



MINUTES

CERTIFICATION OF CONFIRMATION OF AUDIT COMMITTEE MINUTES

7 SEPTEMBER 2017

I, Cr Melissa Mykytiuk hereby certify that the minutes from the Audit Committee Meeting held on 7 September 2017 pages (1) to (151) were confirmed at a Committee meeting held on 8 March 2018.

A handwritten signature in blue ink, appearing to read "M. Mykytiuk", is written over a horizontal line.

Signature

Cr Melissa Mykytiuk
Person presiding at Meeting

AUDIT COMMITTEE

MINUTES

7 September 2017

(REF: D2017/12282)

A meeting of the Audit Committee was held at the EMRC Administration Office, 1st Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 7 September 2017**. The meeting commenced at **6:30pm**.

TABLE OF CONTENTS

1	DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS	1
2	ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE (PREVIOUSLY APPROVED)	1
3	DISCLOSURE OF INTERESTS	1
4	ANNOUNCEMENTS BY THE CHAIRMAN OR PRESIDING MEMBER WITHOUT DISCUSSION	1
5	PETITIONS, DEPUTATIONS AND PRESENTATIONS	1
6	CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS	2
	6.1 MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 8 JUNE 2017 (Ref: D2017/09111)	
7	QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN	2
8	QUESTIONS BY MEMBERS WITHOUT NOTICE	2
9	ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH MEETINGS MAY BE CLOSED TO THE PUBLIC	2
10	BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING	2
11	REPORTS OF EMPLOYEES	3
	11.1 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2017 (Ref: D2017/12283)	3
	11.2 INTERNAL AUDIT REPORT – 2017 PROGRAMME (Ref: D2017/12607)	97
12	REPORTS OF DELEGATES	151
13	NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PRESIDING MEMBER OR BY DECISION OF MEETING	151
14	CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC	151
15	FUTURE MEETINGS OF THE AUDIT COMMITTEE	151
16	DECLARATION OF CLOSURE OF MEETING	151



1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Chairman opened the meeting at 6:30pm and welcomed Mr Tony Macri and Mr Suren Herathmudalige from Macri Partners and Mr Cameron Palassis from Paxon Group to the meeting.

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

Councillor Attendance

Cr Steve Wolff (Chairman)	EMRC Member	City of Belmont
Cr Bob Perks (Deputy Chairman)	EMRC Member	Shire of Mundaring
Cr Paul Bridges	EMRC Member	Town of Bassendean
Cr Geoff Stallard	EMRC Member	City of Kalamunda
Cr David McDonnell (Deputising for Cr David Färdig)	EMRC Deputy Member	City of Swan

Apologies

Cr Michelle Sutherland	EMRC Member	City of Bayswater
Cr David Färdig	EMRC Member	City of Swan

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 (<i>departed 6:39pm</i>)	Macri Partners
Mr Suren Herathmudalige (<i>departed 6:39pm</i>)	Macri Partners
Mr Cameron Palassis	Paxon Group

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 8 JUNE 2017

That the Minutes of the Audit Committee meeting held 8 June 2017, which have been distributed, be confirmed.

AC RESOLUTION(S)

MOVED CR PERKS

SECONDED CR STALLARD

THAT THE MINUTES OF THE AUDIT COMMITTEE HELD ON 8 JUNE 2017, 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 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2017

REFERENCE: D2017/12283

PURPOSE OF REPORT

The purpose of this report is to review and adopt Council's Annual Financial Report for the year ended 30 June 2017.

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 2016/2017 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 2017 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2017 forming attachment 2 of this report.
3. Council notes the contents of the 2017 Fraud & Error Assessment to the Audit Committee for the year ended 30 June 2017 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 2016/2017 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, Sport and Cultural Industries, 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

BACKGROUND

It is a requirement under s6.4 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.



Item 11.1 continued

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.

REPORT

Council's auditor, Mr Anthony Macri of Macri Partners has completed the audit of the Eastern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2017, which is attached for Council adoption (refer attachment 1).

The following comments are provided on key elements of the financial results for 2016/2017:

Statement of Comprehensive Income (pg 6 - 7 of 65)

Total Revenue of \$36,840,260 for the period ending 30 June 2017 is \$6,735,575 below the 2015/2016 actual revenue and \$9,449,562 below budget for 2016/2017.

Total Expenses of \$27,875,583 is \$4,566,369 below the 2015/2016 actual expenses and \$11,495,494 below budget for 2016/2017.

A loss of \$173,517 was realised from the Disposal of Assets for the period ending 30 June 2017 and is below the 2015/2016 actual profit on disposals of \$171,907 and below the budgeted profit for 2016/2017 of \$21,589.

The changes in revaluation of non-current assets have resulted in an increase of \$2,602,635 in 2016/2017 and relates to the revaluation undertaken on the Land and Buildings classes of assets. This compares with \$4,693,856 in 2015/2016 which related to the revaluation undertaken on the Plant and Equipment classes of assets.

Total Comprehensive Income of \$11,393,795 for the period ending 30 June 2017 is \$4,605,851 below the 2015/2016 result and \$4,453,461 above the 2016/2017 budget.

Statement of Financial Position/Statement of Changes in Equity (pg 8 - 9 of 65)

Current assets as at 30 June 2017 have increased by \$4,061,924 to \$94,577,311 from \$90,515,387 as at 30 June 2016. 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 \$4,679,101 to \$90,799,929 as at 30 June 2017 compared to the level of cash and investments from the previous year.

Current liabilities as at 30 June 2017 have decreased by \$1,976,380 to \$5,284,917 compared to \$7,261,297 as at 30 June 2016.

The balance in the Reserves has increased by \$2,757,359 to \$65,431,736 over the past 12 months.

Overall equity has increased during the 2016/2017 financial year by \$11,393,795 to \$175,009,772.



Item 11.1 continued

Cash Flow Statement (pg 10 of 65)

The overall impact on the cash position at the end of the 2016/2017 financial year is an increase of \$4,679,101 to \$90,799,929 from the previous corresponding period (2015/2016) of \$86,120,828.

Net Cash provided by Operating Activities of \$10,419,008 in the 2016/2017 financial year reflects a decrease of \$8,787,662 from the cash generated in 2015/2016 of \$19,206,670.

The cash flows utilised in investing activities for 2016/2017 reflects capital expenditure totalling \$6,126,607 compared to capital expenditure totalling \$7,807,962 during 2015/2016.

Significant items of capital expenditure during the year included:

- Purchase / Replace Plant - Red Hill Landfill Facility - \$1,406,067;
- Purchase RRP - C & I Building Plant & Equipment - \$960,481;
- Construct RRP - WWTE Utilities/Infrastructure - \$680,268;
- Purchase RRP - WWTE Plant & Equipment - \$601,633;
- Construct and commission RRP - Site Infrastructure - \$494,240;
- Construct and commission RRP - C & I Building - \$483,284;
- Construct Stormwater and Siltation Pond - Red Hill Landfill Facility - \$329,290;
- Purchase / Replace Plant - Hazelmere - \$254,875;
- Purchase Vehicles - Ascot Place and Red Hill Landfill Facility - \$156,193;
- Purchase IT & Communications Equipment - \$115,124;
- Purchase Plant for Leachate project - Red Hill Landfill Facility - \$105,156;
- Purchase Minor Plant for Leachate project - Red Hill Landfill Facility - \$68,929;
- Construct Class III Cell - Farm Stage 3 - Red Hill Landfill Facility - \$61,298; and
- Construct Hardstand & Road - Hazelmere - \$60,294.

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

- Construct Class III Cell - Farm Stage 3 - Red Hill Landfill Facility - \$5,709,455;
- Leachate Project - Red Hill Landfill Facility (net of Leachate Plant Purchases) - \$3,053,169;
- Purchase RRP - C & I Building Plant & Equipment - \$2,033,104;
- Construct and Commission RRP - Site Infrastructure - \$2,000,000;
- Purchase Resource Recovery Park - WWTE Plant & Equipment - \$1,991,633;
- Construct Class III Cell - Stage 15B - Red Hill Landfill Facility - \$1,629,617;
- Purchase / Replace Plant - Hazelmere - \$1,555,000;
- Construct and Commission RRP - C & I Building - \$1,537,500;
- Purchase / Replace Plant - Red Hill Landfill Facility - \$1,254,373;
- Construct Class III Leachate Pond - Red Hill Landfill Facility - \$594,483;
- Design & Construct Class IV Cell - Stage 2 - Red Hill Landfill Facility - \$500,000;
- Construct and Commission RRP - Community Reuse Store - \$500,000;
- Construct Storage Bunkers for Wood Fines (QA Process) - Hazelmere - \$500,000;
- Construct Access Road to Lots 8, 9 & 10 - Red Hill Landfill Facility - \$475,000;
- Purchase Plant & Equipment - RRP - Transfer Station - \$300,000;
- Capital Improvements Administration Building - Ascot Place - \$257,000;
- Construct and Commission RRP - Site Workshop - \$250,000;
- Construct and Commission RRP - Reuse Store Car Park - \$250,000;



Item 11.1 continued

- Purchase Information Technology & Communications Equipment - \$248,150;
- Construct and Commission RRP - Weighbridges (x2) - \$225,000;
- Construct Roads/Carparks - Red Hill Landfill Facility - \$207,201;
- RRP - WWTE Utilities/Infrastructure - \$200,000;
- Construct and Commission RRP - Site/Administration Office - \$165,000; and
- Refurbish Waste Transfer Station Building - Red Hill Landfill Facility - \$140,000.

Footnote:

C & I = Commercial and Industrial.
WWTE = Wood Waste to Energy.

RRP = Resource Recovery Park.

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

- Construct Drainage Diversion and Earthworks - Red Hill Landfill Facility - \$448,858; and
- Construct Stormwater and Siltation Ponds - Red Hill Landfill Facility - \$424,196.

This item was previously reported at the half year budget review and was adopted by Council at the 23 March 2017 Ordinary Meeting of Council (Ref: D2017/02842).

Funding for the majority of the capital items budgeted but not purchased in 2016/2017 has been carried forward into the 2017/2018 financial year.

Reserves (pg 41 - 44 of 65)

At the end of the 2016/2017 financial year the amount held in Reserves (page 43 of 64, Note 17) increased by \$2,757,359 to a balance of \$65,431,736. This compares favourably to the 2016/2017 budget of \$48,668,649 by \$16,763,087.

The Auditor will be in attendance at the Audit Committee meeting, as required by Clause 5.5 of the Audit Committee Terms of Reference, when the Committee is reviewing the Annual Financial Report.

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 3 - Good Governance

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

FINANCIAL IMPLICATIONS

As outlined within the report and attachments.

SUSTAINABILITY IMPLICATIONS

Nil



Item 11.1 continued

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	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. Annual Financial Report for the Year Ended 30 June 2017 (Ref: D2017/13305)
2. Audit Completion Report to the Audit Committee for the Year Ended 30 June 2017 (Ref: D2017/13487)
3. EMRC - Fraud & Error Assessment (Ref D2017/13306)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2017 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2017 forming attachment 2 of this report.
3. Council notes the contents of the 2017 Fraud & Error Assessment to the Audit Committee for the year ended 30 June 2017 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 2016/2017 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, Sport and Cultural Industries, 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 2017 and discussion ensued.

The CEO commended EMRC staff for their support in controlling expenditure and making savings in the face of reducing commercial waste tonnages.



Item 11.1 continued

AC RECOMMENDATION(S)

MOVED CR BRIDGES

SECONDED CR PERKS

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2017 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2017 forming attachment 2 of this report.
3. Council notes the contents of the 2017 Fraud & Error Assessment to the Audit Committee for the year ended 30 June 2017 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 2016/2017 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 2017**

EASTERN METROPOLITAN REGIONAL COUNCIL

2016/2017 ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

DETAILS	PAGE NO
<hr/>	
Statement by Chief Executive Officer	4
 Financial Report	
Statement of Comprehensive Income - By Program	6
Statement of Comprehensive Income - By Nature and Type	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
 Notes to and forming part of the Financial Report	12-61
 Independent Auditor's Report	63-65
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STATEMENT BY CHIEF EXECUTIVE OFFICER



**For the Year Ended
30 June 2017**

EASTERN METROPOLITAN REGIONAL COUNCIL

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

**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 2017 are in my opinion properly drawn up to present fairly the financial position of the Eastern Metropolitan Regional Council at 30 June 2017 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 28nd day of August 2017

A handwritten signature in black ink, appearing to read 'Peter B. Schneider', is written over a horizontal line.

