**

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses.

#### **(l) Goods and Services Tax**

In accordance with recommended practice, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Statement of Financial Position are stated inclusive of applicable GST. The net amount of GST recoverable from, or payable to the ATO is included with receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(m) Provisions**

Provisions are recognised when: The Council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

#### **(n) Provision for Site Rehabilitation**

A provision for the future costs associated with closing and restoring the landfill is recognised as liabilities within the financial accounts. The nature of work planned by Council includes cell capping, landform reconstruction, dismantling of site operating facilities and implementation of a revegetation plan to suit the final land use. The cost is based on estimated current costs, determined on a non-discounted basis.

The obligation for the EMRC to recognise the provision for site rehabilitation arises at the time the landfill cell is first put into use. Increments in the provision are calculated on the basis of the volumetric usage of the landfill cell air space during the year, present value of the costs for site rehabilitation and remaining capacity of the landfill site.

From June 2015, the present value for the rehabilitation of the site has been calculated to be \$6,920,000 and has been deemed sufficient for post closure management purposes.

The provision is measured using the best estimate of the amounts required and is reassessed internally on an annual basis with an independent review being undertaken on a three year cycle in line with the revaluation of infrastructure assets.

In addition, Council has also adopted an incremental charge based on volumetric usage of landfill airspace for ongoing site rehabilitation during the in-use operations of the landfill.

#### **(o) Provision for Environmental Monitoring**

A provision for the future costs associated with closing and restoring the landfill is recognised as liabilities within the financial accounts. The nature of work planned by Council includes monitoring of groundwater, surface water, leachate and landfill gas generation. The cost is based on estimated current costs, determined on a non-discounted basis.

The obligation for the EMRC to recognise the provision for environmental monitoring arises at the time the landfill cell is first put into use. Increments in the provision are calculated on the basis of the volumetric usage of the landfill cell air space during the year, present value of the costs for environmental monitoring and remaining capacity of the landfill site.

From June 2015, the present value for the environmental monitoring of the site has been calculated to be \$3,760,000 and has been deemed sufficient for post closure management purposes.

The provision is measured using the best estimate of the amounts required and is reassessed internally on an annual basis with an independent review being undertaken on a three year cycle in line with the revaluation of infrastructure assets.



# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(p) Provision for Carbon Pricing**

The EMRC is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007. The National Greenhouse and Energy Reporting Act 2007 requires the EMRC to report its annual greenhouse gas emissions and energy use. The EMRC has implemented systems and processes for the collection and calculation of the data required.

As an operator of the landfill site at Red Hill, the EMRC is a net emitter of CO<sub>2</sub>e over the life of the waste it receives. While the payment of the carbon pricing is based on the CO<sub>2</sub>e emitted in the respective years and under the liability method of accounting, a corresponding recognition of future years' CO<sub>2</sub>e emitted is recognised in the year the liability has been incurred.

Following the end of the 2013/2014 financial year, the Australian Parliament passed retrospective legislation to repeal the carbon price on 17 July 2014. This repeal has received Royal assent and been gazetted.

The consequence of the repeal of the carbon pricing mechanism for the EMRC is that no new carbon tax liability applies from effect 1 July 2014.

The EMRC intends using the excess carbon tax revenue collected for its proposed Resource Recovery project which will deliver a reduction in greenhouse gas emissions and provide renewable energy generation as well as for establishing and maintaining an offsetting programme relating to current operations at its Red Hill Waste Management facility.

#### **(q) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset.

#### **(r) Critical Accounting Estimates**

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

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

#### **(s) Trade and Other Receivables**

Trade and other receivables include amounts due from member Councils and non-members for unpaid fees and charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

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

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

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(t) Employee Entitlements**

The provisions for employee benefits relate to amounts expected to be paid for long service leave, annual leave, wages and salaries and are calculated as follows:

##### **(i) Wages, Salaries, Annual Leave and Long Service Leave (Short-term Benefits)**

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

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

##### **(ii) Long Service Leave (Long-term Benefits)**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

##### **(iii) Superannuation Fund**

The Council contributes to the WA Local Government Superannuation Plan (LGSP) and other choice funds for qualifying employees as per statutory requirements (9.50% for 2014/2015). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2014/2015). Contributions to defined contribution plans are recognised as an expense as they become payable.

#### **(u) Rounding Of Amounts**

All amounts shown in this annual financial report, other than the Schedule of Fees and Charges, are rounded to the nearest dollar. As a result of rounding, some minor reconciliation discrepancies may be present in the disclosures to the financial report.

#### **(v) Comparative Figures**

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

#### **(w) Budget Comparative Figures**

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

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(x) Leases**

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Council, are classified as finance leases. Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The EMRC does not currently have any finance leases and operating leases.

#### **(y) Financial Instruments**

##### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Council commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

##### **Classification and subsequent measurement**

Financial assets are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (i) the amount at which the financial asset or financial liability is measured at initial recognition;
- (ii) less principal repayments;
- (iii) plus or minus the cumulative amortisation of the differences, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- (iv) less any reduction for impairment.

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

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (y) Financial Instruments (continued)

The Council does not designate any interest in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

##### (i) *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

##### (ii) *Loans and Receivables*

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

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

##### (iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Council's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets).

If during the period the Council sold or reclassified more than a significant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be reclassified as available-for-sale.

##### (iv) *Available for sale financial assets*

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

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets).

##### (v) *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (y) Financial Instruments (continued)

##### (vi) Fair Value

Fair value is determined based on current bid prices of all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including arm's length transactions, reference to similar instruments and option pricing models.

#### Impairment

At each reporting date, the Council assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

#### (z) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months.

Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for sale where it is held as non-current based on the Council's intentions to release for sale.

#### (aa) Landfill Cells

There are three general components of cell construction:

- Cell excavation and development costs;
- Cell liner costs; and
- Cell capping costs.

All cell excavation and development costs and cell liner costs are capitalised and depreciated over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year.

Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

<b>Title and topic</b>	<b>Issued/ Compiled</b>	<b>Applicable (1)</b>	<b>Impact</b>
(i) AASB 9 Financial Instruments (incorporating AASB 2014-7 and AASB 2014-8)	December 2014	1 January 2018	Nil - The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Council, it is not anticipated the standard will have any material effect.
(ii) AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	September 2012	1 January 2018	Nil - The revisions embodied in this standard give effect to the consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council (refer (i) above).
(iii) AASB 15 Revenue from Contracts with Customers	December 2014	1 January 2017	This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.  The effect of this Standard will depend upon the nature of future transactions the Council has with those third parties it has dealings with. It may or may not be significant.

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

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued/ Compiled	Applicable (1)	Impact
(iv) AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments  [Operative date: Part C Financial Instruments - 1 January 2015]	December 2013	Refer title column	Part C of this Standard makes consequential amendments to AASB 9 and numerous other Standards and amends the permissions around certain applications relating to financial liabilities reissued at fair value.  As the bulk of changes relate either to editorial or reference changes it is not expected to have a significant impact on the Council.
(v) AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations  [AASB 1 & AASB 11]	August 2014	1 January 2016	This Standard amends AASB 11: <i>Joint Arrangements</i> to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: <i>Business Combinations</i> , to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.  Since adoption of this Standard would impact only acquisitions of interests in joint operations on or after 1 January 2016, management believes it is impracticable at this stage to provide a reasonable estimate of such impact on the Council's financial statements.

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

<b>Title and topic</b>	<b>Issued/ Compiled</b>	<b>Applicable (1)</b>	<b>Impact</b>
(vi) AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation  [AASB 116 & 138]	August 2014	1 January 2016	<p>This Standard amends AASB 116 and AASB 138 to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. It also clarifies the use of revenue-based methods to calculate the depreciation of an asset is not appropriate nor is revenue generally an appropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.</p> <p>Given the Council currently uses the expected pattern of consumption of the future economic benefits of an asset as the basis of calculation of depreciation, it is not expected to have a significant impact.</p>
(vii) AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	December 2014	1 January 2017	<p>Consequential changes to various Standards arising from the issuance of AASB 15.</p> <p>It will require changes to reflect the impact of AASB 15.</p>

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



# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued/ Compiled	Applicable (1)	Impact
<p>(viii) AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</p> <p>[AASB 7, 101, 134 &amp; 1049]</p>	January 2015	1 January 2016	<p>This Standard amends AASB 101 to provide clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements.</p> <p>This Standard also makes editorial and consequential amendments as a result of amendments to the Standards listed in the title column.</p> <p>It is not anticipated it will have any significant impact on disclosures.</p>
<p>(ix) AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality</p>	January 2015	1 July 2015	<p>This Standard completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing it to be completely withdrawn.</p> <p>It is not anticipated it will have a significant impact as the principles of materiality remain largely unchanged.</p>
<p>(x) AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</p> <p>[AASB 10, 124 &amp; 1049]</p>	March 2015	1 July 2016	<p>The objective of this Standard is to extend the scope of AASB 124 <i>Related Party Disclosures</i> to include not-for-profit sector entities.</p> <p>The Standard is expected to have a significant disclosure impact on the financial report of the Council as both Elected Members and Senior Management will be deemed to be Key Management Personnel and resultant disclosures will be necessary.</p>

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(cc) Adoption of New and Revised Accounting Standards**

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

These new and revised standards were:

AASB 2011 – 7

AASB 2012 – 3

AASB 2013 – 3

AASB 2013 – 8

AASB 2013 – 9 Parts A & B

Most of the Standards adopted had a minimal effect on the accounting and reporting practices of the Council as they did not have a significant impact on the accounting or reporting practices or were either not applicable, largely editorial in nature, were revisions to help ensure consistency with presentation, recognition and measurement criteria of IFRSs or related to topics not relevant to operations.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**2. REVENUE AND EXPENSES**

	ACTUAL 2014/2015		ACTUAL 2013/2014
	\$		\$
<b>Net Result</b>			
The Net Result includes:			
(i) Charging as an Expense:			
<b>Auditors Remuneration</b>			
- Audit of the Financial Report	19,780		14,360
- Audit and assurance of grant acquittals	2,400		3,200
	<u>22,180</u>		<u>17,560</u>
<b>Depreciation and Amortisation Expense</b>			
Buildings	123,376		265,601
Structures	2,593,022		2,098,539
Plant	1,830,939		3,750,743
Equipment	240,678		257,231
Furniture and Fittings	11,423		12,030
	<u>4,799,438</u>		<u>6,384,144</u>
	ACTUAL	BUDGET	ACTUAL
	2014/2015	2014/2015	2013/2014
	\$	\$	\$
(ii) Crediting as Revenue:			
<b>Interest Earnings</b>			
Interest on funds held in Reserves	2,003,954	1,450,386	1,585,340
Interest on Municipal Cash and Investments	553,755	171,300	803,929
	<u>2,557,709</u>	<u>1,621,686</u>	<u>2,389,269</u>
	ACTUAL		ACTUAL
	2014/2015		2013/2014
	\$		\$
<b>Significant Revenue</b>			
General Purpose Funding	0		0
	<u>0</u>		<u>0</u>

The Significant Revenue relates to the recognition of gains on investments during the year.  
(Refer Note 7(c) for details).

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **3. COMPONENT FUNCTIONS/ACTIVITIES**

The activities relating to the Eastern Metropolitan Regional Council's components reported on in the Income Statement are as follows:

#### **Governance**

Records income and expenditure relating to the administration and operation of facilities and services to members of Council together with other administrative governance costs.

#### **General Purpose Funding**

Records interest revenue as well as other general purpose revenue.

#### **Community Amenities**

Records income and expenditure associated with the Red Hill Waste Disposal Facility - Class III cell, Class IV cell, weighbridge, transfer stations and Hazelmere Site.

#### **Other Property and Services**

Records income and expenditure for public works overheads, plant operation, materials, salaries and wages. It also records income and expenditure for the Risk Management and Environmental Service departments (incorporating various Environmental Projects), the operations of the Ascot Place activity, and income and expenditure relating to the Regional Development activity incorporating various projects.