PETER B. SCHNEIDER
Chief Executive Officer

FINANCIAL REPORT



**For the Year Ended
30 June 2017**

EASTERN METROPOLITAN REGIONAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

BY PROGRAM	NOTE	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
REVENUE				
Governance		64,652	158,383	122,634
General Purpose Funding		2,575,308	1,601,759	6,278,136
Community Amenities		32,945,774	43,185,938	35,899,323
Other Property and Services		1,254,526	1,343,742	1,275,742
TOTAL REVENUE		36,840,260	46,289,822	43,575,835
EXPENSES				
Governance		772,226	1,149,271	785,858
Community Amenities		23,503,388	33,895,926	27,663,522
Other Property and Services		3,599,969	4,325,880	3,992,572
TOTAL EXPENSES		27,875,583	39,371,077	32,441,952
INCREASE / (DECREASE)		8,964,677	6,918,745	11,133,883
DISPOSAL OF ASSETS				
Profit on Sale		0	21,589	206,809
Loss on Sale		(173,517)	0	(34,902)
PROFIT / (LOSS) ON DISPOSALS	22	(173,517)	21,589	171,907
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
General Purpose Funding		0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		8,791,160	6,940,334	11,305,790
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in Revaluation of Non-Current Assets	12,13	2,602,635	0	4,693,856
TOTAL OTHER COMPREHENSIVE INCOME		2,602,635	0	4,693,856
TOTAL COMPREHENSIVE INCOME		11,393,795	6,940,334	15,999,646

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 2017

BY NATURE AND TYPE	NOTE	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
REVENUE				
Fees and Charges	4	29,829,371	38,668,802	32,751,046
Grants, Subsidies and Contributions	5	2,340,762	1,881,237	2,273,132
Interest Earnings	2	2,471,983	1,601,758	2,376,572
Other Revenue	2	2,198,144	4,138,025	6,175,085
TOTAL REVENUE		36,840,260	46,289,822	43,575,835
EXPENSES				
Employee Costs		8,044,920	9,877,633	8,313,054
Materials and Contracts		5,059,905	8,233,597	5,582,772
Utility Expenses		353,105	361,664	318,702
Insurance Expenses		278,653	289,890	249,779
Other Expenditure	2	11,498,067	14,258,290	11,902,243
Depreciation Expenses on Non-Current Assets	2	2,640,933	6,350,003	6,075,402
TOTAL EXPENSES		27,875,583	39,371,077	32,441,952
INCREASE / (DECREASE)		8,964,677	6,918,745	11,133,883
DISPOSAL OF ASSETS				
Profit on Sale		0	21,589	206,809
Loss on Sale		(173,517)	0	(34,902)
PROFIT / (LOSS) ON DISPOSALS	22	(173,517)	21,589	171,907
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
Gain/(Loss)		0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		8,791,160	6,940,334	11,305,790
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in Revaluation of Non-Current Assets	12,13	2,602,635	0	4,693,856
TOTAL OTHER COMPREHENSIVE INCOME		2,602,635	0	4,693,856
TOTAL COMPREHENSIVE INCOME		11,393,795	6,940,334	15,999,646

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 2017

	NOTE	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
CURRENT ASSETS			
Cash and Cash Equivalents	10	90,799,929	86,120,828
Trade and Other Receivables	6	3,633,350	4,281,658
Inventories	7	28,834	27,842
Other Assets	8	115,198	85,059
TOTAL CURRENT ASSETS	21	<u>94,577,311</u>	<u>90,515,387</u>
NON CURRENT ASSETS			
Property, Plant and Equipment	12	75,590,604	71,688,104
Infrastructure	13	17,706,421	16,080,829
TOTAL NON CURRENT ASSETS	21	<u>93,297,025</u>	<u>87,768,933</u>
TOTAL ASSETS	21	<u>187,874,336</u>	<u>178,284,320</u>
CURRENT LIABILITIES			
Trade and Other Payables	15	3,846,227	5,889,919
Provisions	16	1,438,690	1,371,378
TOTAL CURRENT LIABILITIES		<u>5,284,917</u>	<u>7,261,297</u>
NON CURRENT LIABILITIES			
Provisions	16	7,579,647	7,407,046
TOTAL NON CURRENT LIABILITIES		<u>7,579,647</u>	<u>7,407,046</u>
TOTAL LIABILITIES		<u>12,864,564</u>	<u>14,668,343</u>
NET ASSETS		<u>175,009,772</u>	<u>163,615,977</u>
EQUITY			
Retained Surplus		67,395,109	60,214,225
Reserves	17	65,431,736	62,674,377
Revaluation Surplus	14	42,182,927	40,727,375
TOTAL EQUITY		<u>175,009,772</u>	<u>163,615,977</u>

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 2017

	NOTE	RETAINED SURPLUS \$	RESERVES \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2015		52,975,934	58,606,878	36,033,519	147,616,331
Net Result		11,305,790	0	0	11,305,790
Total Other Comprehensive Income		0	0	4,693,856	4,693,856
Revaluation Surplus Reversal	14	0	0	0	0
Transfer (from) / to Reserves		(4,067,499)	4,067,499	0	0
Balance as at 30 June 2016		60,214,225	62,674,377	40,727,375	163,615,977
Net Result		8,791,160	0	0	8,791,160
Total Other Comprehensive Income		0	0	2,602,635	2,602,635
Revaluation Surplus Reversal	14	1,147,083	0	(1,147,083)	0
Transfer (from) / to Reserves		(2,757,359)	2,757,359	0	0
Balance as at 30 June 2017		67,395,109	65,431,736	42,182,927	175,009,772

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 2017

	NOTE	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Fees and Charges		33,995,233	38,668,802	35,362,810
Grants, Subsidies and Contributions		2,340,762	1,881,238	2,273,132
Interest Earnings		2,431,655	1,601,758	2,619,602
Other Revenue		2,198,145	4,138,024	6,175,085
Total Receipts		40,965,795	46,289,822	46,430,629
Payments				
Employee Costs		(8,060,525)	(9,849,652)	(8,203,326)
Materials and Contracts		(8,541,550)	(8,233,598)	(5,291,591)
Utility Expenses		(353,105)	(361,664)	(318,702)
Insurance Expenses		(293,373)	(289,890)	(249,331)
Other Expenditure		(11,218,377)	(14,038,325)	(11,592,681)
Goods and Services Tax paid		(2,079,857)	0	(1,568,328)
Total Payments		(30,546,787)	(32,773,129)	(27,223,959)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18(ii)	10,419,008	13,516,693	19,206,670
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment		386,700	280,707	334,773
Payments for purchase of property, plant and equipment		(6,126,607)	(33,620,638)	(7,807,962)
NET CASH USED IN INVESTING ACTIVITIES		(5,739,907)	(33,339,931)	(7,473,189)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from sale of investments		0	0	0
NET CASH PROVIDED BY FINANCING ACTIVITIES		0	0	0
SUMMARY OF CASH FLOWS				
Cash and cash equivalents at the beginning of the year		86,120,828	70,920,944	74,387,347
Net Increase/(Decrease) in Cash Held		4,679,101	(19,823,238)	11,733,481
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18(i)	90,799,929	51,097,706	86,120,828

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 2017**

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

1. SIGNIFICANT ACCOUNTING POLICIES

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.

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:

(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 2017.

(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 2017.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 1996* were amended and the measurement of non-current assets at Fair Value became mandatory.

During the year ended 30 June 2013, the EMRC commenced the process of adopting Fair Value in accordance with the Regulations. Whilst the amendments initially allowed for a phasing in of fair value in relation to fixed assets over three years, as at 30 June 2015 all non-current assets were carried at Fair Value in accordance with the requirements.

Thereafter, each asset class must be revalued in accordance with the regulatory framework established and the EMRC revalues its asset classes in accordance with this mandatory timetable. Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary.

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 2017

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:

- 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
- 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 2017

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 2017

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 in accordance with the regulatory framework.

(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 9. 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 2017

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 Property, Plant and Equipment*) 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 2017

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 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.

As per the independent engineers report 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. This value will be reviewed on a five yearly cycle.

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 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.

As per the independent engineers report 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. This value will be reviewed on a five yearly cycle.

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 2017

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 CO₂e over the life of the waste it receives. While the payment of the carbon pricing was based on the CO₂e emitted in the respective years and under the liability method of accounting, a corresponding recognition of future years' CO₂e emitted was recognised in the year the liability was 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 received Royal assent and has been gazetted.

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

The EMRC intends using the excess carbon tax revenue collected for its proposed Resource Recovery Park project and Resource Recovery Facility project which will deliver a reduction in greenhouse gas emissions and provide renewable energy generation.

(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 2017

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) Short-term Employee 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) Other long-term Employee Benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(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 2016/2017). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2016/2017). Contributions to defined contribution plans are recognised as an expense as they become payable.

(u) Rounding Off 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 2017

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 2017

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 2017

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 2017

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:

Title and topic	Issued/ Compiled	Applicable (1)	Impact
(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 15 Revenue from Contracts with Customers.	December 2014	1 January 2018	<p>This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.</p> <p>The effect of this Standard will depend upon the nature of future transactions the Council has with those third parties it has dealings with. It may or may not be significant.</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 2017

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
(iii) AASB 16 Leases.	February 2016	1 January 2019	<p>Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position once AASB 16 is adopted.</p> <p>Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges.</p> <p>Currently this does not have any impact on the Council's financial statements.</p>
(iv) AASB 1058 Income of Not-for-Profit Entities (incorporating AASB 2016-7 and AASB 2016-8)	December 2016	1 January 2019	<p>These standards are likely to have a significant impact on the income recognition for NFP's. Key areas for consideration are:</p> <ul style="list-style-type: none"> - Assets received below fair value; - Transfers received to acquire or construct non-financial assets; - Grants received; - Prepaid rates; - Leases entered into at below market rates; and - Volunteer services. <p>Whilst it is not possible to quantify the financial impact (or if it is material) of these key areas until the details of future transactions are known, they will all have application to the Council's operations.</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 2017

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.

Whilst many reflected consequential changes associate with the amendment of existing standards, the only new standard with material application is as follows:

(i) AASB 2015-6

Amendments to Australian Accounting Standards Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, 124 & 1049]

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

2. REVENUE AND EXPENSES

	ACTUAL 2016/2017 \$	BUDGET 2016/2017	ACTUAL 2015/2016 \$
Net Result			
The Net Result includes:			
(i) Crediting as Revenue:	\$	\$	\$
Interest Earnings			
Interest on funds held in Reserves	1,830,971	1,391,758	1,838,586
Interest on Municipal Cash and Investments	641,012	210,000	537,986
	2,471,983	1,601,758	2,376,572
Other Revenue			
Sale of Products	1,319,635		1,609,791
Gas Royalty Income	569,204		365,765
Miscellaneous Income	309,305		4,199,529
	2,198,144		6,175,085
Significant Revenue			
General Purpose Funding	0		0
	0		0
The Significant Revenue relates to the recognition of gains on investments during the year. (Refer Note 10(c) for details).			
(ii) Charging as an Expense:			
Auditors Remuneration			
Audit of the Financial Report	21,280		19,780
Audit and assurance of grant acquittals	1,683		2,800
	22,963		22,580
Depreciation and Amortisation Expense			
Buildings	156,312		123,503
Plant	2,101,289		2,120,998
Equipment	135,951		287,708
Furniture and Fittings	8,908		11,400
Structures - Landfill Cells	0		3,298,611
- Other	238,473		233,182
	2,640,933		6,075,402
Other Expenses			
State Landfill levy	9,909,291		10,504,983
Other Expenses	1,588,776		1,397,260
	11,498,067		11,902,243

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

3. COMPONENT FUNCTIONS/ACTIVITIES

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

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.

Governance

Objective:

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

Activities:

Includes the activities of members of council and the administration and operation of facilities and services to members of Council together with other administrative governance costs.

General Purpose Funding

Objective:

To provide responsible and accountable financial management practices.

Activities:

Includes the activities relating to the management of the EMRC's investment portfolio, records interest revenue as well as other general purpose revenue.

Community Amenities

Objective:

To provide sustainable waste disposal, resource recovery and recycling operations and solutions in partnership with member councils.

Activities:

Includes waste disposal, resource recovery and recycling operations undertaken at the Red Hill Waste Disposal Facility, the Hazelmere Resource Recovery Facility, Coppin and Mathieson Road transfer stations.

Other Property and Services

Objective:

To facilitate the sustainable economic development of the region together with the provision of responsible and accountable management of the EMRC.

Activities:

Includes activities and projects of the EMRC's Regional Services directorate, the operations of the Ascot Place activity and records the activities associated with public works overheads, plant operation, materials, salaries and wages.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

4. FEES AND CHARGES SUMMARY BY PROGRAM

	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
Community Amenities	29,821,213	38,658,802	32,750,446
Other Property and Services	8,158	10,000	600
Total Statutory Fees and Charges	29,829,371	38,668,802	32,751,046

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

	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
Governance	50,219	23,818	29,607
Community Amenities	1,203,782	708,677	1,124,670
Other Property and Services	1,086,761	1,148,742	1,118,855
Total Grant, Subsidy and Contribution Revenue	2,340,762	1,881,237	2,273,132

6. TRADE AND OTHER RECEIVABLES

	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Current	\$	\$
Sundry Debtors	2,617,883	3,253,247
Other Debtors	16,224	20,789
GST Receivable	0	0
Accrued Interest Earnings	1,054,975	1,014,647
Provision for Impairment of Receivables	(55,732)	(7,025)
	3,633,350	4,281,658

7. INVENTORIES

	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Current	\$	\$
Distillate	23,917	21,926
Oils	4,917	5,916
	28,834	27,842

8. OTHER ASSETS

	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Current	\$	\$
Prepayment - Contract Expenses	13,887	13,887
Prepayment - General	42,181	45,584
Prepayment - Insurance	27,095	12,375
Prepayment - Miscellaneous	32,035	13,213
	115,198	85,059

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

9. CONTROL OVER GRANTS/CONTRIBUTIONS

Conditions Over Grants/Contributions

Grant/Contribution	Function/Activity	Opening Balance ⁽¹⁾ 1 July 2015 \$	Received ⁽²⁾ 2015/16 \$	Expended ⁽³⁾ 2015/16 \$	Closing Balance ⁽¹⁾ 30 June 2016 \$
Avon Descent	Other Property and Services	0	155,000	(155,000)	0
Perth's Autumn Festival	Other Property and Services	0	20,000	(20,000)	0
Ride2Market Program	Other Property and Services	0	1,500	(1,500)	0
Healthy Wildlife Project	Other Property and Services	0	50,000	(7,850)	42,150
Coordination of Community Led Projects	Other Property and Services	10,156	147,500	(105,156)	52,500
Protecting Priority Tributaries in Perth's Eastern Region	Other Property and Services	32	7,264	(32)	7,264
Steaming To Success Program	Other Property and Services	0	4,000	(165)	3,835
Operational Support for the Steamwand Machine	Other Property and Services	0	10,000	(7,535)	2,465
Water Quality Monitoring in the Lower Helena Sub Catchment	Other Property and Services	30,000	0	(5,212)	24,788
20M Trees Program	Other Property and Services	0	52,750	(30,695)	22,055
Natural Disaster Resilience Program	Other Property and Services	49,489	50,000	(99,489)	0
Hazelmere Resource Recovery Park - Mattress Program	Community Amenities	0	27,640	(27,640)	0
Keep Australia Beautiful Waste Education Program	Community Amenities	0	3,900	(3,900)	0
Construction - C & I Waste Sorting Facility	Community Amenities	56,981	309,423	(366,404)	0
		146,658	838,977	(830,578)	155,057

Conditions Over Grants/Contributions

Grant/Contribution	Function/Activity	Opening Balance ⁽¹⁾ 1 July 2016 \$	Received ⁽²⁾ 2016/17 \$	Expended ⁽³⁾ 2016/17 \$	Closing Balance ⁽¹⁾ 30 June 2017 \$
Lighthouse Project - Disability Access & Inclusion Plan	Governance	0	9,500	(6,700)	2,800
Metropolitan Local Government Youth Development Scholarship	Governance	0	10,000	0	10,000
Avon Descent	Other Property and Services	0	155,000	(155,000)	0
Perth's Autumn Festival	Other Property and Services	0	40,000	(40,000)	0
Healthy Wildlife Project	Other Property and Services	42,150	100,000	(133,322)	8,828
Coordination of Community Led Projects	Other Property and Services	52,500	105,000	(105,000)	52,500
Protecting Priority Tributaries in Perth's Eastern Region	Other Property and Services	7,264	0	(7,264)	0
Steaming To Success Program	Other Property and Services	3,835	6,000	(9,835)	0
Operational Support for the Steamwand Machine	Other Property and Services	2,465	0	(2,465)	0
Water Quality Monitoring in the Lower Helena Sub Catchment	Other Property and Services	24,788	0	(24,104)	684
20M Trees Program	Other Property and Services	22,055	41,950	(56,315)	7,690
Keep Australia Beautiful Community Litter Program	Other Property and Services	0	10,000	(8,260)	1,740
Community Capability Project	Other Property and Services	0	80,000	(34,597)	45,403
All West Australian Reducing Emergencies Program	Other Property and Services	0	20,000	(20,000)	0
Bush Skills for Youth Program	Other Property and Services	0	25,000	(25,000)	0
Keep Australia Beautiful Waste Education Program	Community Amenities	0	800	(800)	0
		155,057	603,250	(628,662)	129,645

Notes:

(1) Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous reporting period.

(2) New grants/contributions which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.

(3) Grants/contributions which had been recognised as revenues in a previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

10. CASH AND CASH EQUIVALENTS

	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Cash and Cash Equivalents - Unrestricted	25,198,428	23,294,489
Cash and Cash Equivalents - Restricted	65,601,501	62,826,339
	<u>90,799,929</u>	<u>86,120,828</u>

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

Plant and Equipment	1,372,015	510,804
Site Rehabilitation Red Hill - Post Closure	2,314,792	2,132,389
Future Development	6,238,460	6,063,056
Environmental Monitoring Red Hill	885,502	788,213
Environmental Insurance Red Hill	13,506	40,514
Risk Management	14,377	13,973
Class IV Cells Red Hill	563,778	544,803
Regional Development	195,233	359,102
Secondary Waste Processing	48,550,081	46,773,843
Class III Cells	4,344,485	4,554,958
Building Refurbishment (Ascot Place)	72,593	70,552
Long Service Leave	866,914	822,170
	<u>65,431,736</u>	<u>62,674,377</u>
Add movement in accrued interest	169,765	151,962
Less unrealised gain/(loss) from changes in fair value of Investments	<u>0</u>	<u>0</u>
	<u>65,601,501</u>	<u>62,826,339</u>

11. 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 2016/2017 budget was \$5,509,872.

The actual net current asset position balance shown in the audited financial report as at 30 June 2016 and after adjustment for Restricted Assets was \$20,427,751.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

12. PROPERTY, PLANT AND EQUIPMENT	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Land - Independent Valuation 2017	50,570,000	47,327,000
Additions after Valuation - Cost	0	4,138,960
Less Disposals after Valuation	0	(2,961,048)
Total Land	50,570,000	48,504,912
 Buildings - Independent Valuation 2017	 7,485,440	 5,751,122
Additions after Valuation - Cost	0	8,438
Less Disposals after Valuation	0	(34,762)
Less Accumulated depreciation	0	(246,879)
Total Buildings	7,485,440	5,477,919
Total Land and Buildings	58,055,440	53,982,831
 Plant - Independent Valuation 2016	 10,776,173	 10,776,173
Additions after Valuation - Cost	3,881,077	0
Less Disposals after Valuation	(472,571)	0
Less Accumulated depreciation	(2,101,289)	0
	12,083,390	10,776,173
 Equipment - Independent Valuation 2016	658,759	658,759
Additions after Valuation - Cost	150,343	0
Less Disposals after Valuation	(611)	0
Less Accumulated depreciation	(135,951)	0
	672,540	658,759
 Furniture and Fittings - Independent Valuation 2016	16,806	16,806
Additions after Valuation - Cost	5,542	0
Less Accumulated depreciation	(8,908)	0
Total Furniture and Fittings	13,440	16,806
 Artworks - Independent Valuation 2015	145,040	145,040
Additions after Valuation - Cost	0	0
Total Furniture and Fittings	145,040	145,040

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

12. PROPERTY, PLANT AND EQUIPMENT (Continued)	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Work in Progress - At Cost		
- Buildings	579,943	1,789,762
- Plant	4,040,811	4,317,139
- Equipment	0	1,594
Total Work in Progress	4,620,754	6,108,495
TOTAL PROPERTY, PLANT AND EQUIPMENT	75,590,604	71,688,104

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

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 & Buildings</u>	<u>Plant</u>	<u>Equipment</u>	<u>Furniture & Fittings</u>	<u>Artworks</u>	<u>Work in Progress</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at the beginning of the year	48,504,912	5,477,919	53,982,831	10,776,173	658,759	16,806	145,040	6,108,495	71,688,104
Additions	0	483,284	483,284	3,003,117	147,641	8,244	0	601,632	4,243,918
WIP - Transfers in/(out)	0	1,209,819	1,209,819	877,960	1,594	0	0	(2,089,373)	0
(Disposals)	0	(37,112)	(37,112)	(472,571)	(2,205)	0	0	0	(511,888)
Reclassification	0	(29,705)	(29,705)	0	0	0	0	0	(29,705)
Revaluation increments/(decrements)	2,065,088	537,547	2,602,635	0	0	0	0	0	2,602,635
Impairment (losses)/reversals	0	0	0	0	0	0	0	0	0
Depreciation expense	<u>0</u>	<u>(156,312)</u>	<u>(156,312)</u>	<u>(2,101,289)</u>	<u>(135,951)</u>	<u>(8,908)</u>	<u>0</u>	<u>0</u>	<u>(2,402,460)</u>
Carrying amount at the end of year	<u>50,570,000</u>	<u>7,485,440</u>	<u>58,055,440</u>	<u>12,083,390</u>	<u>669,838</u>	<u>16,142</u>	<u>145,040</u>	<u>4,620,754</u>	<u>75,590,604</u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Land and Buildings:

The EMRC's land and buildings were revalued at 30 June 2017 by independent valuers.

The revaluation resulted in an overall increase of \$2,602,635 in the net value of the EMRC's land and buildings. 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 30 for detailed disclosures regarding fair value measurement of the EMRC's land and buildings.

They will next be revalued during the year ended 30 June 2020 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

Artworks:

The EMRC's artworks were revalued in 2015 as part of the mandatory requirements embodied in *Local Government (Financial Management) Regulations 1996, Reg. 17A*.

They will be revalued during the year ended 30 June 2018 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

Furniture and Fittings, Plant and Equipment:

Both furniture and fittings and plant and equipment were revalued in 2016 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 2019 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

13. INFRASTRUCTURE	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Landfill Cells - Independent Valuation 2015	11,473,806	11,473,806
Additions after Valuation - Cost	4,139,197	4,102,402
Less Accumulated depreciation	(7,705,701)	(7,705,701)
	7,907,302	7,870,507
Other Structures - Independent Valuation 2015	6,582,782	6,582,782
Additions after Valuation - Cost	952,002	108,794
Less Disposals after Valuation	(48,329)	0
Less Accumulated depreciation	(471,655)	(233,182)
	7,014,800	6,458,394
Work in Progress - At Cost		
Work in Progress - At Cost		
- Landfill Cells	321,902	214,920
- Other Structures	2,462,417	1,537,008
Total Work in Progress	2,784,319	1,751,928
TOTAL INFRASTRUCTURE	17,706,421	16,080,829

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

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	7,870,507	6,458,394	1,751,928	16,080,829
Additions	36,795	557,517	1,288,377	1,882,689
WIP - Transfers in/(out)	0	255,986	(255,986)	0
(Disposals)	0	(48,329)	0	(48,329)
Reclassification	0	29,705	0	29,705
Revaluation increments/(decrements)	0	0	0	0
Impairment (losses)/reversals	0	0	0	0
Depreciation expense	0	(238,473)	0	(238,473)
Carrying amount at the end of year	<u><u>7,907,302</u></u>	<u><u>7,014,800</u></u>	<u><u>2,784,319</u></u>	<u><u>17,706,421</u></u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

13. INFRASTRUCTURE (Continued)

Infrastructure:

Infrastructure assets were revalued in 2015 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 2018 in accordance with the mandatory asset measurement framework detailed in Note 1(c).