#### **EMRC MISSION STATEMENT**

The Eastern Metropolitan Regional Council, by partnering with member Councils (and other stakeholders), facilitates strategies and actions for the benefit and sustainability of Perth's Eastern Region.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**4. FEES AND CHARGES SUMMARY BY PROGRAM**

	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
Governance	600	600	0
Community Amenities	32,721,146	42,027,363	33,845,756
Other Property and Services	16,968	20,000	9,978
<b>Total Statutory Fees and Charges</b>	<b>32,738,714</b>	<b>42,047,963</b>	<b>33,855,734</b>

**5. GRANT, SUBSIDY AND CONTRIBUTION  
REVENUE BY PROGRAM**

	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
Community Amenities	1,737,988	1,176,733	948,221
Other Property and Services	1,444,952	1,307,823	1,430,828
<b>Total Grant, Subsidy and Contribution Revenue</b>	<b>3,182,940</b>	<b>2,484,556</b>	<b>2,379,049</b>

**6. CONTROL OVER CONTRIBUTIONS**

	ACTUAL 2014/2015 \$	ACTUAL 2013/2014 \$
<b>Conditions over Contributions</b>		

Grants which were recognised as revenue during the year but have yet to be applied in that manner at the reporting date were:

• Waste Management - Cardboard Recycling Project	0	82,356
• Hazelmere C & I Project	56,981	0
• Eastern Hill Catchment Management Project	40,156	0
• Priority Tributary Restoration in Perth's Eastern Region	32	0
• Natural Disaster Resilience Program	49,489	0
• Community Energy Efficient Program (CEEP)	0	0
	<u>146,658</u>	<u>82,356</u>

Grants which were recognised as revenue in a previous year and have not yet been applied in the manner specified by the granter were:

• Nil	0	0
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Grants which were recognised as revenue in a previous year and were expended in the current year in the manner specified by the grantor were:

• Eastern Hill Catchment Management Project	0	46,359
• Helping the Helena Project	0	7,705
• EHCM Project - Community Engagement	0	13,928
• Marri Canker Project	0	1,515
• Community Energy Efficient Program (CEEP)	0	19,023
• Waste Management - Cardboard Recycling Project	82,356	0
	<u>82,356</u>	<u>88,530</u>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**7(a). CASH AND CASH EQUIVALENTS**

	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
Cash and Cash Equivalents - Unrestricted	15,445,578	17,254,122
Cash and Cash Equivalents - Restricted	58,941,769	50,769,576
	<b><u>74,387,347</u></b>	<b><u>68,023,698</u></b>

**7(b). INVESTMENTS**

Investments - Restricted	0	0
	<b><u>0</u></b>	<b><u>0</u></b>

**Financial Assets at fair value through profit or loss**

At the beginning of the year	0	0
Disposals	0	0
Unrealised gain/(loss) from change in fair value of investments	0	0
<b>Value at the end of the year</b>	<b><u>0</u></b>	<b><u>0</u></b>

**Held for Trading**

- Financial Instruments	0	0
<b>Value at the end of the year</b>	<b><u>0</u></b>	<b><u>0</u></b>

The following restrictions have been imposed by regulations or other externally imposed requirements:

Plant and Equipment	3,635,347	3,061,317
Site Rehabilitation Red Hill - Post Closure	1,930,073	1,717,656
Future Development	3,648,218	242,215
Environmental Monitoring Red Hill	680,965	568,262
Environmental Insurance Red Hill	89,410	133,486
Risk Management	13,507	13,023
Class IV Cells Red Hill	19,474	111,812
Regional Development	99,650	14,747
Secondary Waste Processing	44,950,541	43,581,696
Class III Cells	2,710,350	914,509
Building Refurbishment (Ascot Place)	68,200	65,756
Long Service Leave	761,143	714,817
	<b><u>58,606,878</u></b>	<b><u>51,139,296</u></b>
Add movement in accrued interest	334,891	231,765
Less unrealised gain/(loss) from changes in fair value of Investments	0	(601,485)
	<b><u>58,941,769</u></b>	<b><u>50,769,576</u></b>

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 7(c). REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS

	ACTUAL 2014/2015 \$	ACTUAL 2013/2014 \$
General Purpose Funding	<u>0</u>	<u>0</u>

The unrealised gains/(losses) from the change in fair value of the investments of Council funds in financial instruments each year is taken up in the relevant Statement of Comprehensive Income for those years.

The realised/unrealised gains/(losses), of the investments existing as at 30 June 2015, reflected in the Statement of Comprehensive Income are summarised as follows:

Year	\$
2007/2008	(4,180,201)
2008/2009	(3,250,474)
2009/2010	621,457
2010/2011	2,614,794
2011/2012	1,587,035
2012/2013	2,005,904
2013/2014	<u>0</u>
<b>Opening Balance as at 1 July 2014</b>	<b>(601,485)</b>
Add: Realised/Unrealised gains on disposal of Investments for 2014/2015	0
Add: Write back of accumulated unrealised losses on disposals	601,485
	<u>0</u>
<b>Balance as at 30 June 2015</b>	<b><u>0</u></b>

Unrealised gains/(losses) represent a fair value measurement of the financial instruments during the period in which they are held, i.e. marked to market. It should be noted that actual gains/(losses) on financial instruments will not be realised until such time as the individual investments are sold.

### 8. NET CURRENT ASSET POSITION

The net current asset position balance carried forward from the previous financial year after adjustment for Restricted Assets for the purpose of the 2014/2015 budget was \$7,961,493.

The actual net current asset position balance shown in the audited financial report as at 30 June 2014 and after adjustment for Restricted Assets was \$16,260,813.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

<b>9. TRADE AND OTHER RECEIVABLES</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
<b>Current</b>		
Sundry Debtors	2,755,342	2,924,647
Other Debtors	18,662	49,957
GST Receivable	630,322	0
Accrued Interest Earnings	1,257,677	1,265,280
Provision for Impairment of Receivables	(8,060)	(410)
	<b><u>4,653,943</u></b>	<b><u>4,239,474</u></b>

<b>10. INVENTORIES</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
<b>Current</b>		
Distillate	20,603	29,792
Oils	2,900	1,500
Unleaded Fuel	259	3,694
Jumbobags	43,836	43,909
	<b><u>67,598</u></b>	<b><u>78,895</u></b>

<b>11. OTHER ASSETS</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
<b>Current</b>		
Prepayment - General	13,657	31,977
Prepayment - Insurance	18,548	18,996
Prepayment - Miscellaneous	9,725	9,691
	<b><u>41,930</u></b>	<b><u>60,664</u></b>



**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

<b>12. PROPERTY, PLANT AND EQUIPMENT</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
Land - Independent Valuation 2014	44,365,952	47,327,000
Net Additions after Valuation - Cost	4,103,510	0
<b>Total Land</b>	<b>48,469,462</b>	<b>47,327,000</b>
 Buildings - Independent Valuation 2014	 5,751,122	 5,751,122
Net Additions after Valuation - Cost	7,175	0
Less Accumulated depreciation	(123,376)	0
<b>Total Buildings</b>	<b>5,634,921</b>	<b>5,751,122</b>
<b>Total Land and Buildings</b>	<b>54,104,383</b>	<b>53,078,122</b>
 Plant - Independent Valuation 2013	 9,391,551	 9,605,059
Net Additions after Valuation - Cost	1,146,123	586,196
Less Accumulated depreciation	(4,992,783)	(3,720,074)
	<b>5,544,891</b>	<b>6,471,181</b>
 Equipment - Independent Valuation 2013	 285,757	 285,989
Net Additions after Valuation - Cost	803,250	611,880
Less Accumulated depreciation	(494,238)	(254,728)
	<b>594,769</b>	<b>643,141</b>
 Furniture and Fittings - Independent Valuation 2013	 37,100	 37,100
Net Additions after Valuation - Cost	3,515	3,515
Less Accumulated depreciation	(23,453)	(12,030)
<b>Total Furniture and Fittings</b>	<b>17,162</b>	<b>28,585</b>
 Artworks at:		
- Independent Valuation 2015	145,040	0
- Cost	0	119,233
<b>Total Furniture and Fittings</b>	<b>145,040</b>	<b>119,233</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

<b>12. PROPERTY, PLANT AND EQUIPMENT (Continued)</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
Work in Progress - At Cost		
- Buildings	31,265	14,165
- Plant	2,864,402	165,886
- Equipment	9,844	0
<b>Total Work in Progress</b>	<b>2,905,511</b>	<b>180,051</b>
 <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	 <b>63,311,756</b>	 <b>60,520,313</b>

The work in progress value (at cost) is represented by:

Wood Waste to Energy plant and equipment	2,864,402	165,886
Other	9,844	14,165
Resource Recovery Park - C & I Building	20,375	0
Resource Recovery Park - MRF Building	10,890	0
<b>Total Work in Progress</b>	<b>2,905,511</b>	<b>180,051</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**12. PROPERTY, PLANT AND EQUIPMENT (Continued)**

**Movements in Carrying Amounts**

Movements in the carrying amount of each class of property, plant and equipment between the beginning and the end of the current financial year are reflected as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total Land &amp; Buildings</u>	<u>Plant</u>	<u>Equipment</u>	<u>Furniture &amp; Fittings</u>	<u>Artworks</u>	<u>Work in Progress</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at the beginning of the year	47,327,000	5,751,122	<b>53,078,122</b>	6,471,181	643,141	28,585	119,233	180,051	<b>60,520,313</b>
Additions	4,103,510	3,900	<b>4,107,410</b>	1,118,157	192,538	0	0	2,728,735	<b>8,146,840</b>
WIP - Transfers in/(out)	0	3,275	<b>3,275</b>	0	0	0	0	(3,275)	<b>0</b>
(Disposals)	(2,961,048)	0	<b>(2,961,048)</b>	(213,508)	(232)	0	0	0	<b>(3,174,788)</b>
Reclassification	0	0	<b>0</b>	0	0	0	0	0	<b>0</b>
Revaluation increments/(decrements)	0	0	<b>0</b>	0	0	0	25,807	0	<b>25,807</b>
Impairment (losses)/reversals	0	0	<b>0</b>	0	0	0	0	0	<b>0</b>
Depreciation expense	<u>0</u>	<u>(123,376)</u>	<u><b>(123,376)</b></u>	<u>(1,830,939)</u>	<u>(240,678)</u>	<u>(11,423)</u>	<u>0</u>	<u>0</u>	<u><b>(2,206,416)</b></u>
<b>Carrying amount at the end of year</b>	<b><u>48,469,462</u></b>	<b><u>5,634,921</u></b>	<b><u>54,104,383</u></b>	<b><u>5,544,891</u></b>	<b><u>594,769</u></b>	<b><u>17,162</u></b>	<b><u>145,040</u></b>	<b><u>2,905,511</u></b>	<b><u>63,311,756</u></b>

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

#### Artworks:

The EMRC's Artworks were revalued at 30 June 2015 by independent valuers.

The revaluation resulted in an overall increase of \$25,807 in the net value of the EMRC's artworks. All of the increase was credited to the revaluation surplus in the Council's equity and was recognised as changes on Revaluation of non-current assets in the Statement of Comprehensive Income.

Refer to Note 31 for detailed disclosures regarding fair value measurement of the EMRC's artworks.

#### Land and Buildings:

Both land and buildings were revalued in 2014 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg. 17A (2)* which requires these assets to be shown at fair value.

They will be revalued during the year ended 30 June 2017 in accordance with the mandatory asset measurement framework detailed at Note 1(c).

#### Furniture and Fittings, Plant and Equipment:

Both furniture and fittings and plant and equipment were revalued in 2013 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

Whilst the additions since that time are shown at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. Thus the value is considered in accordance with *Local Government (Financial Management) Regulations 1996, Reg. 17A(2)* which requires these assets to be shown at fair value.

They will be revalued during the year ended 30 June 2016 in accordance with the mandatory asset measurement framework detailed at Note 1(c).

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

<b>13. INFRASTRUCTURE</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
Landfill Cells:		
- Independent Valuation 2015	11,473,805	0
- Cost	0	20,481,220
Less Accumulated depreciation	(4,407,090)	(11,293,457)
	<b>7,066,715</b>	<b>9,187,763</b>
Other Structures at:		
- Independent Valuation 2015	6,582,783	0
- Cost	0	5,236,490
Less Accumulated depreciation	0	(2,715,781)
	<b>6,582,783</b>	<b>2,520,709</b>
<u>The work in progress value (at cost) is represented by:</u>		
Class III Stage 15 landfill cell construction	3,976,905	475,034
Class III Farm Stage 3 landfill cell construction	130,892	99,664
Other	0	28,604
Red Hill Leachate Project	245,740	0
Resource Recovery Park - Site Infrastructure	189,561	0
Red Hill Greenwaste Processing Area	1,030	0
<b>Total Work in Progress - Infrastructure</b>	<b>4,544,128</b>	<b>603,302</b>
<b>TOTAL INFRASTRUCTURE</b>	<b>18,193,626</b>	<b>12,311,774</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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**13. INFRASTRUCTURE (Continued)**

**Movements in Carrying Amounts**

Movements in the carrying amount of infrastructure between the beginning and the end of the current financial year are reflected as follows:

	<u>Landfill Cells</u> \$	<u>Other Structures</u> \$	<u>Work in Progress</u> \$	<u>Total</u> \$
Balance at the beginning of the year	9,187,763	2,520,709	603,302	12,311,774
Additions	166,049	188,987	3,940,826	4,295,862
WIP - Transfers in/(out)	0	0	0	0
(Disposals)	0	(7,414)	0	(7,414)
Reclassification	0	0	0	0
Revaluation increments/(decrements)	0	4,186,426	0	4,186,426
Impairment (losses)/reversals	0	0	0	0
Depreciation expense	(2,287,096)	(305,926)	0	(2,593,022)
<b>Carrying amount at the end of year</b>	<b>7,066,716</b>	<b>6,582,782</b>	<b>4,544,128</b>	<b>18,193,626</b>

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **13. INFRASTRUCTURE (Continued)**

#### **Infrastructure:**

The EMRC's Infrastructure assets were revalued at 30 June 2015 by independent valuers.

The revaluation resulted in an overall increase of \$4,186,426 in the net value of the EMRC's infrastructure assets. All of this increase was credited to the revaluation surplus in the Council's equity and was recognised as changes on Revaluation of non-current assets in the Statement of Comprehensive Income.

Refer to Note 31 for detailed disclosures regarding fair value measurement of the EMRC's infrastructure assets.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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**14. REVALUATION SURPLUS**

	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
Revaluation surpluses have arisen as a result of the revaluation of the following classes of non-current assets:		
<b>Plant and Equipment</b>		
Opening balance	1,140,349	1,140,349
Revaluation Increment	0	0
<b>Closing Balance</b>	<b><u>1,140,349</u></b>	<b><u>1,140,349</u></b>
<b>Land</b>		
Opening balance	30,965,544	0
Revaluation Increment	0	30,965,544
Revaluation writeback on disposals	(1,489,935)	0
<b>Closing Balance</b>	<b><u>29,475,609</u></b>	<b><u>30,965,544</u></b>
<b>Buildings</b>		
Opening balance	1,205,328	0
Revaluation Increment	0	1,205,328
<b>Closing Balance</b>	<b><u>1,205,328</u></b>	<b><u>1,205,328</u></b>
<b>Artworks</b>		
Opening balance	0	0
Revaluation Increment	25,807	0
<b>Closing Balance</b>	<b><u>25,807</u></b>	<b><u>0</u></b>
<b>Infrastructure - Other Structures</b>		
Opening balance	0	0
Revaluation Increment	4,186,426	0
<b>Closing Balance</b>	<b><u>4,186,426</u></b>	<b><u>0</u></b>
<b>Total Revaluation Surplus</b>	<b><u>36,033,519</u></b>	<b><u>33,311,221</u></b>
<b>Revaluation Surplus Summary</b>		
Opening balance	33,311,221	1,140,349
Revaluation Increment	4,212,233	32,170,872
Revaluation writeback on disposals	(1,489,935)	0
<b>Total Revaluation Surplus</b>	<b><u>36,033,519</u></b>	<b><u>33,311,221</u></b>



**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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**15. TRADE AND OTHER PAYABLES**

	ACTUAL 2014/2015 \$	ACTUAL 2013/2014 \$
<b>Current</b>		
Payroll Accruals	46,734	226,495
GST Liability	0	505,241
Sundry Creditors	4,605,127	3,335,366
	<b><u>4,651,861</u></b>	<b><u>4,067,102</u></b>

**16. PROVISIONS**

<b>Current</b>		
Employees Annual Leave	812,214	729,849
Employees Long Service Leave	522,145	462,632
Carbon Pricing	0	112,759
	<b><u>1,334,359</u></b>	<b><u>1,305,240</u></b>
<b>Non-current</b>		
Employees Long Service Leave	206,966	150,604
Red Hill Landfill Site Post Closure Rehabilitation	1,930,073	1,717,656
Red Hill Landfill Environmental Monitoring	680,965	568,262
Carbon Pricing	4,235,645	4,363,203
	<b><u>7,053,649</u></b>	<b><u>6,799,725</u></b>
<b>Analysis of total provisions:</b>		
Current	1,334,359	1,305,240
Non-current	7,053,649	6,799,725
	<b><u>8,388,008</u></b>	<b><u>8,104,965</u></b>

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Provision for Carbon Pricing \$	Provision for Site Rehabilitation \$	Provision for Environmental Monitoring \$	Total \$
Opening balance as at 1 July 2014	729,849	613,236	4,475,962	1,717,656	568,262	<b>8,104,965</b>
Net Movement in Provisions	82,365	115,875	(240,317)	212,417	112,703	<b>283,043</b>
<b>Balance as 30 June 2015</b>	<b><u>812,214</u></b>	<b><u>729,111</u></b>	<b><u>4,235,645</u></b>	<b><u>1,930,073</u></b>	<b><u>680,965</u></b>	<b><u>8,388,008</u></b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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**17. RESERVES**

	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
<b>(a) Plant and Equipment Reserve</b>			
Opening balance as at 1 July	3,061,317	3,105,203	1,029,772
Transfer from retained surplus	657,727	1,988,288	4,338,395
Transfer to retained surplus	(197,484)	(4,857,000)	(2,339,850)
Interest	113,787	55,986	33,000
<b>Closing Balance as at 30 June</b>	<b>3,635,347</b>	<b>292,477</b>	<b>3,061,317</b>
<b>(b) Site Rehabilitation Reserve - Post Closure</b>			
Opening balance as at 1 July	1,717,656	1,798,686	1,664,322
Transfer from retained surplus	148,572	61,484	0
Transfer to retained surplus	0	0	0
Interest	63,845	61,014	53,334
<b>Closing Balance as at 30 June</b>	<b>1,930,073</b>	<b>1,921,184</b>	<b>1,717,656</b>
<b>(c) Future Development Reserve</b>			
Opening balance as at 1 July	242,215	243,591	234,694
Transfer from retained surplus	3,397,000	3,400,000	0
Transfer to retained surplus	0	0	0
Interest	9,003	63,883	7,521
<b>Closing Balance as at 30 June</b>	<b>3,648,218</b>	<b>3,707,474</b>	<b>242,215</b>
<b>(d) Environmental Monitoring Reserve</b>			
Opening balance as at 1 July	568,262	592,298	550,617
Transfer from retained surplus	91,581	20,170	0
Transfer to retained surplus	0	0	0
Interest	21,122	20,089	17,645
<b>Closing Balance as at 30 June</b>	<b>680,965</b>	<b>632,557</b>	<b>568,262</b>
<b>(e) Environmental Insurance Reserve</b>			
Opening balance as at 1 July	133,486	133,711	168,280
Transfer from retained surplus	0	0	0
Transfer to retained surplus	(49,038)	(49,038)	(40,186)
Interest	4,962	3,641	5,392
<b>Closing Balance as at 30 June</b>	<b>89,410</b>	<b>88,314</b>	<b>133,486</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**17. RESERVES (Continued)**

	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
<b>(f) Risk Management Reserve</b>			
Opening balance as at 1 July	13,023	13,097	12,619
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	484	437	404
<b>Closing Balance as at 30 June</b>	<b>13,507</b>	<b>13,534</b>	<b>13,023</b>
<b>(g) Class IV Reserve</b>			
Opening balance as at 1 July	111,812	515,495	439,249
Transfer from retained surplus	103,506	35,057	58,487
Transfer to retained surplus	(200,000)	(400,000)	(400,000)
Interest	4,156	11,206	14,076
<b>Closing Balance as at 30 June</b>	<b>19,474</b>	<b>161,758</b>	<b>111,812</b>
<b>(h) Regional Development Reserve</b>			
Opening balance as at 1 July	14,747	259,297	20,193
Transfer from retained surplus	895,000	720,000	765,000
Transfer to retained surplus	(810,645)	(978,743)	(771,093)
Interest	548	4,338	647
<b>Closing Balance as at 30 June</b>	<b>99,650</b>	<b>4,892</b>	<b>14,747</b>
<b>(i) Secondary Waste Reserve</b>			
Opening balance as at 1 July	43,581,696	40,230,462	35,964,254
Transfer from retained surplus	4,841,500	5,147,437	7,597,417
Transfer to retained surplus	(5,092,569)	(14,348,763)	(1,132,466)
Interest	1,619,914	1,188,032	1,152,491
<b>Closing Balance as at 30 June</b>	<b>44,950,541</b>	<b>32,217,168</b>	<b>43,581,696</b>
<b>(j) Class III Reserve</b>			
Opening balance as at 1 July	914,509	911,654	1,473,747
Transfer from retained surplus	5,851,849	6,144,012	1,843,535
Transfer to retained surplus	(4,090,000)	(7,070,000)	(2,450,000)
Interest	33,992	15,255	47,227
<b>Closing Balance as at 30 June</b>	<b>2,710,350</b>	<b>921</b>	<b>914,509</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**17. RESERVES (Continued)**

	ACTUAL 2014/2015 \$	BUDGET 2014/2015 \$	ACTUAL 2013/2014 \$
<b>(k) Building Refurbishment Reserve</b>			
Opening balance as at 1 July	65,756	66,129	63,714
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	2,444	2,205	2,042
<b>Closing Balance as at 30 June</b>	<b>68,200</b>	<b>68,334</b>	<b>65,756</b>
<b>(l) Site Rehabilitation Reserve - Ongoing</b>			
Opening balance as at 1 July	0	0	0
Transfer from retained surplus	72,306	0	83,613
Transfer to retained surplus	(72,306)	0	(83,613)
Interest	0	0	0
<b>Closing Balance as at 30 June</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>(m) Long Service Leave Reserve</b>			
Opening balance as at 1 July	714,817	718,798	698,261
Transfer from retained surplus	19,756	19,756	0
Transfer to retained surplus	0	0	(5,820)
Interest	26,570	24,300	22,376
<b>Closing Balance as at 30 June</b>	<b>761,143</b>	<b>762,854</b>	<b>714,817</b>
<b>TOTAL RESERVES</b>	<b>58,606,878</b>	<b>39,871,467</b>	<b>51,139,296</b>

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 17. RESERVES (Continued)

The purpose for which the Reserve funds are set aside are as follows and will be utilised in accordance with annual budgeted expenditure: -

#### ***Plant and Equipment Reserve***

This reserve was established to finance the replacement of major items of plant and equipment.

#### ***Site Rehabilitation Reserve - Post Closure***

This reserve was established to finance the rehabilitation of the Red Hill waste disposal site at time of decommissioning.

#### ***Future Development Reserve***

This reserve was established to finance future developments being undertaken by the EMRC. The reserve is also utilised to provide funds for projects that the EMRC is investigating and undertaking for the purpose of the long term future direction in the area of waste management for the benefit of the region

#### ***Class IV Reserve***

This reserve was established to finance the capping of the existing Class IV cells and the construction of future Class IV cells and associated works at the Red Hill waste disposal site.

#### ***Class III Reserve***

This reserve was established to finance the capping of the existing Class III cells and the construction of future Class III cells and associated works at the Red Hill waste disposal site.

#### ***Environmental Monitoring Reserve***

This reserve was established to provide funds for environmental monitoring after decommissioning of the Red Hill Waste disposal site.

#### ***Environmental Insurance Reserve***

This reserve was established to provide funds to enable the EMRC to immediately respond to the need for repairs to, or rectification of damage to the environment surrounding the Red Hill waste disposal site as a result of any incident not covered by the EMRC's existing insurance policies.