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

14. REVALUATION SURPLUS

	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Revaluation surpluses have arisen as a result of the revaluation of the following classes of non-current assets:		
Plant and Equipment		
Opening balance	5,834,205	1,140,349
Revaluation Increment	0	4,693,856
Revaluation writeback on disposals	(1,085,138)	0
Closing Balance	<u>4,749,067</u>	<u>5,834,205</u>
Land		
Opening balance	29,475,609	29,475,609
Revaluation Increment	2,065,088	0
Closing Balance	<u>31,540,697</u>	<u>29,475,609</u>
Buildings		
Opening balance	1,205,328	1,205,328
Revaluation Increment	537,547	0
Revaluation writeback on disposals	(31,861)	0
Closing Balance	<u>1,711,014</u>	<u>1,205,328</u>
Artworks		
Opening balance	25,807	25,807
Revaluation Increment	0	0
Closing Balance	<u>25,807</u>	<u>25,807</u>
Infrastructure - Other Structures		
Opening balance	4,186,426	4,186,426
Revaluation Increment	0	0
Revaluation writeback on disposals	(30,084)	0
Closing Balance	<u>4,156,342</u>	<u>4,186,426</u>
Total Revaluation Surplus	<u><u>42,182,927</u></u>	<u><u>40,727,375</u></u>
Revaluation Surplus Summary		
Opening balance	40,727,375	36,033,519
Revaluation Increment	2,602,635	4,693,856
Revaluation writeback on disposals	(1,147,083)	0
Total Revaluation Surplus	<u><u>42,182,927</u></u>	<u><u>40,727,375</u></u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

15. TRADE AND OTHER PAYABLES

	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Current		
Payroll Accruals	74,651	50,478
GST Liability	127,014	96,979
Sundry Creditors	3,644,562	5,742,462
	<u>3,846,227</u>	<u>5,889,919</u>

16. PROVISIONS

Current		
Employees Annual Leave	741,796	769,189
Employees Long Service Leave	696,894	602,189
	<u>1,438,690</u>	<u>1,371,378</u>
Non-current		
Employees Long Service Leave	143,708	250,799
Red Hill Landfill Site Post Closure Rehabilitation	2,314,792	2,132,389
Red Hill Landfill Environmental Monitoring	885,502	788,213
Carbon Pricing	4,235,645	4,235,645
	<u>7,579,647</u>	<u>7,407,046</u>
Analysis of total provisions:		
Current	1,438,690	1,371,378
Non-current	7,579,647	7,407,046
	<u>9,018,337</u>	<u>8,778,424</u>

	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 2016	769,189	852,988	4,235,645	2,132,389	788,213	8,778,424
Net Movement in Provisions	(27,393)	(12,386)	0	182,403	97,289	239,913
Balance as 30 June 2017	741,796	840,602	4,235,645	2,314,792	885,502	9,018,337

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

17. RESERVES

	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
(a) Plant and Equipment Reserve			
Opening balance as at 1 July 2016	510,804	487,372	3,635,347
Transfer from retained surplus	3,002,368	4,386,814	4,147,148
Transfer to retained surplus	(2,155,934)	(4,625,000)	(7,397,085)
Interest	14,777	21,013	125,394
Closing Balance as at 30 June 2017	1,372,015	270,199	510,804
(b) Site Rehabilitation Reserve - Post Closure			
Opening balance as at 1 July 2016	2,132,389	2,131,253	1,930,073
Transfer from retained surplus	120,713	136,072	135,742
Transfer to retained surplus	0	0	0
Interest	61,690	56,295	66,574
Closing Balance as at 30 June 2017	2,314,792	2,323,620	2,132,389
(c) Future Development Reserve			
Opening balance as at 1 July 2016	6,063,056	6,064,453	3,648,218
Transfer from retained surplus	0	0	2,289,000
Transfer to retained surplus	0	(6,100,000)	0
Interest	175,404	84,681	125,838
Closing Balance as at 30 June 2017	6,238,460	49,134	6,063,056
(d) Environmental Monitoring Reserve			
Opening balance as at 1 July 2016	788,213	787,247	680,965
Transfer from retained surplus	74,486	83,891	83,760
Transfer to retained surplus	0	0	0
Interest	22,803	21,194	23,488
Closing Balance as at 30 June 2017	885,502	892,332	788,213
(e) Environmental Insurance Reserve			
Opening balance as at 1 July 2016	40,514	40,549	89,410
Transfer from retained surplus	0	0	0
Transfer to retained surplus	(28,180)	(40,000)	(51,980)
Interest	1,172	533	3,084
Closing Balance as at 30 June 2017	13,506	1,082	40,514

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

17. RESERVES (Continued)

	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
(f) Risk Management Reserve			
Opening balance as at 1 July 2016	13,973	13,977	13,507
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	404	359	466
Closing Balance as at 30 June 2017	14,377	14,336	13,973
(g) Class IV Reserve			
Opening balance as at 1 July 2016	544,803	544,811	19,474
Transfer from retained surplus	3,214	35,057	524,657
Transfer to retained surplus	0	(500,000)	0
Interest	15,761	7,800	672
Closing Balance as at 30 June 2017	563,778	87,668	544,803
(h) Regional Development Reserve			
Opening balance as at 1 July 2016	359,102	359,139	99,650
Transfer from retained surplus	250,000	900,000	845,000
Transfer to retained surplus	(424,258)	(671,664)	(588,986)
Interest	10,389	11,315	3,438
Closing Balance as at 30 June 2017	195,233	598,790	359,102
(i) Secondary Waste Reserve			
Opening balance as at 1 July 2016	46,773,843	46,676,120	44,950,541
Transfer from retained surplus	4,819,705	5,248,491	4,921,036
Transfer to retained surplus	(4,396,633)	(15,507,028)	(4,648,203)
Interest	1,353,166	1,030,989	1,550,469
Closing Balance as at 30 June 2017	48,550,081	37,448,572	46,773,843
(j) Class III Reserve			
Opening balance as at 1 July 2016	4,554,958	4,555,998	2,710,350
Transfer from retained surplus	0	8,994,593	2,612,297
Transfer to retained surplus	(342,248)	(7,639,252)	(861,176)
Interest	131,775	134,405	93,487
Closing Balance as at 30 June 2017	4,344,485	6,045,744	4,554,958

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

17. RESERVES (Continued)

	ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
(k) Building Refurbishment Reserve			
Opening balance as at 1 July 2016	70,552	70,578	68,200
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	2,041	1,811	2,352
Closing Balance as at 30 June 2017	72,593	72,389	70,552
(l) Long Service Leave Reserve			
Opening balance as at 1 July 2016	822,170	822,462	761,143
Transfer from retained surplus	20,958	20,958	34,774
Transfer to retained surplus	0	0	0
Interest	23,786	21,363	26,253
Closing Balance as at 30 June 2017	866,914	864,783	822,170
TOTAL RESERVES	65,431,736	48,668,649	62,674,377

All of the reserve accounts are supported by money and investments held in financial institutions and match the amount shown as restricted cash in Note 10 to this financial report.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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 (Ongoing Reserve)

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

Site Rehabilitation Reserve - Post Closure (Ongoing Reserve)

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

Future Development Reserve (Ongoing 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 (Ongoing 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 (Ongoing 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 (Ongoing Reserve)

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

Environmental Insurance Reserve (Ongoing 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 (Ongoing 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 (Anticipated date of Use - 2018/2019 to 2019/2020 financial years)

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

Regional Development Reserve (Ongoing Reserve)

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

Building Refurbishment Reserve (Ongoing Reserve)

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

Site Rehabilitation Reserve - Ongoing (Ongoing Reserve)

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

Long Service Leave Reserve (Ongoing 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 2017

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:

	ACTUAL 2016/2017	BUDGET 2016/2017	ACTUAL 2015/2016
	\$	\$	\$
Cash and Cash Equivalents - Unrestricted	25,198,428	2,094,165	23,294,489
Cash and Cash Equivalents - Restricted	65,601,501	49,003,541	62,826,339
Total Cash	90,799,929	51,097,706	86,120,828

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

Net Result	11,393,795	6,940,334	15,999,646
<u>Non-Cash Flows in Net Result</u>			
Depreciation	2,640,933	6,350,003	6,075,402
(Profit)/Loss on sale of assets	173,517	(21,589)	(171,907)
(Increase)/Decrease in Revaluation on non-current assets	(2,602,635)	0	(4,693,856)
<u>Changes in Assets and Liabilities</u>			
Increase/(Decrease) in provisions - Other	279,692	219,965	309,564
Increase/(Decrease) in provisions - Employee	(39,779)	27,980	80,852
Increase/(Decrease) in Sundry Creditors	(2,073,728)	0	1,771,400
Increase/(Decrease) in GST	30,036	0	727,301
(Increase)/Decrease in accrued interest earnings	(40,328)	0	243,030
(Increase)/Decrease in Receivables	688,636	0	(1,131,389)
(Increase)/Decrease in Inventory	(992)	0	39,756
(Increase)/Decrease in Prepayments	(30,139)	0	(43,129)
Net cash from operating activities	10,419,008	13,516,693	19,206,670

(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	(7,069)	(2,698)
Net cash from operating activities	35,931	40,302

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

19. EMPLOYEE ENTITLEMENTS

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

Provision for Employee Entitlements (Refer to Note 16)	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
- Current	1,438,690	1,371,378
- Non-current	143,708	250,799
Total Employee Entitlements	<u>1,582,398</u>	<u>1,622,177</u>
	ACTUAL FTE's 2016/2017	ACTUAL FTE's 2015/2016
Total number of (FTE) employees at end of financial year	<u>85</u>	<u>90</u>

20. COUNCILLORS FEES AND ALLOWANCES

ACTUAL 2016/2017 \$	BUDGET 2016/2017 \$	ACTUAL 2015/2016 \$
--	--	--

The following fees, expenses and allowances were paid to council members and the Chairman:

Councillors' meeting fees	115,005	115,005	113,300
Chairman's meeting fees	15,682	15,682	15,450
Deputy Councillors' meeting fees	3,068	9,912	2,552
Chairman's Local Government fee	19,864	19,864	19,570
Deputy Chairman's Local Government fee	4,966	4,966	4,893
	<u>158,585</u>	<u>165,429</u>	<u>155,765</u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

21. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
CURRENT ASSETS		
General Purpose Funding	30,347,825	28,199,852
Governance	1,123,650	1,058,657
Community Amenities	62,910,604	60,897,776
Economic Services	195,232	359,102
TOTAL CURRENT ASSETS	<u>94,577,311</u>	<u>90,515,387</u>
NON-CURRENT ASSETS		
Land		
Governance	5,450,000	5,400,000
Community Amenities	45,120,000	43,104,912
Buildings		
Governance	4,000,000	3,897,719
Community Amenities	3,485,440	1,580,200
Structures		
Governance	29,705	0
Community Amenities	14,892,398	14,328,901
Plant		
Governance	299,913	363,430
Community Amenities	11,783,476	10,412,743
Equipment		
Governance	431,416	418,949
Community Amenities	241,124	239,811
Furniture and Fittings		
Governance	158,479	161,845
Work In Progress		
Unclassified	7,405,074	7,860,423
TOTAL NON CURRENT ASSETS	<u>93,297,025</u>	<u>87,768,933</u>
TOTAL ASSETS	<u>187,874,336</u>	<u>178,284,320</u>

22. DISPOSAL OF ASSETS	ACTUAL 2016/2017			BUDGET 2016/2017		
	Net Book Value \$	Sale Price \$	Gain (Loss) \$	Net Book Value \$	Sale Price \$	Gain (Loss) \$
Buildings	37,112	0	(37,112)	0	0	0
Plant	472,571	386,700	(85,871)	259,118	280,707	21,589
Structues	48,329	0	(48,329)	0	0	0
Equipment	2,205	0	(2,205)	0	0	0
Total Assets Disposed	<u>560,217</u>	<u>386,700</u>	<u>(173,517)</u>	<u>259,118</u>	<u>280,707</u>	<u>21,589</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

23. INFORMATION ON BORROWINGS

(a) Borrowings

The EMRC does not have any loans or borrowings.

(b) New Borrowings

There were no new borrowings during the 2016/2017 financial year.

(c) Unspent Loans

There were no unspent loans during the 2016/2017 financial year.

24. INTEREST IN THE EMRC

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

Member Council	2016/2017		2015/2016	
	%	\$	%	\$
Town of Bassendean	4.31	7,538,338	4.45	7,275,989
City of Bayswater	18.67	32,684,701	19.46	31,846,064
City of Belmont	11.42	19,990,184	11.42	18,683,217
City of Kalamunda	16.43	28,747,212	16.80	27,488,876
Shire of Mundaring	10.84	18,974,932	11.05	18,082,646
City of Swan	38.33	67,074,405	36.82	60,239,185
Total Equity	100.00	175,009,772	100.00	163,615,977

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

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	
	2016/2017	2015/2016	2016/2017	2015/2016
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	90,799,929	86,120,828	90,799,929	86,120,828
Receivables	3,633,350	4,281,658	3,633,350	4,281,658
Financial Assets at fair value through profit and loss	0	0	0	0
	<u>94,433,279</u>	<u>90,402,486</u>	<u>94,433,279</u>	<u>90,402,486</u>
Financial Liabilities				
Payables	3,846,227	5,889,919	3,846,227	5,889,919
	<u>3,846,227</u>	<u>5,889,919</u>	<u>3,846,227</u>	<u>5,889,919</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
FOR THE YEAR ENDED 30 JUNE 2017

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 an independent adviser before placing any cash and investments.

	2016/2017	2015/2016
	\$	\$
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	907,999	861,208
- Statement of Comprehensive Income	907,999	861,208

(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:

	2016/2017	2015/2016
Percentage of Other Receivables		
- Current	82.1%	76.6%
- Overdue	17.9%	23.4%
	100.0%	100.0%

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

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:

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
<u>2016/2017</u>					
Payables	3,846,227	0	0	3,846,227	3,846,227
	<u>3,846,227</u>	<u>0</u>	<u>0</u>	<u>3,846,227</u>	<u>3,846,227</u>
<u>2015/2016</u>					
Payables	5,889,919	0	0	5,889,919	5,889,919
	<u>5,889,919</u>	<u>0</u>	<u>0</u>	<u>5,889,919</u>	<u>5,889,919</u>

(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 does not have any borrowings or loans.

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

26. COMMITMENTS FOR CAPITAL EXPENDITURE	ACTUAL 2016/2017 \$	ACTUAL 2015/2016 \$
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities:		
- Payable not longer than one year	1,022,587	3,828,948
Total Capital Commitments	1,022,587	3,828,948

27. 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.

28. EVENTS AFTER THE REPORTING PERIOD

The EMRC Council at it's meeting held on Thursday 24 August 2017, approved the use of retained funds totalling \$4,235,645 from the early collection of carbon tax in the development of the Hazelmere Resource Recovery Park and/or the Resource Recovery Facility Project

There have been no other significant events after the reporting period required to be included in the 2016/2017 Annual Financial Report.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL RATIOS

	ACTUAL 2016/2017	ACTUAL 2015/2016	ACTUAL 2014/2015
<i>Liquidity Ratio</i>			
Current Ratio ⁽¹⁾	6.32	4.16	3.70
<u>Current Assets less Restricted Current Assets</u>			
<u>Current Liabilities less Liabilities Associated with Restricted Assets</u>			
<i>Debt Ratio</i>			
Debt Service Cover Ratio ⁽²⁾	Not Applicable	Not Applicable	Not Applicable
<u>Operating Surplus before Interest and Depreciation Expenses</u>			
<u>Principal and Interest Repayments</u>			
<i>Coverage Ratio</i>			
Own Source Revenue Coverage Ratio ⁽³⁾	1.23	1.28	1.23
<u>Own Source Operating Revenue</u>			
<u>Operating Expense</u>			
<i>Financial Performance Ratio</i>			
Operating Surplus Ratio ⁽⁴⁾	0.25	0.27	0.27
<u>Operating Revenue less Operating Expense</u>			
<u>Own Source Operating Revenue</u>			
<i>Asset Management Ratio</i>			
Asset Sustainability Ratio * ⁽⁵⁾	0.69	0.49	0.24
<u>Capital Renewal and Replacement Expenditure</u>			
<u>Depreciation Expense</u>			
<i>The following information relates to those ratios which only require attestation. They have been checked and are supported by verifiable information.</i>			
Asset Consumption Ratio ⁽⁶⁾	0.79	0.82	0.68
<u>Depreciated Replacement Cost of Depreciable Assets</u>			
<u>Current Replacement Cost of Depreciable Assets</u>			
Asset Renewal Funding Ratio ⁽⁷⁾	1.00	1.00	1.00
<u>Depreciated Replacement Cost of Depreciable Assets</u>			
<u>Current Replacement Cost of Depreciable Assets</u>			

Notes

- ⁽¹⁾ This is a modified commercial ratio designed to focus on the liquidity position of the Council that has arisen from past year's transactions.
- ⁽²⁾ This ratio is the measurement of Council's ability to repay its debt including lease payments.
- ⁽³⁾ This ratio is the measurement of Council's ability to cover its costs through its own revenue efforts.
- ⁽⁴⁾ This ratio is a measure of Council's ability to cover its operational costs and have revenues available for capital funding or other purposes.
- ⁽⁵⁾ This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
- ⁽⁶⁾ This ratio indicates whether Council is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
- ⁽⁷⁾ This ratio is a measure of the ability of Council to fund its projected asset renewal / replacements in the future.

* 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 2017

30. 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 2017			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	10(b)	0	0	0	0
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
Non-Financial Assets					
Land	12	0	50,570,000	0	50,570,000
Buildings	12	0	4,000,000	3,485,440	7,485,440
Plant	12	0	5,903,527	6,179,863	12,083,390
Equipment	12	0	672,540	0	672,540
Furniture and Fittings	12	0	13,440	0	13,440
Artworks	12	0	145,040	0	145,040
Infrastructure	13	0	0	14,922,102	14,922,102
Total non-financial assets recognised at fair value on a recurring basis		0	61,304,547	24,587,405	85,891,952

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

30. FAIR VALUE MEASUREMENT (Continued)

30 June 2016

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets	10(b)	0	0	0	0
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
Non-Financial Assets					
Land	12	0	48,504,912	0	48,504,912
Buildings	12	0	3,866,664	1,611,255	5,477,919
Plant	12	0	4,092,762	6,683,411	10,776,173
Equipment	12	0	658,759	0	658,759
Furniture and Fittings	12	0	16,806	0	16,806
Artworks	12	0	145,040	0	145,040
Infrastructure	13	0	0	14,328,901	14,328,901
Total non-financial assets recognised at fair value on a recurring basis		0	57,284,943	22,623,567	79,908,510

(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.

(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 2017

30. 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 2017 \$	Valuation Technique(s)	Inputs Used
Financial Assets				
Financial Assets at Fair Value through profit or loss – CDOs	2	0	Market approach	Similar priced securities in a more active market.
TOTAL		0		
Non-Financial Assets				
Land	2	32,880,000	Market approach	Price per square metre.
	2	17,690,000	Cost Approach	Price per square metre.
Buildings	3	3,485,440	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.
	2	4,000,000	Market and income approach	Rental yields and price per square metre.
Plant	2	5,903,527	Market approach	Make, size, year of manufacture and condition.
	3	6,179,863	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.
Equipment	2	672,540	Market approach	Make, size, year of manufacture and condition.
Furniture and Fittings	2	13,440	Market approach	Make, size, year of manufacture and condition.
Artworks	2	145,040	Market approach	Estimated value expected to be realised.
Infrastructure	3	14,922,102	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.
TOTAL		85,891,952		

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

30. FAIR VALUE MEASUREMENT (Continued)

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

Recurring fair value measurements

Land

Where there is directly comparable market evidence Level 2 valuation inputs were used to value land held in freehold title (investment and non-investment) as well as land used for special purposes which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Where there was no observable market evidence for a land asset due to its configuration, council zoning restrictions, contamination or similar factors that result in there being no directly comparable market evidence Level 3 valuation inputs were used. For these assets significant assumptions needed to be made to determine the fair value. These were subsequently valued at the level 3 valuation input hierarchy by using the professional judgment of a Registered Valuer who adjusted the price per square metre of sales from sites not in close proximity which provided only a low level of comparability.

Level 2 valuation inputs were used to value land held in freehold title (investment and noninvestment) as well as land used for special purposes which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

The land purchased in December 2012, Lot 8, 9 & 10 land parcels at Red Hill land fill facility, was a strategically planned and prolonged acquisition over a period of several years. It was a closed negotiation and was not open to market participants. Market research and analysis was undertaken by the Valuers who have acknowledged that the cost of this land area equates to a land rate per hectare greater than analysis of nearby market evidence. The difference is a premium rate which Council paid to obtain the asset. AASB13 requires Fair Value of this land to be calibrated to the transactional cost. The Valuers have therefore adopted the Fair Value of this land at the purchase price as it provides calibration with actual price required for purchasing a land fill site.

Buildings

Level 2 valuation inputs

These were used to determine the fair value of a range of properties. This included the bulk of residential and commercial properties. The residential properties fair value has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

Commercial buildings have been generally derived using a combination of sales direct comparison approach and capitalisation of income approach. Fair value has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are rental yields and price per square metre.

Level 3 valuation inputs

The level of evidence used to support the critical assumptions of some commercial buildings was considered to be highly variable due to high levels of variability in the market for rental yields and future demand. As such the level of valuation input for these properties was considered level 3

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

30. FAIR VALUE MEASUREMENT (Continued)

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

Recurring 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.

Plant

Plant assets have generally been derived from comparable sales and relevant industry market price reference guides and have been classified as being valued at level 2. The most significant inputs into this valuation approach are the make, size, year of manufacture and condition.

Some items of plant and contents however are unique in design or there was insufficient observable market evidence to support the valuation. As a result these assets have been 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 determining the Fair Value for each component based on the Remaining Useful Life (RUL) in proportion to the Useful Life after adjusting for any Residual Value.

Furniture and Fittings

The Council acquires its furniture and equipment at arm's length from approved suppliers. These acquisitions are recorded at cost and any accumulated depreciation reflects the usage of service potential. It is considered that the recorded written down values approximate the fair value of furniture and fittings.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

30. FAIR VALUE MEASUREMENT (Continued)

(d) Valuation processes

The EMRC engages external, independent and qualified valuers to determine the fair value of the Council's land, buildings, plant, equipment, infrastructure, artworks and furniture and fittings on a regular basis in line with Regulation 17A(4) of the *Local Government (Financial Management) Regulations 1996*.

As at 30 June 2017, a comprehensive revaluation was undertaken for all asset classes subject to revaluation by external valuers, APV Valuers and Asset Management.

Management carried out an assessment of the revaluation work performed by the external valuers, which included review of the valuer's methodology, limitations, algorithms, key assumptions and inputs used in applying the valuation methodology to ensure they were appropriate prior to their application. Changes in fair values were analysed at the end of the reporting period. Consequently, management is satisfied with the results of the valuations undertaken and confirm that the movement in the asset values are reasonable.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

31. RELATED PARTY TRANSACTIONS

Key Management Personal (KMP) Compensation Disclosure

The total of remuneration paid to KMP of the Council during the year are as follows:

	2016/2017 \$
Short-term employee benefits	692,859
Post-employment benefits	100,395
Other long term benefits	155,337
Termination benefits	0
	<hr/> 948,591 <hr/>

Short-term employee benefits

These amounts include all salary, paid leave, fringe benefits and cash bonuses awarded to KMP except for details in respect of fees and benefits paid to elected members which may be found at Note 20.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Council's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service benefits accruing during the year.

Termination benefits

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

Related Parties

The Council's main related parties are as follows:

i Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any elected member, are considered key management personnel.

ii Entities subject to significant influence by the Council

Any entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

31. RELATED PARTY TRANSACTIONS (Continued)

Related Parties (Continued)

Transactions with related parties

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	2016/2017 \$
<i>Associated companies/individuals:</i>	
Sale of goods and services	0
Purchase of goods and services	0
<i>Joint venture entities:</i>	
Distributions received from joint venture entities	0
<i>Amounts outstanding from related parties:</i>	
Trade and other receivables	1,989,376
Loans to associated entities	0
Loans to key management personnel	0
<i>Amounts payable to related parties:</i>	
Trade and other payables	0
Loans from associated entities	0
	<hr/>
	1,989,376

Note: Transitional provisions contained within AASB 2015-6 do not require comparative related party disclosures to be presented in the period of initial application. As a consequence, only disclosures in relation to the current year have been presented.

INDEPENDENT AUDITOR'S REPORT



**For the Year Ended
30 June 2017**

INDEPENDENT AUDITOR'S REPORT

TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL

Report on the Financial Report

Opinion

We have audited the financial report of **Eastern Metropolitan Regional Council** (the Council), which comprises the Statement of Financial position as at 30 June 2017, 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 then ended, and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

In our opinion, the accompanying financial report of the **Eastern Metropolitan Regional Council** is in accordance with the *Local Government Act 1995* (as amended), including:

- (a) giving a true and fair view of the financial position of the **Eastern Metropolitan Regional Council** as at 30 June 2017 and of its financial performance for the year then ended; and
- (b) complying with the Australian Accounting Standards (including Australian Accounting Interpretations) and the *Local Government (Financial Management) Regulations 1996* (as amended).

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 other 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 noted during the course of our audit.
- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at **Note 29** 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.



INDEPENDENT AUDITOR'S REPORT (Cont'd)

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Council in accordance with the auditor independence and ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The management is responsible for the other information. The other information comprises the information included in the Council's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:




INDEPENDENT AUDITOR'S REPORT (Cont'd)

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the **Eastern Metropolitan Regional Council** for the year ended 30 June 2017 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.


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


A MACRI
PARTNER

PERTH
DATED THIS 7TH DAY OF SEPTEMBER 2017.





Certified Practising Accountants

Eastern Metropolitan Regional Council



Audit Completion Report to the
Audit Committee
For the Year Ended 30 June 2017

28 August 2017

Table of Contents

1. Executive Summary.....	1
1.1 Status of Audit	1
1.2 Deliverables	1
2. Financial Statements and Audit Opinion	2
3. Current Year Areas of Audit Focus.....	2
4. Assessment of Internal Controls	4
5. Key Findings During Final Phase of Audit.....	5
6. Specific Required Communications	6
7. Disclaimer.....	8
8. Appendix 1 - Proposed Audit Opinion	9

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 Council via its Audit Committee to summarise the significant matters that have arisen from our year-end audit of the EMRC for the year ended 30 June 2017.