#### ***Risk Management Reserve***

This reserve has been established to receive surpluses from the Risk Management Service. This reserve is to be utilised in funding the future requirements of the service in subsequent financial years.

#### ***Secondary Waste Reserve***

This reserve was established to accumulate and to make provision for Secondary Waste Treatment Technology in the future.

#### ***Regional Development Reserve***

This reserve was established to accumulate and provide funds to enable the EMRC to fund Regional Development activities.

#### ***Building Refurbishment Reserve***

This reserve was established to accumulate and provide funds for the refurbishment of the Ascot Place administration building.

#### ***Site Rehabilitation Reserve - Ongoing***

This reserve was established to finance the ongoing rehabilitation of the completed cells at the Red Hill waste disposal site.

#### ***Long Service Leave Reserve***

This reserve was established to accumulate and provide funds to enable the EMRC to fund staff long service leave.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**18. NOTES TO THE STATEMENT OF CASH FLOWS**

**(i) Reconciliation of Cash**

For the purpose of the Statement of Cash Flows, the EMRC considers cash to include cash on hand, cash at bank and term deposits. Cash at the end of the reporting period as shown in the Statement of Cash Flows is as follows:

	<b>ACTUAL</b> <b>2014/2015</b>	<b>BUDGET</b> <b>2014/2015</b>	<b>ACTUAL</b> <b>2013/2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and Cash Equivalents - Unrestricted	15,445,578	3,631,996	17,254,122
Cash and Cash Equivalents - Restricted	58,941,769	39,269,982	50,769,576
<b>Total Cash</b>	<b>74,387,347</b>	<b>42,901,978</b>	<b>68,023,698</b>

**(ii) Reconciliation of net cash provided by operating activities to Net Result**

Net Result	14,553,581	6,993,473	40,466,529
Depreciation	4,799,438	7,014,101	6,384,145
(Profit)/Loss on sale of assets	(545,682)	(37,542)	(267)
Increase/(Decrease) in provisions - Other	325,119	86,804	70,979
Increase/(Decrease) in provisions - Employee	198,240	26,780	41,634
Increase/(Decrease) in provisions - Carbon price	(240,317)	0	1,921,463
Increase/(Decrease) in Sundry Creditors	458,980	0	(1,624,565)
Increase/(Decrease) in GST	(1,134,865)	0	147,287
(Increase)/Decrease in accrued interest earnings	7,603	0	(505,137)
(Increase)/Decrease in Receivables	838,573	0	578,291
(Increase)/Decrease in Inventory	11,297	0	7,182
(Increase)/Decrease in Prepayments	18,734	0	4,343
(Increase)/Decrease in Revaluation on non-current assets	(4,212,233)	0	(32,170,872)
<b>Net cash from operating activities</b>	<b>15,078,468</b>	<b>14,083,616</b>	<b>15,321,012</b>

**(iii) Undrawn Borrowing Facilities**

**Credit Standby Arrangements**

There were no bank overdraft facilities in place for the EMRC at balance date.

Credit Card Limits	43,000	43,000
Credit Utilised at Balance Date	(7,230)	(2,687)
<b>Net cash from operating activities</b>	<b>35,770</b>	<b>40,313</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**19. EMPLOYEE ENTITLEMENTS**

The aggregate employee entitlements liability recognised and included in the financial report is as follows:

<b>Provision for Employee Entitlements</b> (Refer to Note 16)	<b>ACTUAL</b> <b>2014/2015</b> <b>\$</b>	<b>ACTUAL</b> <b>2013/2014</b> <b>\$</b>
- Current	1,334,359	1,192,481
- Non-current	206,966	150,604
<b>Total Employee Entitlements</b>	<b><u>1,541,325</u></b>	<b><u>1,343,085</u></b>
	<b>ACTUAL</b> <b>FTE's</b> <b>2014/2015</b>	<b>ACTUAL</b> <b>FTE's</b> <b>2013/2014</b>
<b>Total number of (FTE) employees at end of financial year</b>	<b><u>99</u></b>	<b><u>91</u></b>

**20. COUNCILLORS FEES AND ALLOWANCES**

<b>ACTUAL</b> <b>2014/2015</b> <b>\$</b>	<b>BUDGET</b> <b>2014/2015</b> <b>\$</b>	<b>ACTUAL</b> <b>2013/2014</b> <b>\$</b>
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The following fees, expenses and allowances were paid to council members and the Chairman:

Councillors' meeting fees	113,300	110,000	110,675
Chairman's meeting fees	15,450	15,000	15,000
Deputy Councillors' meeting fees	1,856	2,250	3,150
Chairman's Local Government fee	19,570	19,000	19,000
Deputy Chairman's Local Government fee	4,893	4,750	4,750
	<b><u>155,069</u></b>	<b><u>151,000</u></b>	<b><u>152,575</u></b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

<b>21. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
<b>CURRENT ASSETS</b>		
General Purpose Funding	23,844,397	24,694,471
Governance	1,177,741	1,025,360
Community Amenities	54,029,030	46,668,153
Economic Services	99,650	14,747
<b>TOTAL CURRENT ASSETS</b>	<b><u>79,150,818</u></b>	<b><u>72,402,731</u></b>
<b>NON-CURRENT ASSETS</b>		
<b>Land</b>		
Governance	5,400,000	5,400,000
Community Amenities	43,069,462	41,927,000
<b>Buildings</b>		
Governance	3,965,737	4,033,755
Community Amenities	1,669,184	1,717,367
<b>Structures</b>		
Community Amenities	13,649,499	11,708,472
<b>Plant</b>		
Governance	295,216	425,837
Community Amenities	5,249,675	6,045,344
<b>Equipment</b>		
Governance	313,730	284,851
Community Amenities	281,039	358,289
<b>Furniture and Fittings</b>		
Governance	162,201	147,818
<b>Work In Progress</b>		
Unclassified	7,449,639	783,353
<b>TOTAL NON CURRENT ASSETS</b>	<b><u>81,505,382</u></b>	<b><u>72,832,086</u></b>
<b>TOTAL ASSETS</b>	<b><u>160,656,200</u></b>	<b><u>145,234,817</u></b>

<b>22. DISPOSAL OF ASSETS</b>	<b>ACTUAL 2014/2015 \$</b>			<b>BUDGET 2014/2015 \$</b>		
	<b>Net Book Value</b>	<b>Sale Price</b>	<b>Gain (Loss)</b>	<b>Net Book Value</b>	<b>Sale Price</b>	<b>Gain (Loss)</b>
Land	2,961,048	3,247,000	285,952	0	0	0
Structures	7,414	0	(7,414)	0	0	0
Plant	213,508	480,884	267,376	306,908	344,450	37,542
Equipment	232	0	(232)	0	0	0
<b>Total Assets Disposed</b>	<b><u>3,182,202</u></b>	<b><u>3,727,884</u></b>	<b><u>545,682</u></b>	<b><u>306,908</u></b>	<b><u>344,450</u></b>	<b><u>37,542</u></b>



**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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**23. INFORMATION ON BORROWINGS**

(a) Borrowings

The EMRC currently do not have any loans or borrowings.

(b) New Borrowings

There were no new borrowings during the 2014/15 financial year.

(c) Unspent Loans

There were no unspent loans during the 2014/15 financial year.

**24. INTEREST IN THE EMRC**

The following table shows the total interest in the EMRC as at year end:

Member Council	2014/2015		2013/2014	
	%	\$	%	\$
Town of Bassendean	4.54	6,702,763	4.55	6,057,177
City of Bayswater	19.70	29,076,031	19.87	26,435,434
City of Belmont	11.42	16,858,963	11.46	15,247,744
Shire of Kalamunda	16.93	24,996,679	17.07	22,716,221
Shire of Mundaring	11.17	16,479,545	11.38	15,138,568
City of Swan	36.24	53,502,350	35.67	47,467,606
<b>Total Equity</b>	<b>100.00</b>	<b>147,616,331</b>	<b>100.00</b>	<b>133,062,750</b>

The EMRC participating Member Councils' interest distributions for 2014/2015 have been calculated in accordance with clause 9.4 of the Eastern Metropolitan Regional Council Establishment Agreement.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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**25. FINANCIAL RISK MANAGEMENT**

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

Council engages in transactions expressed in foreign currencies with respect to equipment purchases or for legal representation on a minor scale only and therefore not subject to foreign currency risk.

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

The Council held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2014/2015	2013/2014	2014/2015	2013/2014
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash and cash equivalents	74,387,347	68,023,698	74,387,347	68,023,698
Receivables	4,023,621	4,239,474	4,023,621	4,239,474
Financial Assets at fair value through profit and loss	0	0	0	0
	<u><b>78,410,968</b></u>	<u><b>72,263,172</b></u>	<u><b>78,410,968</b></u>	<u><b>72,263,172</b></u>
<b>Financial Liabilities</b>				
Payables	4,021,539	4,067,102	4,021,539	4,067,102
	<u><b>4,021,539</b></u>	<u><b>4,067,102</b></u>	<u><b>4,021,539</b></u>	<u><b>4,067,102</b></u>

Fair value is determined as follows:

Cash and Cash Equivalents, Receivables, Payables - estimated to the carrying value which approximates net market value.

Financial Assets at Fair Value through profit and loss - based on market valuations and verified by independent financial advisors.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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**25. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Cash and Cash Equivalents**

**Financial assets at fair value through profit or loss**

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance area manages the cash and investments portfolio with the assistance of independent advisers. Council has an investment policy and the policy is subject to review by Council.

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

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

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

Council seeks advice from independent advisers before placing any cash and investments.

	<b>2014/2015</b>	<b>2013/2014</b>
	<b>\$</b>	<b>\$</b>
Impact of a 10% movement in price of investments:		
- Equity	0	0
- Statement of Comprehensive Income	0	0
Impact of a 1% movement in interest rates on cash and investments:		
- Equity	743,873	680,237
- Statement of Comprehensive Income	743,873	680,237

**(b) Receivables**

Council's major receivables comprise user charges and fees. The major risk associated with these receivables is credit risk - the risk that the debts may not be repaid. Council manages this risk by monitoring outstanding debt and employing debt recovery policies.

Council makes suitable provision for impairment of receivables as required and carries out credit checks on all debtors.

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

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

	<b>2014/2015</b>	<b>2013/2014</b>
	<b>\$</b>	<b>\$</b>
Percentage of Other Receivables		
- Current	94.1%	80.5%
- Overdue	5.9%	19.5%
	<b>100.0%</b>	<b>100.0%</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**25. FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Payables**

Payables and borrowings are both subject to liquidity risk - that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

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

	<b>Due within 1 year \$</b>	<b>Due between 1 &amp; 5 years \$</b>	<b>Due after 5 years \$</b>	<b>Total contractual cash flows \$</b>	<b>Carrying values \$</b>
<b><u>2014/2015</u></b>					
Payables	4,021,539	0	0	4,021,539	4,021,539
	<b>4,021,539</b>	<b>0</b>	<b>0</b>	<b>4,021,539</b>	<b>4,021,539</b>
<b><u>2013/2014</u></b>					
Payables	4,067,102	0	0	4,067,102	4,067,102
	<b>4,067,102</b>	<b>0</b>	<b>0</b>	<b>4,067,102</b>	<b>4,067,102</b>

**(d) Borrowings**

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

Council currently do not have any borrowings or loans.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

<b>26. COMMITMENTS FOR CAPITAL EXPENDITURE</b>	<b>ACTUAL 2014/2015 \$</b>	<b>ACTUAL 2013/2014 \$</b>
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities, payable:		
- Not longer than one year	927,527	35,600
<b>Total Capital Commitments</b>	<b>927,527</b>	<b>35,600</b>

<b>27. FINANCIAL RATIOS</b>	<b>ACTUAL 2014/2015</b>	<b>ACTUAL 2013/2014</b>	<b>ACTUAL 2012/2013</b>
Current Ratio	3.70 : 1.00	4.41 : 1.00	2.69 : 1.00
Asset Sustainability Ratio *	0.24 : 1.00	0.06 : 1.00	0.19 : 1.00
Operating Surplus Ratio	0.27 : 1.00	0.22 : 1.00	0.29 : 1.00
Own Source Revenue Coverage Ratio	1.23 : 1.00	1.19 : 1.00	1.36 : 1.00
Debt Service Cover Ratio	Not Applicable	Not Applicable	Not Applicable

The following information relates to those ratios which only require attestation. They have been checked and are supported by verifiable information.

	<b>ACTUAL 2014/2015</b>	<b>ACTUAL 2013/2014</b>	<b>ACTUAL 2012/2013</b>
Asset Consumption Ratio	0.68 : 1.00	0.57 : 1.00	0.59 : 1.00
Asset Renewal Funding Ratio	1.00 : 1.00	1.00 : 1.00	1.00 : 1.00

\* The EMRC as a Regional Local Government has a high and diverse level of new capital expenditure for which the depreciation expense is also based on, resulting in a low ratio.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**28. CONTINGENT LIABILITIES**

Contingent liabilities at balance date, not otherwise provided for in the financial statements, relate to an action by Lehman Brothers in the United States Bankruptcy Court.

On 9 May 2007 EMRC invested \$450,000 into Federation notes.

On 30 Oct 2008, in common with hundreds of other investors in the Federation notes, this investment of \$450,000 was fully repaid to the EMRC.

Subsequently Lehman Brothers Special Financing Inc. commenced an action in the United States Bankruptcy Court, Southern District of New York, No. 10 - 803547 applying for an order for all investors to repay the amounts paid.

It is the opinion of the attorney representing the EMRC in this action that the claim will not be decided until about 2018.

**29. ECONOMIC DEPENDENCY**

A significant portion of revenue is received by way of grants from the State and Federal Government. The total of grant revenue from government sources is disclosed in Note 5.

**30. EVENTS AFTER THE REPORTING PERIOD**

There have been no significant events after the reporting period required to be included in the 2014/2015 Annual Financial Report.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT

The EMRC measures the following assets at fair value on a recurring basis after initial recognition:

- Financial Assets at fair value through profit or loss
- Land and buildings
- Plant
- Equipment
- Furniture and Fittings
- Artworks
- Infrastructure

The following table provides the fair values of the EMRC's assets measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy [refer to Note 1(d)]:

#### Recurring Fair Value Measurements

30 June 2015					
	Note	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Financial Assets at fair value through profit or loss:					
- CDOs	7(b)	0	0	0	0
<b>Total financial assets recognised at fair value on a recurring basis</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Non-Financial Assets</b>					
Land	12	0	48,469,462	0	48,469,462
Buildings	12	0	0	5,634,921	5,634,921
Plant	12	0	5,544,891	0	5,544,891
Equipment	12	0	594,769	0	594,769
Furniture and Fittings	12	0	17,162	0	17,162
Artworks	12	0	145,040	0	145,040
Infrastructure	13	0	0	13,649,498	13,649,498
<b>Total non-financial assets recognised at fair value on a recurring basis</b>		<b>0</b>	<b>54,771,324</b>	<b>19,284,419</b>	<b>74,055,743</b>

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT (Continued)

		30 June 2014			
	Note	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Financial Assets at fair value through profit or loss:					
- CDOs	7(b)	0	0	0	0
<b>Total financial assets recognised at fair value on a recurring basis</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Non-Financial Assets</b>					
Land	12	0	47,327,000	0	47,327,000
Buildings	12	0	0	5,751,122	5,751,122
Plant	12	0	6,471,181	0	6,471,181
Equipment	12	0	643,141	0	643,141
Furniture and Fittings	12	0	28,585	0	28,585
<b>Total non-financial assets recognised at fair value on a recurring basis</b>		<b>0</b>	<b>54,469,907</b>	<b>5,751,122</b>	<b>60,221,029</b>

The EMRC's artworks and infrastructure assets were valued on the cost basis for the year ended 30 June 2014 and revalued at 30 June 2015. Therefore, no fair values have been reported for the year ended 30 June 2014.

#### (a) Transfers Policy

The policy of the EMRC is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period. There were no transfers between Levels 1 and 2 for recurring fair value measurements during the year. There were also no transfers in and out of Level 3 measurements.

#### (b) Highest and Best Use

There were no assets valued where it was assumed that the highest and best use was other than their current use.



# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT (Continued)

#### (c) Valuation techniques and Inputs used to derive fair values

The following table summarises valuation inputs and techniques used to determine the Fair value for each asset class.

Asset	Level of Valuation Input	Fair Value at 30 June 2015	Valuation Technique(s)	Inputs Used
<b>Financial Assets</b>				
Financial Assets at Fair Value through profit or loss – CDOs	2	0	Market approach	Similar priced securities in a more active market.
<b>TOTAL</b>		<b>0</b>		
<b>Non-Financial Assets</b>				
Land	2	31,234,677	Market approach	Price per square metre.
	2	17,234,785	Cost Approach	Price per square metre.
Buildings	3	1,669,184	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
	3	3,965,737	Market and income approach	Rental yields and price per square metre
Plant	2	5,544,891	Market approach	Make, size, year of manufacture and condition
Equipment	2	594,769	Market approach	Make, size, year of manufacture and condition
Furniture and Fittings	2	17,162	Market approach	Make, size, year of manufacture and condition
Artworks	2	145,040	Market approach	Estimated value expected to be realised
Infrastructure	3	13,649,498	Cost approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount.
<b>TOTAL</b>		<b>74,055,743</b>		

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT (Continued)

#### Recurring fair value measurements

The following methods are used to determine the fair value measurements.

#### Artworks

Valuation inputs and techniques used to determine the fair value for all Art work Assets have been based on Level 2 inputs - Market Based.

It has been determined that there is an active market for the Art Work Assets and hence the 'market approach' has been adopted.

#### *Level 2 valuation inputs*

Market (Direct Comparison) - This has been applied and fair value assessed on the basis of the estimated amount which the interest in each item of Art Work valued might reasonably be expected to realise on the date of valuation in an exchange between market participants given highest and best use or highest and best alternative use. This was determined by comparison to recent sales of Art work with similar characteristics. This was then adjusted to reflect conditions and comparability. As this was based on observable evidence they have been classified as Level 2.

#### Infrastructure

##### Road, Equipment and Civil Assets

All road, equipment and civil assets were valued using the cost approach.

The approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres or similar capacity could be supported from market evidence (level 2) other inputs (such as estimates of residual value, useful life, pattern of consumption and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

The consumption rating scales were based initially on the past experience of the valuation firm and industry guides and were then updated to take into account the experience and understanding of Eastern Metropolitan Regional Council's own engineers, asset management and finance staff. The results of the valuation were further evaluated by confirmation against Eastern Metropolitan Regional Council's own understanding of the assets and the level of remaining service potential.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT (Continued)

The quantitative disclosures of the remaining service potential relating to each corresponding condition score for each of the patterns of consumption utilised in this valuation are as follows:

		% RSP of Depreciable Amount
Score	Description	Straight-Line
0	New or very good condition – very high level of remaining service potential.	100%
1	Not new but in very good condition with no indicators of any future obsolescence and providing a high level of remaining service potential.	85%
2	Aged and in good condition, providing an adequate level of remaining service potential. No signs of immediate or short term obsolescence.	50%
3	Providing an adequate level of remaining service potential but there are some concerns over the asset's ability to continue to provide an adequate level of service in the short to medium term. May be signs of obsolescence in short to mid-term.	25%
4	Indicators showing the need to renew, upgrade or scrap in near future. Should be reflected by inclusion in the Capital Works Plan to renew or replace in short-term. Very low level of remaining service potential.	10%
5	At intervention point. No longer providing an acceptable level of service. If remedial action is not taken immediately the asset will need to be closed or decommissioned.	0%
6	Theoretical end of life.	Fully Written Off

The main level 3 inputs used are derived and evaluated as follows -

- Relationship between asset consumption rating scale and the level of consumed service potential –  
Under the cost approach the estimated cost to replace the asset is calculated and then adjusted to take account of an accumulated depreciation. In order to achieve this, the Valuer determines an asset consumption rating scale for each asset type based on the inter-relationship between a range of factors. These factors and their relationship to the fair value require professional judgment and include asset condition, legal and commercial obsolescence and the determination of key depreciation related assumptions such as residual value, useful life and pattern of consumption of the future economic benefit.

The consumption rating scales were based initially on the past experience of the valuation firm and industry guides and were then updated to take into account the experience and understanding of council's own engineers, asset management and finance staff. The results of the valuation were further evaluated by confirmation against council's own understanding of the assets and the level of remaining service potential.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT (Continued)

#### Landfill Cells & Associated Leachate & Siltation Ponds

Landfill comprises both the cells and capping and is classified as a land improvement which is recorded separate to the land. The underlying land is valued independently of the land improvements. Land values for Eastern Metropolitan Regional Council were provided in valuation reporting 30 June 2014.

This valuation has been determined using the cost approach. This included disaggregating the overall land improvements into a range of different components based on each component providing a different purpose and as a result exhibiting a different useful life. Day to day operating costs (such as minor maintenance and monitoring) has been excluded from the valuation. To provide consistency, any associated day to day revenues have also been excluded from the valuation.

Observable inputs to the valuation included the dimensions and design of the assets, the average unit rate for similar construction based on recent and future advised projects undertaken by the council and the amount of remaining volume in each cell from survey plans issued to Eastern Metropolitan Regional Council as at February 2015. Unobservable inputs included the estimated remaining life of the site. This has been based on council's statutory requirement to continue monitoring the site post complete consumption of the landfill. All calculations assume a zero residual value and a constant pattern of consumption. The approach applied for each component was –

- Cost to prepare cells - based on historic, current and future estimated development costing information provided by Eastern Metropolitan Regional Council. The gross replacement costs are then depreciated to nil over remaining life of the cell. Quantitative details and forecast cell consumption for ground level capacity and design capacity volumes were provided to APV.
- Cost to prepare each Leachate pond - based on historic and current cost information and depreciated to nil at conclusion of the monitoring and maintenance period. Monitoring and maintenance period has been estimated at 20 years from when the associated cells have been completed.
- Cost to prepare Siltation pond - based on historic and current cost information and depreciated to nil at the conclusion of the monitoring and maintenance period. Monitoring and maintenance period has been estimated at 20 years from when the associated cells have been completed.

Costs associated with cell capping, site rehabilitation or remediation are a liability that rests with the council and of which costs associated with these works are recorded as an expense item.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015

### 31. FAIR VALUE MEASUREMENT (Continued)

#### (d) Fair Value Sensitivity to Unobservable Inputs

The following table provides a summary of the unobservable inputs and an assessment of the sensitivity of these to the fair value measurement.

#### Fair Value Sensitivity to Unobservable Inputs

Asset	Unobservable Inputs	Sensitivity to Unobservable Market Inputs (%)		Amount of Potential Impact	
		Lower	Upper	Lower	Upper
Landfill Cells	Relationship between asset consumption rating scale and the level of consumed service potential	(5.00)%	5.00%	-\$352,786	\$352,786
Other Structures and Associated Ponds	Relationship between asset consumption rating scale and the level of consumed service potential	(5.00)%	5.00%	-\$329,139	\$329,139

#### (e) Valuation processes

The EMRC engages external, independent and qualified valuers to determine the fair value of the Council's land, buildings, plant, equipment, infrastructures, artworks and furniture and fittings on a regular basis. An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from the fair value. If any variation is considered material a revaluation is undertaken either by comprehensive revaluation or by applying an interim revaluation using appropriate indices.

As at 30 June 2015, a comprehensive revaluation was undertaken for all asset classes subject to revaluation by APV Valuers and Asset Management.

In determining the valuations data was sourced from the following –

#### Replacement cost (including indices) where cost approach was used

- Actual construction or purchase prices for recent projects paid by the EMRC. This may include further enquires with the supplier to ensure adjustments for any recent price movements. Depending on the complexity of the project it may also involve disaggregating the overall cost into greater detail.
- Appropriate valuers databases recording details of actual costs from recent projects sourced directly from clients. Preference is provided to nearby locations.
- Rawlinson's Construction Guide or similar guides (such as Cordells).
- Development of costs using first principles, to assist in this process a number of models were developed for specific asset types (such as fencing).

As per AASB 13 allowance was then made to adjust for condition and comparability.

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2015**

### **31. FAIR VALUE MEASUREMENT (Continued)**

#### **(d) Fair Value Sensitivity to Unobservable Inputs**

##### **Condition assessment and confirmation of attributes**

The physical inspection of the asset is a critical aspect of the process. Apart from confirming condition the process also involves validation of key attributes such as material type, dimensions, etc.