1.1 Status of Audit

Our audit field work at the EMRC for the financial year ended 30 June 2017 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	21 April 2017
Interim Audit Management Letter	25 May 2017
Present the Audit Completion Report to the Audit Committee	7 September 2017
Provide Independent Auditor's Report on the Financial Report	After recommendation of Financial Report by the 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 2017 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	Revaluation of Land and Buildings	<p>Regulation 17A(4) of the LG (Financial Management) Regulations 1996 requires Land and Building assets to be measured at fair value for the year ending 30 June 2017. The EMRC'S Land and Buildings asset classes were revalued at fair value by external valuers, APV Valuers at 30 June 2017.</p> <p>Audit evaluated the professional competence and objectivity of the expert and the adequacy of the scope of the expert's work. We are satisfied that the expert is suitably independent of the Council, objective and experienced in undertaking this work.</p> <p>Audit procedures tested capital asset additions on a sample basis for accuracy to supporting documentation. Audit also reviewed the basis of the asset valuations (at fair value) undertaken and considered the judgements, assumptions and data used together with the reasonableness of any estimation techniques applied. Asset reconciliation schedules were verified against trial balance reported amounts.</p> <p>We have relied upon the values adopted by the external valuers.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the land and building asset classes.</p>

2	Infrastructure – Landfill Cells	<p>EMRC's Infrastructure Assets were internally revalued at fair value at 30 June 2017. Infrastructure Assets consist of primarily landfill cells and Other Structures.</p> <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>The cost of the landfill cell that was in use during the 2017 financial year had been fully amortised by the end of financial year 2016. However, due to re-designing of the cell at an insignificant cost, it had been possible to use it in the 2017 year too. Therefore, there had been no charge on account of amortisation in respect of this landfill cell in the 2017 financial year.</p> <p>Audit procedures tested on a sample basis:</p> <ul style="list-style-type: none"> • Capital asset additions on a sample basis for accuracy to supporting documentation. • the judgements, assumptions and data used. <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 Landfill Cells - infrastructure asset class.</p>
3	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.</p> <p>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>We reviewed the estimates and assumptions in the model developed by the EMRC for estimating total future rehabilitation expenditure over the landfill discounted to net present value as at 30 June 2017.</p>

		Results of the audit procedures conducted did not note any material misstatement of the Provisions for Site Rehabilitation and Environmental Monitoring.
4	Contingent Liabilities	<p>Contingent liabilities at the reporting 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 2017.</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>

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.

Our follow up indicates that the management comments for the interim audit visit conducted during the financial year ended 30 June 2017 have been fully implemented.

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	Area: Landfill Cells – Cell Capacity Estimations
	Key Findings
	<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"> • The total tonnage capacity of the landfill is 20 million tonnes. • The remaining tonnage capacity of the landfill is 7.765million tonnes. <p>These estimates were provided by the engineering officers of EMRC during the year ended 30 June 2015 and remaining tonnage capacity was updated with respect to tonnages received at the landfill during the 2017 financial year.</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>
	Recommendation
	<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 the year ending 30 June 2018 in detail in order to confirm that the estimates are reasonable.</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"> ➤ There were no changes to the audit approach outlined in the External Audit Plan.
Significant accounting policies	<ul style="list-style-type: none"> ➤ 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. ➤ There were no significant changes in the application of existing policies during the year ended 30 June 2017. The accounting policies adopted in the financial statements are appropriately disclosed.
Sensitive Accounting Estimates and Disclosures	Refer to “Current Year of Audit Focus” section
Misstatements and significant audit adjustments	<ul style="list-style-type: none"> ➤ 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 \$63,000 should be considered trivial. This represents 5% of materiality. ➤ A few disclosure adjustments to the financial statements have been discussed and amended during the course of our audit. ➤ No financial adjustments have been raised through our audit work meaning there are no unadjusted misstatements to report.
Significant Weaknesses in Internal Controls	<ul style="list-style-type: none"> ➤ No significant weaknesses in internal control were identified. Refer to our Interim Audit Management Letter.
Disagreements with management	<ul style="list-style-type: none"> ➤ There have been no significant disagreements with management during the course of the audit.
Serious Difficulties Encountered	<ul style="list-style-type: none"> ➤ There were no serious difficulties encountered in dealing with

<p>in Dealing with Management when Performing the Audit such as:</p> <ul style="list-style-type: none"> • Significant delays in management providing required information • An unnecessarily brief time within which to complete the audit • Extensive unexpected effort required to obtain sufficient appropriate audit evidence • The unavailability of expected information • Restrictions imposed on the auditor by management 	<p>management when performing the audit.</p>
<p>Fraud and Illegal Acts</p>	<ul style="list-style-type: none"> ➤ We are not aware of any matters that require communication. ➤ 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.
<p>Compliance with laws and regulations</p>	<ul style="list-style-type: none"> ➤ 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. ➤ We have also received representations from management confirming that the Council is in compliance with all laws and regulations that impact the Council.
<p>Books and records and conduct of the audit</p>	<ul style="list-style-type: none"> ➤ 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.
<p>Other Information in Documents Containing Audited Financial Statements</p>	<ul style="list-style-type: none"> ➤ 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.
<p>Related Party Transactions</p>	<ul style="list-style-type: none"> ➤ None of which we are aware.
<p>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</p>	<ul style="list-style-type: none"> ➤ None.

Going concern	<ul style="list-style-type: none"> ➤ 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	<ul style="list-style-type: none"> ➤ 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. ➤ During the year ended 30 June 2017, Macri Partners has not provided any non-audit services to the EMRC.

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

Report on the Financial Report

Opinion

We have audited the financial report of **Eastern Metropolitan Regional Council** (the Council), which comprises the Statement of Financial position as at 30 June 2017, 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 then ended, and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

In our opinion, the accompanying financial report of the **Eastern Metropolitan Regional Council** is in accordance with the *Local Government Act 1995* (as amended), including:

- (c) giving a true and fair view of the financial position of the **Eastern Metropolitan Regional Council** as at 30 June 2017 and of its financial performance for the year then ended; and
- (d) complying with the Australian Accounting Standards (including Australian Accounting Interpretations) and the *Local Government (Financial Management) Regulations 1996* (as amended).

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 other 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 noted during the course of our audit.
- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at **Note 29** 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.

INDEPENDENT AUDITOR'S REPORT (Cont'd)

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Council in accordance with the auditor independence and ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The management is responsible for the other information. The other information comprises the information included in the Council's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

INDEPENDENT AUDITOR'S REPORT (Cont'd)

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the **Eastern Metropolitan Regional Council** for the year ended 30 June 2017 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.

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

**A MACRI
PARTNER**

**PERTH
DATED THIS XXTH DAY OF SEPTEMBER 2017.**

MACRI PARTNERS

2017 FRAUD & ERROR ASSESSMENT

EASTERN METROPOLITAN REGIONAL COUNCIL

Explanatory Information

The purpose of this form is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make enquiries of the Audit Committee under auditing standards.

Background

Under the Australian Auditing Standards, auditors have specific responsibilities to communicate with the Audit Committee.

Australian Auditing Standards ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and ASA 260 *Communication with Those Charged with Governance* now make it mandatory for auditors to make enquiries of management and those charged with governance (audit committees) regarding matters that are indicated in the template form. The enquiries with those charged with governance (audit committees) are made in part to corroborate the responses to the enquiries of management.

Respective Responsibilities

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight to address fraud risk.

This form includes a series of questions on each area with provision for responses from both management and the Audit Committee.

We suggest that Management complete the relevant sections before submitting these responses to the Audit Committee.

Fraud and Error Assessment – Management

EASTERN METROPOLITAN REGIONAL COUNCIL

FOR THE YEAR ENDING 30 JUNE 2017

1. Has management assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?

Response:

The assessment of material misstatement is engrained in the development of policies and guidelines and the overarching principal of best practice.

A number of EMRC guidelines, policies, systems, controls and processes are in place to mitigate the risk of material misstatement in the financial statements due to fraud.

Most processes require multiple officer verifications. An example of this is the verifications and authorisations required with the fortnightly payroll processes, the segregation of duties associated with the purchase order module which links to the accounts payable processes and the authorisation required from the CEO for the investment or redemption of EMRC funds.

If the guidelines, policies, systems, controls & processes that are in place are operating effectively there is a reasonable expectation that this will mitigate the risk of material misstatement in the financial statements due to fraud.

2. What processes does management have in place to identify and respond to risks of fraud?

Response:

The EMRC has a suite of policies and management guidelines to ensure the appropriate level of control and oversight into the various areas of the operations, consistent with best practice and good management. Examples of these management guidelines include:

- *Fraud and Corruption Control*
- *Authorisation of Expenditure*
- *Cheque Signatories and Online EFT Supplier Payments*
- *Corporate Credit Card*

The EMRC also has a Risk Steering Group which is made up of the Executive Management Team and the Senior Risk Officer to discuss risk management matters.

To identify and respond to risks including fraud, the EMRC has in place an internal audit program. The program has been spread over a four year cycle to coincide with the requirements of the Local Government (Financial Management) Regulations 1996 for the CEO to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews (regulation 5(2)(c)). The internal audit review has been undertaken by an independent external organisation and the results of the review are presented to the Audit Committee and Council each year. The review concluded that the systems, controls and procedures in place are operating effectively and are appropriate for the EMRC's structure and operations. This was last reported to Council in June 2015 and is next due in 2019.

The internal audit program has also taken into account the requirement of the Local Government (Audit) Regulations 1996 for the CEO to report on the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance every two years. This was last reported in September 2016 and is next due in 2018. The outcome of the review concluded that "... the EMRC has the appropriate and effective local government systems and procedures in place to comply with Regulation 17."

3. Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?

Response:

In terms of general fraud risk, these are identified per AS8001-2008 to include:

- *unauthorised private use of motor vehicles*
- *unauthorised use of corporate credit cards*
- *using client money for private benefit*
- *falsifying travel claims*
- *falsifying timesheets*
- *theft by way of false invoicing*
- *theft of confidential information*
- *unauthorised use of confidential information*
- *misdirection of remittances*
- *running a private business in working hours*
- *stealing equipment or supplies from work*
- *accepting bribes or favours for turning a blind eye*
- *accepting bribes or favours to provide a favourable report*
- *misappropriating fees received from clients and not providing receipts*
- *conspiring unfairly with others to win a tender*

To mitigate these risks, processes are put in place through policies and management guidelines that are underpinned by the core principles of:

- *Segregation of duties*
- *Appropriate level of authorisation limits*

The following are the main measures the EMRC will pursue to minimise the risk of fraud, corruption and misconduct within the operations:

- *A Clear Integrity Standard - Building on the EMRC Code of Conduct to define a clear integrity framework for the organisation that will assist in creating an ethical culture. (See Appendix A for the Integrity Framework.)*
- *Pre-employment Screening – To ensure the organisation is aware of any potential risk associated with new employees.*
- *Staff Awareness Training - Ensuring staff are aware of what constitutes fraud, corruption and misconduct and any tell-tail signs they should be looking for.*
- *Public Interest Disclosure Guidelines.*
- *Fraud Assessment Processes – Includes internal and external audit and oversight by the Audit Committee.*
- *Fraud Opportunity Reduction – Ensuring that internal systems and procedures reduce the opportunity for fraud.*
- *Fraud Control Planning and Review – This will include ensuring that specific staff have duties to keep the fraud control process active and monitored.*

- *Fraud Reporting – Ensuring that there is a clear reporting and accountability process which includes how and when the Executive Team must be made aware of a particular incident or situation.*
- *Fraud Investigation – Ensuring that there is clear guidance as to how an incident or situation should be investigated and when relevant State authorities should be notified.*
- *Ensuring that the above matters/actions are adequately resourced.*

Traditionally procurement activities and the use of credit cards have been identified as high risk areas. The use and reconciliation of credit cards is (and has been for a long time) very tightly controlled at the EMRC. As a result, procurement activities remain the most probable area where fraud activity may exist without detection. Collusive activity with small contractors (eg over charging hours or costs) can constitute an exposure, however there are docket/ invoice oversight processes that would mitigate this risk.

4. Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?

Response:

Segregation of duties is in place and is seen to be operating effectively. Under no instance can anyone control both the initiation of the transaction and the payment process. Payments require approval through the purchase order process as well as two-person authorisation.

5. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (e.g. because of undue pressure to achieve financial targets such as a surplus position or better performance indicators)?

Response:

We believe that there is limited opportunity to be able to override controls over the financial reporting process.

6. What arrangements are in place to report fraud issues and risks to the Audit Committee?

Response:

Where fraudulent activity is suspected this can be reported via the procedure as outlined in Fraud and Corruption Control management guideline referred to above.

The CEO has the legal responsibility to ensure that this information is reported to the Audit Committee. As appropriate, the EMRC CEO will report to the CCC or the Public Sector Commission which will be able to determine the nature of the breach and if prosecution or penalties are warranted.

7. How does the Council communicate and encourage ethical behaviour of its staff and contractors?

Response:

"Integrity" is one of the EMRC's five core values. Key ingredients of integrity are; honesty, objectivity, fairness, strong ethics, together with high levels of courtesy and decency. A high level of trust is implicit within all Management – staff interactions.

The EMRC's Integrity Framework has two main components, its corporate commitments and the personal commitment and professionalism of each individual officer.

The following are in place to maintain the organisation's integrity standards:

- *Adherence to the Local Government Act 1995, including necessary compliance reports*
- *Ensuring compliance with the Corruption and Crime Commission Act 2003*
- *Ensuring compliance with the Corruption, Crime and Misconduct Act 2003*
- *The Audit Committee*
- *Internal Audit and assurance processes*
- *The EMRC Strategic Plan*
- *Information management that acknowledges strict privacy principles*
- *Adherence to the Risk Management Policy as it impacts on good governance and the protection of the EMRC's valuable reputation*

At a staff level, integrity standards are supported and guided by:

- *The EMRC Code of Conduct*
- *Staff forums which assist in developing an organisational culture that supports a high level of integrity by providing a clear understanding of what constitutes misconduct*
- *Annual personal performance assessments*
- *Management training that includes coverage of this Guideline as well as customer interaction standards*
- *Staff / team communication protocols*

These measures will assist in developing staff behaviours that both protect and reflect the EMRC image and reputation objectives.