All assets valued using the market approach were physically inspected to assess the physical condition and how they may impact the assets highest and best use to potential market participants and ultimately its market value.

For assets valued using the cost approach (except where noted below) all were physically inspected. This included validation of physical dimensions and characteristics.

Sampling approach –

- No sampling was used. All assets were physically inspected

Assets Not Inspected –

- Some assets (such as underground pipes and pits) were unable to be inspected due to their nature and the cost involved in undertaking extensive engineering assessments.

Where such data was not readily available a range of assumptions were developed based on the expected physical condition and attributes given the age of the asset and typical design characteristics. These assumptions were reviewed and confirmed as reasonable by council staff.

##### **Relationship between consumption score and level of consumed service potential**

The consumption profile provides an objective mechanism to translate the assessed consumption score to an estimate of the depreciated replacement costs taking into account the typical asset lifecycle phases and estimated pattern of consumption of the future economic benefit. The consumption profile is based on the relationship between the percentage of remaining useful life (%RUL) and percentage of remaining service potential (%RSP). As such they involve a level of professional judgement and represent unobservable market evidence (level 3 inputs).

## **INDEPENDENT AUDITOR'S REPORT**



**For the Year Ended  
30 June 2015**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL**

#### **Report on the Financial Report**

We have audited the financial report of the Eastern Metropolitan Regional Council, which comprises the Statement of Financial Position as at 30 June 2015 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

#### ***Management's Responsibility for the Financial Report***

Management is responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal controls as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to management's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

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

#### ***Independence***

In conducting our audit, we followed applicable independence requirements of Australian professional accounting bodies.



## INDEPENDENT AUDITOR'S REPORT (Cont'd)

### *Auditor's Opinion*

In our opinion, the financial report of the Eastern Metropolitan Regional Council:

- (a) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2015 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.


### **Report on Other Legal and Regulatory Requirements**

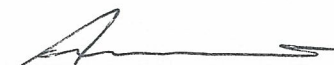
In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- (a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Council.
- (b) There are no matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at Note 27 of the annual financial report) we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
  - (i) reasonably calculated; and
  - (ii) based on verifiable information.
- (d) All necessary information and explanations were obtained by us.
- (e) All audit procedures were satisfactorily completed in conducting our audit.

### ***Matters Relating to the Electronic Publication of the Audited Financial Report***

This auditor's report relates to the financial report of Eastern Metropolitan Regional Council for the year ended 30 June 2015 included on the Eastern Metropolitan Regional Council's website. Management is responsible for the integrity of the Eastern Metropolitan Regional Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

  
MACRI PARTNERS  
CERTIFIED PRACTISING ACCOUNTANTS  
SUITE 2, 137 BURSWOOD ROAD  
BURSWOOD WA 6100

  
A MACRI  
PARTNER

PERTH  
DATED THIS 4<sup>TH</sup> DAY OF SEPTEMBER 2015.



4 June 2015

Chief Executive Officer  
 Eastern Metropolitan Regional Council  
 PO Box 234  
 BELMONT WA 6984

Dear Sir

**RE: INTERIM AUDIT VISIT FOR THE YEAR ENDING 30 JUNE 2015**

We carried out an interim audit of the Eastern Metropolitan Regional Council (EMRC) for the year ending 30 June 2015.

Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- ☐ Bank Reconciliations
- ☐ Investments
- ☐ Purchases
- ☐ Payments and Creditors
- ☐ Receipts and Sundry Debtors
- ☐ Payroll
- ☐ General Accounting (Journals, etc.)
- ☐ IT Controls
- ☐ Registers (Tenders Register, etc.)
- ☐ Minutes Review

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.

Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the EMRC.



Because of the inherent limitations of any internal control structure, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify.

Accordingly, our comments in this management letter are not intended to cover all aspects of the EMRC's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matter was noted and is brought to your attention.

### **INVESTMENT OF FUNDS**

We conducted a review of the investment of funds by the EMRC at the time of our audit visit. The following matters were noted and are brought to your attention:

- (i) The Council's investment register is reconciled on a monthly basis to the general ledger by the Finance Team Leader. However, we noted that there is no evidence of review of these reconciliations by an independent senior officer.

We recommend that the investment reconciliations be reviewed by an independent senior officer to ensure any unusual reconciling items are investigated. The reconciliations should be initialled and dated as evidence that the reviews have been performed on a prompt basis.

#### **Management Comment:**

***The investment reconciliations are reviewed and checked by the Manager, Financial Services on a monthly basis. However, these are not signed and consequently, there is no support or evidence of signatory confirmation.***

***As per the auditor's recommendation and with immediate effect from the month ending 31 May 2015, the Manager, Financial Services will sign a hardcopy of the monthly investment reconciliation after he has reviewed them.***



## **PURCHASING AND PAYMENTS**

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Professional judgement is used to assess the risk of material misstatement, and design and perform further audit procedures where necessary to reduce the risk to an acceptable low level. Our audit procedures have been designed to also determine whether purchases of goods/services were in accordance with Council's purchasing policy.

Generally the controls surrounding purchases and payments are appropriate to meet the Council's requirements and are in accordance with Council's purchasing policy.

However, the following matters were noted as requiring attention:

- (i) We noted 3 instances (19 samples tested) whereby the process of requisitioning, approving and raising of purchase order, receiving the goods as well as approval of the supplier invoice for payment was performed by the same officer.

The nature of the procurement for these instances was:

- Professional legal fees
- Weed control services at Red Hill Waste Management Facility
- Consultancy services for groundwater remediation

Such lack of segregation of duties may increase the risk of misappropriation of Council assets and fraud.

We recommend that the duties relating to the process of requisitioning, approving and raising of purchase orders, receipt of goods as well as approval of invoices be appropriately segregated to maintain effective internal control.

We further suggest that a comprehensive exercise be carried out by management to investigate instances of such nature where employees have responsibilities to all functions in the procurement cycle.

### **Management Comment:**

*Following discussions with the software provider, changes have been made to the SynergySoft Purchase Orders module to prevent the raising of a requisition and converting to a purchase order by the same person.*

*Further training and refresher sessions are planned to reiterate to the authorising officers the importance of the segregation of duties when raising a requisition and converting to a purchase order.*



- (ii) During our testing, we noted two (2) instances (19 samples tested) where the purchase orders had been raised only after the goods and services have been supplied.

These instances related to:

- Weed control services at Red Hill Waste Management Facility
- Consultancy services for groundwater remediation

Such practice may increase the risk of unauthorised purchases being made. We request that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received. This will ensure that goods and services have been obtained at the most competitive prices and ensure adherence to the Council's purchasing policy.

**Management Comment:**

***A monthly late purchase orders report (PO's raised after the invoice date) is reviewed by the Executive Management Team and appropriate action taken.***

***During the review of the Late Purchase Order Report, these issues were identified and the responsible officers were reminded of the importance of sound practice and the requirements of the EMRC's purchasing policy.***

***Reinforcing the requirement for a purchase order to be raised prior to the purchasing of goods or the engaging of services will be undertaken with the appropriate staff members.***

- (iii) During our testing, we noted an instance where the minimum quotations as required by the Council's Purchasing policy were not obtained to procure goods and services. We were advised that the reason for this was because the purchase was made from one of the Western Australia Local Government Association (WALGA) preferred suppliers. The purchase was for the supply of ferricrete to the Gateway WA project totalling to an amount of \$117,644 (exc. GST).

Regulation 11(2) of the Local Government (Functions and General) Regulations 1996 stipulates that tenders do not have to be publicly invited if the supply of the goods or services is to be obtained through the Council Purchasing Service of WALGA.

On a previous occasion, we sought clarification with WALGA and the Department of Local Government and Communities on this matter and were advised as follows:

- Where the intended purchase is under the \$100,000 threshold, the local government should follow its purchasing policy with respect to obtaining quotations from either WALGA preferred suppliers or non-WALGA suppliers.
- Where the intended purchase is over the \$100,000 (exc. GST) threshold and the local government wishes to use the Council Purchasing Service of WALGA without going through the tender process, the local government should still follow the process of obtaining quotations from the WALGA panel. This will ensure that the local government is procuring goods and services at best value for money.



Based on the clarification obtained above, in our opinion, the procurement policy should be reviewed and amended to provide Council staff with guidance for acquiring goods and services from the WALGA panel where the procurement is over \$100,000. Where the procurement is under \$100,000, staff should follow the Council's purchasing policy in line with obtaining quotations based on the procurement thresholds irrespective of the source of the suppliers.

**Management Comment:**

*It is standard practice to obtain multiple quotations when the WALGA preferred supplier panel is used. Whilst this is understood by staff, the policy will be modified to make it explicit.*

*In the incident referred to above, the EMRC'S stocks of ferricrete were depleted due to the contractor (appointed under a tender) having problems with their crushing equipment. As a result, the EMRC were unable to supply ferricrete to meet the needs of a customer - Gateway WA.*

*Ferricrete was subsequently sourced from a supplier on the WALGA panel.*

*The purchased material was on-sold to Gateway WA at a profit and given all the circumstances the CEO exercised his delegated authority to waive quotations in accordance with the Purchasing Policy. Hence, this was a profitable and beneficial transaction to the EMRC.*

- (iv) During the audit, we noted that that Purchase Orders can be backdated in the Synergysoft financial system. At the time of raising Purchase Requisitions, the requesting officer can change the pre-populated date to the desired date. The system allows conversion of the Purchase Requisition into a Purchase Order with the date entered by the requesting officer.

Such practice may increase the risk of raising purchase orders after the goods and services and the relating supplier invoices have been received.

We recommend that this matter be investigated with the software supplier for the Council's financial system.

**Management Comment:**

*This is an anomaly in the SynergySoft software, which is widely utilised by Local Governments throughout Australia.*

*Since being brought to the attention of the EMRC, the issue was raised with the software provider to implement changes to restrict the manual entry of the purchase order date.*

*The Purchase Orders module in SynergySoft has now been changed so that the purchase order date is the date of the conversion and not the date of the requisition.*



## **CREDITORS**

New suppliers are set up in the creditors module of the SynergySoft financial system by the Finance Team after receiving a completed "Supplier Details Form" from the staff. Details obtained include Australian Business Numbers (ABNs), bank account details, etc.

We noted that the process of carrying out background checks (e.g. ASIC company extracts obtained to view shareholders' and directors' details, etc.) on new suppliers before entry into the SynergySoft system was not undertaken for new suppliers during the year. Such checks serve as an anti-fraud control and can assist to identify current or past Council employees, elected members, etc.

We recommend that where considered appropriate background checks be performed as an anti-fraud control on new suppliers before entry into the SynergySoft system. Such checks should be attached to support the completed "Supplier Details Form" and stored for record-keeping purposes.

This matter was raised in our previous interim audit management letter dated 1 July 2014. The management response then provided was as follows:

*Additional future background checks such as ASIC company extracts will be undertaken on a case by case basis where appropriate.*

### **Management Comment:**

*Over the past year, there were no instances where management felt it warranted to make the additional background checks.*

*A guideline will however be developed to ensure the methodology and processes are documented. This will also ensure consistency in its application.*

*The EMRC's Code of Conduct already requires officers and councillors (including all associates and related parties) to declare all conflicts of interest.*

## **SUNDRY DEBTORS**

We examined the procedures in relation to debtor invoicing, receipting, banking and debt collection. The following matter is noted and brought to your attention:

We noted that whilst the actual procedures in practice appear to be appropriate for the raising of invoices, credit notes and recovery of debts for sundry debtors, there are no documented procedures existing for staff to follow.

A detailed procedural document (i.e. management guideline) in this area is recommended which would assist to:

- Reflect the desired processes and procedures undertaken ; and
- Ensure that roles and responsibilities are clearly defined.

### **Management Comment:**

*A BMS has been developed since the Interim Audit, which addresses the recommendation outlined above.*



We thank your staff for the assistance provided during the audit. Should you have any queries with respect to the above or any other matters please do not hesitate to contact our office.