8. How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?

Response:

As detailed in the Fraud and Corruption Control Management Guideline, we have communicated to staff the process of reporting concerns regarding fraud.

In addition, the Public Interest Disclosure policy is currently being developed for Council approval.

There have been no issues reported.

9. Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

Response:

We do not believe there have been any related party relationships or transactions reported that could give rise to risks of fraud.

10. Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 July 2016? If yes, provide details of what occurred and who was involved.

Response:


There has been no instances of actual, suspected or alleged, fraud, within the Council in 2016/2017.

11. Please advise if there have been any matters reported to the CCC (Corruption and Crimes Commission) by the Council.

Response:

There has been no matters reported to the CCC by Council in 2016/2017

Signature:



Name:

Peter Bernard Schneider

Position:

Chief Executive Officer

Date:

31-7-17

Fraud and Error Assessment – Audit Committee

EASTERN METROPOLITAN REGIONAL COUNCIL

FOR THE YEAR ENDING 30 JUNE 2017

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We are preparing to perform our Interim Audit risk assessment of your Council in relation to the audit for the year ending 30 June 2017. We would appreciate if you could briefly answer the following questions in the spaces provided, and return this signed letter.

1. Has the Council's management communicated to you its processes for identifying/responding to risks of fraud?

Response:

Council's management has communicated via the Audit Committee its processes for identifying/responding to risks of fraud by the submission to the Audit Committee the following:

- *Strategic Internal Audit Program that is reviewed & signed off which is undertaken on a four (4) year cycle.*
- *Review of the annual Internal Audit report.*
- *Review of the annual External Audit report.*
- *Review of the annual External Interim Audit Report.*
- *CEO's review of the EMRC's financial management systems and procedures which is submitted at least once in every four financial years.*
- *Review of the EMRC's Risk Management Plan which is undertaken every second year.*

2. How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?

Response:

Members of the Audit Committee have the opportunity to ask questions of the CEO and the Internal and/or External Audits on the details outlined in the relevant reports that are presented to the Audit Committee.

3. Is the Audit Committee aware of any actual, suspected or alleged fraud? If yes, please provide details.

Response:

There has been no instances of actual, suspected or alleged, fraud, within the Council reported to the Audit Committee in 2016/2017.

Signature:



Name:

Cr Steve Wolff

Position:

Audit Committee Chairman

Date:

8/8/2017

Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial report may contain a material misstatement resulting from fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- Tips or complaints to the auditor about alleged fraud.

Conflicting or missing evidence, including:

- Missing documents.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important financial statement ratios or relationships – for example receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from enquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Missing or non-existent cancelled cheques in circumstances where cancelled cheques are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.
- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- An unwillingness to add or revise disclosures in the financial report to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.

Other

- Unwillingness by management to permit the auditor to meet privately with those charged with governance.
- Personal financial pressure
- Vices such as substance abuse and gambling
- Extravagant purchasing or lifestyle
- Real or imagined grievances against the organisation or management
- Increased stress, irritable, defensive and argumentative
- No vacations / sick leave / excessive overtime
- Dominant personality
- Protective of area of administration and missing documents and files from the staff's area
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's Code of Conduct.



11.2 INTERNAL AUDIT REPORT – 2017 PROGRAMME

REFERENCE: D2017/12607

PURPOSE OF REPORT

The purpose of this report is to present the Audit Committee (AC) with the internal audit report of the 2017 internal audit programme.

KEY ISSUES AND RECOMMENDATION(S)

- At the March 2016 round of meetings, Council endorsed a four year internal audit programme consisting of 15 auditable areas.
- This year represents the second year of the four year internal audit programme which commenced in May 2017 for the Accounts Payable, Accounts Receivable, Waste Management and Risk Management audit areas.
- The internal audit report covering the above areas is attached and each area has been assessed to be 'excellent'.

Recommendation(s)

That Council notes the 2017 internal audit reports forming attachments 1 to 4 to this report.

SOURCE OF REPORT

Chief Executive Officer

BACKGROUND

At the Audit Committee (AC) meeting held on 10 March 2016 (Ref: D2016/03760), the Committee endorsed a four year audit programme, which was subsequently adopted by Council at its meeting of 24 March 2016.

Due to operational circumstances and to allow for a more effective audit process, two of the originally planned audit areas for 2017 (Procurement and Corporate Governance) were transposed with two from 2018 (Accounts Payable and Accounts Receivable.)

Hence the revised four year programme is as follows:

Auditable Area	2016	2017	2018	2019
Contract Management	•		•	
IT General Controls	•			
Payroll	•			
Human Resource Management and OH&S	•		•	
Procurement			•	•
Corporate Governance			•	
Risk Management		•		
Waste Management		•		



Item 11.2 continued

Auditable Area	2016	2017	2018	2019
Accounts Payable		•		
Accounts Receivable		•		
Grants Management			•	
Records Management			•	
Investment Policies				•
Taxation				•
IT Vulnerability Assessment				•
Review of Financial Management Systems				•
Review of Risk Management, Internal Control and Legislative Compliance	•		•	

REPORT

The internal audit programme for this year commenced in May 2017 for the following audit areas:

- Accounts Payable;
- Accounts Receivable;
- Waste Management; and
- Risk Management.

The quality of management controls for the above audit areas were found to be of a high standard with all four areas obtaining a rating of 'excellent'. Some minor opportunities for improvement were identified and appropriate remedial actions are being implemented.

The reports for the 2017 internal audit programme are attached.

Arrangements have been made for a representative of the EMRC's internal auditors, Paxon Group, 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 3 – Good Governance

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

FINANCIAL IMPLICATIONS

The annual budget provides for the internal audit function.



Item 11.2 continued

SUSTAINABILITY IMPLICATIONS

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

MEMBER COUNCIL IMPLICATIONS

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

ATTACHMENT(S)

1. Internal Audit Report: Accounts Payable (Ref: D2017/13297)
2. Internal Audit Report: Accounts Receivable (Ref: D2017/13298)
3. Internal Audit Report: Waste Management (Ref: D2017/13300)
4. Internal Audit Report: Risk Management (Ref: D2017/13301)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That Council notes the 2017 internal audit reports forming attachments 1 to 4 to this report.

The CEO provided a brief overview of the areas audited and commented that it was an outstanding result for the EMRC.

Cr Perks recorded a vote of thanks to the CEO and staff involved in the audited areas for the excellent results. The Chairman also echoed those sentiments.

AC RECOMMENDATION(S)

MOVED CR STALLARD

SECONDED CR PERKS

That Council notes the 2017 internal audit reports forming attachments 1 to 4 to this report.

CARRIED UNANIMOUSLY

Eastern Metropolitan Regional
Council
Internal Audit Report
Accounts Payable

PAXON GROUP

Private Client Services
Audit and Assurance
Taxation

Perth • Melbourne • Sydney | August 2017 – Final Version
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Table of Contents

Executive Summary	3
1 Introduction	5
1.1 Background	5
1.2 Internal Audit Objective.....	5
2 Scope	6
3 Methodology.....	7
4 Inherent Limitations.....	8
5 Detailed Audit Findings.....	9
6 Documentary Observations	13
Appendix A.....	14

Executive Summary

Process	Excellent	Very Good	Satisfactory	Needs Improvement	Not Satisfactory
	★★★★★	★★★★	★★★	★★	★
	Strengths		Weaknesses		Rating
Accounts Payable	<ul style="list-style-type: none"> • Proper segregation of duties exists between identifying a need for goods/services and approving purchase orders; • Proper segregation of duties exists between preparation and authorisation of the payment of suppliers; • Proper segregation of duties exists between incurring corporate credit card expenditure, approving such expenditure and reviewing such expenditure; • Pre-numbered purchase orders are used to buy goods/services (utility services excluded); • Only stipulated employees have delegated purchasing authority for the approval of both items of capital expenditure and operational expenditure (up to prescribed limits); • Only stipulated employees may authorise EFT payment and sign cheques; • Access to the Creditors module in SynergySoft is controlled by access groups with different levels of access; and • Monthly reconciliations between the Accounts Payable module and the general ledger are prepared and reviewed by different employees. 		<ul style="list-style-type: none"> • Management of changes in suppliers' banking details needs improvement; and • Changes in purchasing authority limits are not timely captured in SynergySoft. 		★★★★★

Overall Report Rating

Rating	Excellent	Very Good	Satisfactory	Needs Improvement	Not Satisfactory
	☆☆☆☆☆				

See Appendix A for a guide to the overall report rating scale.

1 Introduction

1.1 Background

Trade and other payables as at 30 June 2016 amounted to \$5,889,919. This represents an increase of \$1,238,058 from trade and other payables of \$4,651,861 as at 30 June 2015. Total current liabilities as at 30 June 2016 amounted to \$7,261,297. Total current liabilities as at 30 June 2015 amounted to \$5,986,220.

Paxon has been engaged by the EMRC to review the Accounts Payable function of the Council.

1.2 Internal Audit Objective

The document entitled: “*EMRC – Strategic Internal Audit Plan – 2016 – 2019*” (“EMRC Plan”) discloses the following identified risks for Accounts Payable:

- Authorisation (including receipt of goods/services);
- Accuracy (including coding);
- Timeliness; and
- Compliance with legislation (regarding ABN/withholding tax).

The EMRC Plan discloses the following audit objectives for Accounts Payable:

- Determine whether payments are accurate, complete, made in a timely manner and have adequate support;
- Determine whether adequate controls exist to provide reasonable assurance that payments are made to approved creditors;
- Determine whether controls over record keeping provide reasonable assurance that accounts are posted to the correct account in a timely manner;
- Identify whether payments are made in accordance with approved policy; and
- Determine whether there are adequate procedures in place to mitigate the risk of fraudulent payments.

The overall objective for this internal audit of Accounts Payable is to:

- Provide assurance that effective and efficient controls are in place to address the identified risks disclosed above; and
- Achieve the audit objectives disclosed above.

2 Scope

The following process was covered in the internal audit:

Process	Key Risks
Accounts Payable	<ul style="list-style-type: none"> • Authorisation (including receipt of goods/services); • Accuracy (including coding); • Timeliness; and • Compliance with legislation (regarding ABN/withholding tax).

Scope exclusions:

The scope of the internal audit of Accounts Payable excluded the following:

- Verification of account balances; and
- Taxation (except as indicated above).

The internal audit covered the period from 1 July 2016 to 30 April 2017.

3 Methodology

Our methodology for the internal audit comprised:

- Conducting an initial meeting with management to obtain an understanding of processes and potential issues;
- Developing overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluating the adequacy of the controls to cover the identified risks and testing the compliance with the key controls;
- Researching the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes including compliance with key controls;
- Developing appropriate recommendations for improvement for discussion with management;
- Drafting a report of findings and recommendations and obtaining formal responses from management; and
- Finalising the report and issuing it to the Director Corporate Services for distribution to the Audit Committee and relevant management.

4 Inherent Limitations

Due to the inherent limitations in any internal control structure, it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted that our internal audit was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The internal audit conclusion and any opinion expressed in this report have been formed on the above basis.