Yours faithfully



**ANTHONY MACRI**  
**AUDIT PARTNER**







Certified Practising Accountants

## **Eastern Metropolitan Regional Council**



Audit Completion Report to the  
Audit Committee  
For the Year Ended 30 June 2015

25 August 2015

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# 1. Executive Summary

Under the requirements of Australian Auditing Standard ASA 260: “*Communication with Those Charged with Governance*”, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Completion Report together with our previous External Audit Plan discharges the requirements of the Auditing Standard.

This report has been prepared for the Audit Committee to summarise the significant matters that have arisen from our year-end audit of the EMRC for the year ended 30 June 2015.

## 1.1 Status of Audit

Our audit field work at the EMRC for the financial year ended 30 June 2015 has been completed.

Before our Independent Auditor’s Report is signed off and issued to the Council, the following outstanding matter is required to be attended to:

- Completion of audit procedures relating to Auditing Standard ASA 560 *Subsequent Events* to be performed up to the date of signing the Independent Auditor’s Report.

## 1.2 Deliverables

Output	Timing
External Audit Plan	May 2015
Interim Audit Management Letter	4 June 2015
Present the Audit Completion Report to the Audit Committee	3 September 2015
Provide Independent Auditor’s Report on the Financial Report	After recommendation of Financial Report by Audit Committee

## 2. Financial Statements and Audit Opinion

### Audit Opinion

We have completed the audit of the EMRC's accounts in line with current Australian Auditing Standards and will give an **Unqualified Opinion** [subject to subsequent events procedures] that the financial report of the Eastern Metropolitan Regional Council

- (a) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2015 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.

Refer to **Appendix 1** for our Proposed Draft Independent Auditor's Report

## 3. Current Year Areas of Audit Focus

Our audit procedures were focused on those areas of Eastern Metropolitan Regional Council's activities that are considered to represent the key audit risks identified in our external audit plan and through discussions with management during the course of our audit.

	Risk Area	Audit Response
1	Infrastructure – Landfill Cells and Other Structures	<p>EMRC's Infrastructure Assets were valued at fair value from the historical cost basis for the first time during the year ended 30 June 2015 using external independent valuers, APV Valuers and Asset Management. Infrastructure Assets consist of primarily landfill cells and Other Structures.</p> <p>Audit procedures tested on a sample basis:</p> <ul style="list-style-type: none"> <li>• Capital asset additions on a sample basis for accuracy to supporting documentation.</li> <li>• Valuation to fair value from cost on the EMRC's Infrastructure Assets.</li> </ul> <p>The accounting treatment adopted by management for landfill cells was consistent to prior year with respect to capitalising the cell excavation and development costs and cell liner costs and amortising these over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year. Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.</p>

		<p>We have relied upon the values adopted by the external valuers. This involved reviewing the following:</p> <ul style="list-style-type: none"> <li>• the judgements, assumptions and data used;</li> <li>• review of depreciation/amortisation charge for reasonableness (i.e. estimation techniques applied); and</li> <li>• the expertise and appropriateness of valuations undertaken by your external valuer.</li> </ul> <p>Asset reconciliation schedules were verified against trial balance reported amounts.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the infrastructure asset classes.</p>
2	Provisions for Site Rehabilitation and Environmental Monitoring	<p>Landfill at the red hill facility comprises a number of cells that are constructed at different times throughout the lifecycle of the facility. The methodology applied by the EMRC with regard to its cell waste management is: As one cell is filled and capped, another cell is prepared and opened. At any given time, EMRC has between 1 to 3 cells in operation. The obligation for EMRC to recognise the provision for site rehabilitation and environmental monitoring arises at the time the landfill is first put into use. Increments in the provision are calculated on the basis of actual tonnages filled in the cells during the year, present value of the costs for site rehabilitation and environmental monitoring and remaining capacity of the landfill site.</p> <p>In 2015, the EMRC appointed a specialist engineering consultant firm "Wajon &amp; Associates" to provide revised estimates of the closure and post-closure management liabilities for the Red Hill Waste Management Facility. The estimates were then reviewed internally by management and slightly amended in line with current practice.</p> <p>As a result of the evaluation, the EMRC increased its existing provisions for site rehabilitation and environmental monitoring.</p> <p>We reviewed the estimates and assumptions in the model developed by the Consultants &amp; EMRC for estimating total future rehabilitation expenditures over the landfill discounted to net present value as at 30 June 2015.</p> <p>Audit procedures were performed to review and assess the completeness, accuracy and valuation of the provisions for site rehabilitation and environmental monitoring.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the Provisions for Site Rehabilitation and Environmental Monitoring.</p>



3	Contingent Liabilities	<p>Contingent liabilities at balance date relate to an action by Lehman Brothers in the United States Bankruptcy Court for Federation notes which was also disclosed in the financial report for the year ended 30 June 2014.</p> <p>Audit procedures included discussions with management and reviewing the representation letter by the EMRC's solicitor (Haydn Robinson) to clarify the current position on the matter. The legal advice provided to the EMRC about this claim is, in substance, the claim will not be decided until about 2018.</p> <p>We have also obtained a management representation letter to confirm that there are no further contingent liabilities required to be disclosed, other than those currently disclosed in the financial report.</p> <p>At this date, we are satisfied with management's disclosure of the contingent liability in the financial report.</p>
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We are satisfied that these key areas of focus have been addressed appropriately based on our audit procedures and are properly reflected in the EMRC's financial report.

## 4. Assessment of Internal Controls

Our interim phase of the audit indicated that the current internal control systems and processes are reasonable. They are designed adequately for EMRC's current business operations.

However, a separate Interim Audit Management Letter has been provided to management following our interim audit which provides details of the internal control and compliance matters raised.

We will be following up on the implementation of the management comments during our next interim audit visit. The result of our follow-up will be reported within our next Interim Audit Management Letter.

## 5. Key Findings During Final Phase of Audit

During our audit planning procedures and risk identification process, we identified a number of key focus areas as outlined in Section 3 above. In addition, during the course of our year-end fieldwork, other accounting and audit issues were noted. Our consideration of these matters is set out below.

We request that the Audit Committee review the matters below and satisfy themselves that:

- there are no other matters of which you are aware that would impact these issues;
- there are no other significant issues that ought to be considered before recommending the adoption of the financial statements to the Council; and
- you concur with the resolution of the issues as described below.

1	<b>Area: Landfill Cells – Cell Capacity Estimations</b>
	<b>Key Findings</b>
	<p>During the audit, it was noted that the Provisions for Site rehabilitation and Environmental Monitoring had been calculated based on the following assumptions</p> <ul style="list-style-type: none"> <li>• The total tonnage capacity of the landfill is 20 million tonnes.</li> <li>• The remaining tonnage capacity of the landfill is 8 million tonnes.</li> </ul> <p>These estimates have been provided by the engineering officers of EMRC.</p> <p>It is noted that landfill capacity values undergo revisions during the operation of the landfill when waste quantities delivered at the site vary from the rates estimated prior to the start of landfill operations.</p>
	<b>Recommendation</b>
	<p>Whilst we accept the estimates provided internally by the engineering officers of EMRC, we recommend that the estimates for the total and remaining tonnage capacity of the landfill be reviewed by an external expert in order to confirm that the estimates are reasonable.</p>

2	<b>Area: Provisions for Site Rehabilitation and Environmental Monitoring - Remaining Components</b>
	<b>Key Findings</b>
	<p>We note that the report from the specialist engineering consultant firm "Wajon &amp; Associates" indicated the following components of the closure, post closure management and monitoring cost estimate were not undertaken independently or critically reviewed and require further assessment:</p> <ul style="list-style-type: none"> <li>• Site demolition and removal</li> <li>• Rectification of any land subsidence or water erosion</li> <li>• Landfill gas management</li> <li>• Leachate management</li> <li>• Stormwater management</li> </ul>
	<b>Recommendation</b>
	<p>On the basis of discussions held with the Director Waste Services, we recommend that the remaining components listed in the expert's report be reviewed and addressed in order to provide more accuracy for the calculation of the provisions going forward.</p>

## 6. Specific Required Communications

The Australian Auditing Standard ASA 260: “*Communication with Those Charged with Governance*” requires the auditor to communicate certain matters to the Audit Committee that may assist them in overseeing management’s financial reporting and disclosure process. Below we summarise these required communications as they apply to your organisation.

Reporting Requirement	Detailed Comments
Changes to Audit Approach Outlined in External Audit Plan	<ul style="list-style-type: none"> <li>➤ There were no changes to the audit approach outlined in the External Audit Plan.</li> </ul>
Significant accounting policies	<ul style="list-style-type: none"> <li>➤ Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the EMRC including new pronouncements adopted during the year, are described in Note 1 to the financial statements.</li> <li>➤ There were no significant changes in the application of existing policies during the year ended 30 June 2015. The accounting policies adopted in the financial statements are appropriately disclosed.</li> </ul>
Sensitive Accounting Estimates and Disclosures	Refer to “Current Year of Audit Focus” section
Misstatements and significant audit adjustments	<ul style="list-style-type: none"> <li>➤ We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. In the context of the EMRC, we consider that amounts of a value less than \$60,000 should be considered trivial. This represents 5% of materiality.</li> <li>➤ A number of disclosure adjustments to the financial statements have been discussed and amended during the course of our audit.</li> <li>➤ No financial adjustments have been raised through our audit work meaning there are no unadjusted misstatements to report.</li> </ul>
Significant Weaknesses in Internal Controls	<ul style="list-style-type: none"> <li>➤ No significant weaknesses in internal control were identified. Refer to our Interim Audit Management Letter.</li> </ul>
Disagreements with management	<ul style="list-style-type: none"> <li>➤ There have been no significant disagreements with management during the course of the audit.</li> </ul>



<p>Serious Difficulties Encountered in Dealing with Management when Performing the Audit such as:</p> <ul style="list-style-type: none"> <li>• Significant delays in management providing required information</li> <li>• An unnecessarily brief time within which to complete the audit</li> <li>• Extensive unexpected effort required to obtain sufficient appropriate audit evidence</li> <li>• The unavailability of expected information</li> <li>• Restrictions imposed on the auditor by management</li> </ul>	<ul style="list-style-type: none"> <li>➤ There were no serious difficulties encountered in dealing with management when performing the audit.</li> </ul>
Fraud and Illegal Acts	<ul style="list-style-type: none"> <li>➤ We are not aware of any matters that require communication.</li> <li>➤ We would request that the Audit Committee members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.</li> </ul>
Compliance with laws and regulations	<ul style="list-style-type: none"> <li>➤ In performing our audit procedures, we have not become aware of any non-compliance with applicable laws or regulations that would have an impact on the determination of material amounts and disclosures in the financial report.</li> <li>➤ We have also received representations from management confirming that the Council is in compliance with all laws and regulations that impact the Council.</li> </ul>
Books and records and conduct of the audit	<ul style="list-style-type: none"> <li>➤ We have been presented with all the necessary books and explanations requested of management to support the amounts and disclosures contained in the financial statements in a timely and efficient manner.</li> </ul>
Other Information in Documents Containing Audited Financial Statements	<ul style="list-style-type: none"> <li>➤ Our financial statement audit opinion relates only to the financial statements and accompanying notes. However, we also review other information in the Annual Report, such as Management's Discussion and Analysis, for consistency with the audited financial statements. Once the annual report is prepared and provided to us, we will review the Annual Report for consistency between the audited financial statements and other sections of that document.</li> </ul>

Related Party Transactions	➤ None of which we are aware.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	➤ None.
Going concern	➤ As part of our audit, we have assessed and agreed with the conclusions reached by the management concerning the application of the going concern concept.
Independence	<p>➤ We confirm that, as the date of this report, we are independent having regard to Macri Partners' policies, professional rules and relevant statutory requirements regarding auditor independence.</p> <p>➤ During the year ended 30 June 2015, Macri Partners has not provided any non-audit services to the EMRC.</p>

## 7. Disclaimer

This report has been prepared for the Audit Committee and management of Eastern Metropolitan Regional Council only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than the Eastern Metropolitan Regional Council.

## 8. Appendix 1 - Proposed Audit Opinion

### INDEPENDENT AUDITOR'S REPORT

#### TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL

We have audited the financial report of the Eastern Metropolitan Regional Council, which comprises the Statement of Financial Position as at 30 June 2015 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

#### *Management's Responsibility for the Financial Report*

Management is responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal controls as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to management's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit, we followed applicable independence requirements of Australian professional accounting bodies.



## **INDEPENDENT AUDITOR'S REPORT**

### **TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL (Cont'd)**

#### **Auditor's Opinion**

In our opinion, the financial report of the Eastern Metropolitan Regional Council:

- (c) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2015 and of its financial performance for the year ended on that date; and
- (d) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- (a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Council.
- (b) There are no matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at Note 27 of the annual financial report) we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
  - (i) reasonably calculated; and
  - (ii) based on verifiable information.
- (d) All necessary information and explanations were obtained by us.
- (e) All audit procedures were satisfactorily completed in conducting our audit.

#### **Matters Relating to the Electronic Publication of the Audited Financial Report**

This auditor's report relates to the financial report of Eastern Metropolitan Regional Council for the year ended 30 June 2015 included on the Council's website. Management is responsible for the integrity of the Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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**MACRI PARTNERS  
CERTIFIED PRACTISING ACCOUNTANTS  
SUITE 2, 137 BURSWOOD ROAD  
BURSWOOD WA 6100**

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**A MACRI  
PARTNER**

**PERTH  
DATED THIS       DAY OF       2015.**



### **11.3 REVIEW OF POLICY 3.1 - ANNUAL FINANCIAL REPORTING POLICY**

**REFERENCE: D2015/14337**

#### **PURPOSE OF REPORT**

The purpose of this report is to review Council Policy 3.1 - Annual Financial Reporting Policy.

#### **KEY ISSUES AND RECOMMENDATION(S)**

Amendments to EMRC Policy 3.1 - Annual Financial Reporting Policy are proposed to include the following:

- Adjustments to the range of depreciation rates for the EMRC's Buildings and Structures - General classes of assets.
- Accounting treatment of the EMRC's Landfill Cells components.

#### **Recommendation(s)**

That the revised EMRC Policy 3.1 Annual Financial Reporting Policy forming attachment 2 to this report be adopted by Council.

#### **SOURCE OF REPORT**

Director Corporate Services  
Manager Financial Services

#### **BACKGROUND**

It is a requirement of Local Government with effect from the 2012/2013 financial year that it comply with AASB13 *Fair Value* and AASB116 *Property, Plant and Equipment* regarding revaluation of its property, plant and equipment.

The first phase of fair value implementation was undertaken in the annual accounts for the 2012/2013 financial year with respect to Plant and Equipment. The next phase was a revaluation of the Land and Buildings class of assets which was undertaken for the 30 June 2014 accounts. The final phase was for the revaluation of the Infrastructure and all other classes of assets in the 2014/2015 financial year.

Revaluations are then required to be undertaken on a three (3) year cycle.

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*Item 11.3 continued*

## **REPORT**

EMRC Policy 3.1 - Annual Financial Reporting Policy was last reviewed by Council in September 2014.

Following the annual audit for the 2014/2015 financial year, it is timely to table the proposed updates to the policy for annual financial reporting.

As part of the review of Policy 3.1 - Annual Financial Reporting Policy, it has been suggested by the EMRC's external auditors, Macri Partners, that the range of depreciation rates for the EMRC's Buildings and Structures - General classes of assets be adjusted to match the corresponding range of depreciation rates provided in the Valuers reports. At present the range of depreciation rates for Buildings and Structures - General is 2.00 - 10.00%.

As per the valuer's and auditors recommendation, the policy is proposed to be amended to include the following depreciation ranges for Building and Structures - General:

- Buildings 0.48 - 6.67% (based on components)
- Structures
  - General 1.10 - 18.10% (based on components)

The policy has also been amended to include the following accounting treatment relating to the components associated with the EMRC's landfill cells:

There are three general components of cell construction based on its intended use:

- Cell excavation and development costs;
- Cell liner costs; and
- Cell capping costs.

All cell excavation and development costs and cell liner costs are capitalised and depreciated over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year.

Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.

## **STRATEGIC/POLICY IMPLICATIONS**

Key Result Area 4 - Good Governance

- 4.3 To provide responsible and accountable governance and management of the EMRC
- 4.4 To continue to improve financial and asset management practices

## **FINANCIAL IMPLICATIONS**

The changes in the depreciation rates will result in a reduction in the depreciation expense being applied to the EMRC's Buildings and Structures - General classes of assets and a consequential increase in the net result in the Statement of Comprehensive Income. This change will also impact the Statement of Financial Position due to a higher written down value of these assets.



*Item 11.3 continued*

## **SUSTAINABILITY IMPLICATIONS**

Nil

## **MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	No direct implications
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

## **ATTACHMENT(S)**

1. Annual Financial Reporting Policy 3.1 with tracked changes to the original policy (Ref: D2015/15275)
2. Revised Annual Financial Reporting Policy 3.1 (Ref: D2015/15278)

## **VOTING REQUIREMENT**

Simple Majority

## **RECOMMENDATION**

That the revised EMRC Policy 3.1 Annual Financial Reporting Policy forming attachment 2 to this report be adopted by Council.

## **AC RECOMMENDATION(S)**

MOVED CR CORNISH

SECONDED CR PULE

That the revised EMRC Policy 3.1 Annual Financial Reporting Policy forming attachment 2 to this report be adopted by Council.

**CARRIED UNANIMOUSLY**



## 3.1 Annual Financial Reporting Policy

### STRATEGIC PLAN OBJECTIVE

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

### PURPOSE

To endorse accounting policies as part of the preparation of the Council's annual financial statements.

### LEGISLATION

- Division 3 of the *Local Government Act 1995*
- Part 4 - Financial Reports of *Local Government (Financial Management) Regulations 1996*
- Australian Accounting Standards

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### POLICY STATEMENT

#### 1. Reporting Entity

The reporting entity is the Eastern Metropolitan Regional Council.

#### 2. Basis of Accounting

The financial statements shall be drawn up in accordance with the accounting standards and disclosure requirements of the Australian accounting bodies, the Local Government Act 1995, and the Local Government (Financial Management) Regulations 1996.

#### 3. Asset Classification

The following classifications are to be utilised for recording assets:

Land, buildings, structures, plant, equipment, furniture and fittings.

TEL (08) 9424 2222 FAX (08) 9277 7598 EMAIL [mail@emrc.org.au](mailto:mail@emrc.org.au) WEB [www.emrc.org.au](http://www.emrc.org.au)

~~Policy - 3.1 - Annual Financial Reporting Policy - Track Changes.DOCX~~ Policy - 3.1 - Annual Financial Reporting Policy - 18  
09-2014.DOCX





#### 4. Depreciation

Fixed Assets excluding freehold land, are to be depreciated over their estimated useful lives on a straight line basis as follows:

• Buildings	<del>2-400.48</del> - 6.67% <u>(based on components)</u>
• Structures	
o General	<del>2-401.10</del> - 18.10% <u>(based on components)</u>
o Class III & IV Waste Cells	% of actual usage
• Plant	<del>15.00</del> - <del>40.00</del> %
• Furniture and fittings	<del>10.00</del> - <del>40.00</del> %
• Equipment	<del>10.00</del> - <del>40.00</del> %

Assets are to be depreciated when completed and held ready for use.

#### 5. Capitalisation Thresholds

Capitalisation thresholds shall be:

• Land	No limit
• Buildings	No limit
• Structures	No limit
• Plant	\$1,000
• Furniture and fittings	\$1,000
• Equipment	\$1,000

#### 6. Rates

The Eastern Metropolitan Regional Council does not levy rates. Accordingly rating information as required under the Local Government (Financial Management) Regulations 1996 (r39) is not required to be presented in the financial statements.

#### 7. Revaluation Thresholds

Revaluation thresholds shall be:

• Land	No limit
• Buildings	\$5,000
• Road Infrastructure	No limit
• Other Infrastructures	\$1,000
• Minor Plant and Equipment	\$1,000
• Major Plant and Equipment	\$5,000
• Furniture and fittings	\$1,000
• Art Works	No limit

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[Policy - 3.1 - Annual Financial Reporting Policy - Track Changes.DOCX](#) REVIEW - Policy 3.1 - Annual Financial Reporting Policy.DOCX

## 8. Landfill Cells

There are three general components of cell construction:

- Cell excavation and development costs;
- Cell liner costs; and
- Cell capping costs.

All cell excavation and development costs and cell liner costs are capitalised and depreciated over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year.

Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.

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## FINANCIAL CONSIDERATIONS

Nil

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Adopted/Reviewed by Council

1. 27 October 1994
2. 22 July 1999
3. 02 May 2002
4. 20 May 2004
5. 23 February 2006
6. 18 September 2008
7. 23 September 2010
8. 19 June 2014
9. 18 September 2014
- 9-10. 17 September 2015

Next Review

Following the Ordinary Elections in 2017

Responsible Unit

Governance and Corporate Services

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Policy - 3.1 - Annual Financial Reporting Policy - Track Changes.DOCXREVIEW - Policy 3.1 - Annual Financial Reporting Policy.DOCX



## 3.1 Annual Financial Reporting Policy

### STRATEGIC PLAN OBJECTIVE

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

### PURPOSE

To endorse accounting policies as part of the preparation of the Council's annual financial statements.

### LEGISLATION

- Division 3 of the *Local Government Act 1995*
- Part 4 - Financial Reports of *Local Government (Financial Management) Regulations 1996*
- Australian Accounting Standards

### POLICY STATEMENT

#### 1. Reporting Entity

The reporting entity is the Eastern Metropolitan Regional Council.

#### 2. Basis of Accounting

The financial statements shall be drawn up in accordance with the accounting standards and disclosure requirements of the Australian accounting bodies, the Local Government Act 1995, and the Local Government (Financial Management) Regulations 1996.

#### 3. Asset Classification

The following classifications are to be utilised for recording assets:

Land, buildings, structures, plant, equipment, furniture and fittings.

#### 4. Depreciation

Fixed Assets excluding freehold land, are to be depreciated over their estimated useful lives on a straight line basis as follows:

- Buildings 0.48 - 6.67% (based on components)
- Structures
  - General 1.10 - 18.10% (based on components)
  - Class III & IV Waste Cells % of actual usage
- Plant 15.00 - 40.00%
- Furniture and fittings 10.00 - 40.00%
- Equipment 10.00 - 40.00%

Assets are to be depreciated when completed and held ready for use.

#### 5. Capitalisation Thresholds

Capitalisation thresholds shall be:

- Land No limit
- Buildings No limit
- Structures No limit
- Plant \$1,000
- Furniture and fittings \$1,000
- Equipment \$1,000

#### 6. Rates

The Eastern Metropolitan Regional Council does not levy rates. Accordingly rating information as required under the Local Government (Financial Management) Regulations 1996 (r39) is not required to be presented in the financial statements.

#### 7. Revaluation Thresholds

Revaluation thresholds shall be:

- Land No limit
- Buildings \$5,000
- Road Infrastructure No limit
- Other Infrastructures \$1,000
- Minor Plant and Equipment \$1,000
- Major Plant and Equipment \$5,000
- Furniture and fittings \$1,000
- Art Works No limit

## 8. Landfill Cells

There are three general components of cell construction:

- Cell excavation and development costs;
- Cell liner costs; and
- Cell capping costs.

All cell excavation and development costs and cell liner costs are capitalised and depreciated over the useful life of the cell based on the volumetric usage of the landfill cell air space during the year.

Cell capping costs are expensed as they occur as part of ongoing site rehabilitation.

## FINANCIAL CONSIDERATIONS

Nil

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Adopted/Reviewed by Council

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Next Review

Following the Ordinary Elections in 2017

Responsible Unit

Governance and Corporate Services



## **12 REPORTS OF DELEGATES**

Nil

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

Nil

## **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.

### **"2.3 Meetings**

*The Committee meet as required at the discretion of the Chairman of the Committee at least three (3) times per year to coincide with approval of strategic and annual plans, the annual budget and the auditor's report on the annual financial report.*

*Additional meetings shall be convened at the discretion of the Chairman or at the written request of any member of the Committee or external auditor."*

### **Future Meetings 2015**

Thursday	8	October (if required)	at	EMRC Administration Office
Thursday	19	November (if required)	at	EMRC Administration Office

## **16 DECLARATION OF CLOSURE OF MEETING**

The Chairman thanked Councillors on the Audit Committee for their contributions over the past two years.

There being no further business the meeting was closed at 6:55pm.