5 Detailed Audit Findings

Each issue detailed in this Section is rated based on the following scale:

Rating	Definition
High	<ul style="list-style-type: none"> Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	<ul style="list-style-type: none"> Significant contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	<ul style="list-style-type: none"> Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/ Timing
<p>1. Process of changing a Supplier's banking details.</p> <ul style="list-style-type: none"> Changes in a supplier's bank details are recorded based upon documents received from the supplier. These documents exist of e-mail messages, letters or details recorded on suppliers' invoices; The Accounts Officer verifies the validity of the information and if satisfied, updates the supplier's bank details in SynergySoft. Details of the change is then provided to the Finance Team Leader for examination; Paxon notes SynergySoft generates an automatic e-mail which is forwarded to the Manager, Financial Services every time a supplier's bank details are changed; Paxon has noted at present: <ul style="list-style-type: none"> No separate internal document is prepared to record the change to the supplier's details; The update of a supplier's bank details in SynergySoft by the Accounts Officer should be signed off by the Manager, Financial Services 	Low	<ul style="list-style-type: none"> Changes to a supplier's bank details within SynergySoft are only examined by another person after such changes were made. Resulting in the possibility of changes being applied that are incorrect and have not been verified; A gap in the documented procedure which explains the process to be followed to change a supplier's bank details (inclusive of secondary review) may increase the risk of external fraudulent activities. Instances of sophisticated electronic fraudulent activities at local government levels within Western Australia have taken place in cases where changes in a supplier's bank details were not properly checked and verified. 	<ul style="list-style-type: none"> Internal documentation should be kept of changes made to a supplier's bank details to identify the: <ul style="list-style-type: none"> Source of the changes made; Steps taken to authenticate such changes; and Responsible employee. Changes to a supplier's bank details should be appropriately approved prior to amendments in SynergySoft; and A guideline and training should be developed and to advise employees as to the procedure to follow when changes to a supplier's bank details are requested. 	<ul style="list-style-type: none"> The process will be changed by obtaining the Manager, Financial Services or the Finance Team Leader's authorisation to change a client's bank account details prior to any changes being made in the SynergySoft system as distinct from verifying the changes after the update has been undertaken. Verifications will continue to be undertaken as previous after the changes have been made to ensure that no errors have occurred; and A procedure document will be prepared to outline the procedure to follow when changes to a client's/supplier's bank account details are requested. 	<ul style="list-style-type: none"> Finance Team will implement changes to the current process effective immediately; and The Finance Team Leader will prepare a procedure document by October 2017.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/ Timing
<p>or the Finance Team Leader prior to being updated; and</p> <ul style="list-style-type: none"> No procurement document exists to guide employees through this process. 					
<p>2. Changes in purchasing authority limits are not timely captured in SynergySoft due to acting positions.</p> <ul style="list-style-type: none"> Purchase order 41986 was authorised for a value of \$13,866.60 by the Manager (Site) Red Hill Waste Management Facility ("Site Manager"). The Site Manager has a \$10,000 purchasing authority limit for budgeted general items (other than fuel) as per the "Management Guideline – Authorisation of Expenditure" ("Guideline"). However, the Site Manager was acting in a higher position when approving this purchase order and thus had authority, as per the Guideline to approve it; At the time of the internal audit, SynergySoft disclosed a purchasing authority limit of \$22,000.00 for the Site Manager (as per the Accounts Officer), this is after the 'acting period' had finished and the higher purchasing authority 	Low	<ul style="list-style-type: none"> Delays in capturing changes in EMRC officers' purchasing authority limits in SynergySoft may: Prevent officers from authorising purchase transactions for which they have the necessary authority (for example, if a delay occurs in increasing an officer's authority limit when the officer acts in a higher position); and Enable officers to authorise purchase transactions for which they do not have the necessary authority (for example, if a delay occurs in reversing an acting officer's authority limit at the expiry of his/her mandate). 	<ul style="list-style-type: none"> EMRC should ensure changes in officers' purchasing authority limits are timely recorded in SynergySoft to ensure such limits comply with their official status on a continuous basis. This would involve a stricter process between the various areas that are involved in formalising 'acting positions'. 	<ul style="list-style-type: none"> It is agreed that the SynergySoft system is to be updated in a timely manner prior to and following periods of "acting duties" by responsible officers to ensure that there are no breaches between the guideline and the limits set in the SynergySoft system; The current checklist distributed by the HR section will be modified to include verifications required of changes undertaken by the Procurement section to authority limits for responsible officers prior to and following periods of "acting duties" if applicable; and The Finance section is to be copied into the checklist in order to be made aware of the changes being made. 	<ul style="list-style-type: none"> HR section & Procurement section; and To be implemented immediately.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/ Timing
<p>was not reversed in SynergySoft.</p> <p>Paxon does note this matter relates to different business units within EMRC and is not specifically or solely the role or responsibility of Finance and the Accounts Payable area.</p>					

6 Documentary Observations

Below is a summary of our other observations arising from the internal audit following from our review of your policy and procedure documents. These observations are provided for your information and a formal response is not required.

Audit Area	Description
Accounts Payable	<ul style="list-style-type: none"> The “Management Guideline – Authorisation of Expenditure” (“Guideline”) does not indicate whether the purchasing authority limits disclosed therein are inclusive or exclusive of GST.

Appendix A

Level	Rank	Stars	Financial Loss	Non-Financial Considerations
1	Not Satisfactory	☆	>\$1m	<ul style="list-style-type: none"> Several medium rated observations or one or more high rated observations, significant risk for non-compliance with policies and regulations, serious violations of law, significant opportunities for improvement, substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile and third-party actions.
2	Needs Improvement	☆☆	>\$100k<\$1m	<ul style="list-style-type: none"> Several medium rated observations and no high rated observations, control weak in one or more areas, non-compliance with policies and regulations, violation of law (not serious), substantial opportunities for improvement, substantiated, public embarrassment, high impact, high news profile and third-party actions.
3	Satisfactory	☆☆☆	>\$50k<\$100k	<ul style="list-style-type: none"> Many low rated observations and/or few medium rated observations, several low rated violations of policy, minor violations of regulations, no violations of law, moderate opportunities for improvement, substantiated, public embarrassment, moderate impact and moderate news profile.
4	Very Good	☆☆☆☆	>\$10k<\$50k	<ul style="list-style-type: none"> Several low rated observations and/or one or two medium rated observations, minor contraventions of policies and procedures, no violations of law, minor opportunities for improvement, substantiated, low impact and low news profile.
5	Excellent	☆☆☆☆☆	<10k	<ul style="list-style-type: none"> Few low rated observations, no internal control weaknesses noted, good adherence to laws, regulations and policies, excellent control environment, unsubstantiated, low impact, low profile or no news item.

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Internal Audit Report

Accounts Receivable

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Table of Contents

Executive Summary 3

1 Introduction 4

 1.1 Background 4

 1.2 Internal Audit Objective..... 4

2 Scope 5

3 Methodology..... 6

4 Inherent Limitations..... 7

5 Detailed Audit Findings..... 8

Appendix A..... 10

Executive Summary

Process	Excellent	Very Good	Satisfactory	Needs Improvement	Not Satisfactory
	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆
	Strengths		Weaknesses		Rating
Accounts Receivable	<ul style="list-style-type: none"> • Appropriate steps are taken to open new debtor accounts and to provide credit facilities to new debtors; • Outstanding debts are monitored and followed-up; • Access to the Accounts Receivable module in SynergySoft is controlled by access groups with different levels of access; • Council approves the write-off of bad debts; and • Monthly reconciliations between the Accounts Receivable module and the general ledger are prepared and reviewed by different employees. 		<ul style="list-style-type: none"> • Absence of a procedure document for Accounts Receivable. 		☆☆☆☆☆

Overall Report Rating

Rating	Excellent	Very Good	Satisfactory	Needs Improvement	Not Satisfactory
	☆☆☆☆☆				

See Appendix A for a guide to the overall report rating scale.

1 Introduction

1.1 Background

Trade and other receivables as at 30 June 2016 amounted to \$4,281,658. This represents 4.73% of total current assets of \$90,515,387 on that date. Trade and other receivables as at 30 June 2015 amounted to \$4,653,943 or 5.88% of total current assets of \$79,150,818 on that date.

Paxon has been engaged by the EMRC to review the Accounts Receivable function of the Council.

1.2 Internal Audit Objective

The document entitled: “*EMRC – Strategic Internal Audit Plan – 2016 – 2019*” (“EMRC Plan”) discloses the following identified risks for Accounts Receivable:

- Credit checks (ongoing and review);
- Payment procedures;
- Debt incurred;
- Timeliness;
- Accuracy;
- Authorisation;
- Approval of bad debts and write offs; and
- Lack of outstanding debtors’ follow-up.

The EMRC Plan discloses the following audit objectives for Accounts Receivable:

- Determine whether accounts receivable is calculated accurately, completely and in a timely manner;
- Determine whether policies and procedures are documented, understood by staff and followed; and
- Identify whether the Council has procedures in place for the timely identification of potential debtors’ financial capacity.

The overall objective for this internal audit of Accounts Receivable is to:

- Provide assurance that effective and efficient controls are in place to address the identified risks disclosed above; and
- Achieve the audit objectives disclosed above.

2 Scope

The following process was covered in the internal audit:

Process	Key Risks
Accounts Receivable	<ul style="list-style-type: none"> • Credit checks (ongoing and review); • Payment procedures; • Debt incurred; • Timeliness; • Accuracy; • Authorisation; • Approval of bad debts and write offs; and • Lack of outstanding debtors' follow-up.

Scope exclusions:

The scope of the internal audit of Accounts Receivable excluded the verification of account balances.

The internal audit covered the period from 1 July 2016 to 30 April 2017.

3 Methodology

Our methodology for the internal audit comprised:

- Conducting an initial meeting with management to obtain an understanding of processes and potential issues;
- Developing overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluating the adequacy of the controls to cover the identified risks and testing the compliance with the key controls;
- Researching the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes including compliance with key controls;
- Developing appropriate recommendations for improvement for discussion with management;
- Drafting a report of findings and recommendations and obtaining formal responses from management; and
- Finalising the report and issuing it to the Director Corporate Services for distribution to the Audit Committee and relevant management.

4 Inherent Limitations

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted that our internal audit was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The internal audit conclusion and any opinion expressed in this report have been formed on the above basis.

5 Detailed Audit Findings

Each issue detailed in this Section is rated based on the following scale:

Rating	Definition
High	<ul style="list-style-type: none"> Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	<ul style="list-style-type: none"> Significant contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	<ul style="list-style-type: none"> Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/ Timing
<p>1. Absence of a procedure document.</p> <ul style="list-style-type: none"> Paxon found two flow charts which illustrate the processing and payment of invoices respectively; The EMRC uses SynergySoft to process Accounts Receivable transactions. The EMRC have access to the following two guides: <ul style="list-style-type: none"> "SynergySoft – User Guide – Debtors - Version 6"; and "SynergySoft – User Guide – Direct Debits - Version 2". However, no procedure document exists to describe other current EMRC practices for Accounts Receivable; and Paxon has noted the EMRC have compiled a draft: "Management Guideline – Credit Control and Debt Management". 	Low	<ul style="list-style-type: none"> Paxon assessed the EMRC's Accounts Receivable function as being "Excellent". However, several current Accounts Receivable procedures are not documented. Official EMRC documents address only a limited number of specific Accounts Receivable procedures. Limited guidance means errors and inefficiencies may occur in cases of staff turnover. 	<ul style="list-style-type: none"> The EMRC should finalise the draft "Management Guideline – Credit Control and Debt Management". This guideline should provide a holistic perspective across all procedures within the Accounts Receivable function. 	<ul style="list-style-type: none"> The Draft "Management Guideline – Credit Control and Debt Management" will be completed and put to the Executive Management Team for adoption by September 2017. 	<ul style="list-style-type: none"> Manager, Financial Services; and Adoption by the Executive Management Team by September 2017.

Appendix A

Level	Rank	Stars	Financial Loss	Non-Financial Considerations
1	Not Satisfactory	☆	>\$1m	<ul style="list-style-type: none"> Several medium rated observations or one or more high rated observations, significant risk for non-compliance with policies and regulations, serious violations of law, significant opportunities for improvement, substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile and third-party actions.
2	Needs Improvement	☆☆	>\$100k<\$1m	<ul style="list-style-type: none"> Several medium rated observations and no high rated observations, control weak in one or more areas, non-compliance with policies and regulations, violation of law (not serious), substantial opportunities for improvement, substantiated, public embarrassment, high impact, high news profile and third-party actions.
3	Satisfactory	☆☆☆	>\$50k<\$100k	<ul style="list-style-type: none"> Many low rated observations and/or few medium rated observations, several low rated violations of policy, minor violations of regulations, no violations of law, moderate opportunities for improvement, substantiated, public embarrassment, moderate impact and moderate news profile.
4	Very Good	☆☆☆☆	>\$10k<\$50k	<ul style="list-style-type: none"> Several low rated observations and/or one or two medium rated observations, minor contraventions of policies and procedures, no violations of law, minor opportunities for improvement, substantiated, low impact and low news profile.
5	Excellent	☆☆☆☆☆	<10k	<ul style="list-style-type: none"> Few low rated observations, no internal control weaknesses noted, good adherence to laws, regulations and policies, excellent control environment, unsubstantiated, low impact, low profile or no news item.

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Table of Contents

Executive Summary 3

1 Introduction 4

 1.1 Background 4

 1.2 Internal Audit Objective..... 4

2 Scope 5

3 Methodology..... 6

4 Inherent Limitations..... 7

5 Detailed Audit Findings..... 8

6 Efficiencies and Other Observations 10

Appendix A..... 11

Executive Summary

	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	★★★★★	★★★★	★★★	★★	★
Process	Strengths		Weaknesses		Rating
Waste Management	<ul style="list-style-type: none"> • Policies and procedures around Leachate management are comprehensive; • Monitoring and reporting of Leachate management is adequate and regular; • Ability to develop new disposal area in a timely fashion; • Red Hill Waste Management Facility Development Plan – reviewed annually; • Gatehouse is secure for operators and other staff; • Cash handling and daily procedures are sound; • Appropriate process and procedure of issuing of tipping tickets, no incidents of errors; and • Calibration of weighbridge by independent third party and as per industry standards. 		<ul style="list-style-type: none"> • None 		★★★★★

Overall Report Rating

Rating	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	★★★★★				

See Appendix A for a guide to the overall report rating scale.

1 Introduction

1.1 Background

According to the Eastern Metropolitan Regional Council (EMRC), Annual Report 2015-2016, EMRC's Red Hill Waste Management Facility has a total area of 352 hectares and receives 250,000 - 300,000 tonnes of waste per annum. The facility is an approved Class I to IV landfill and includes a transfer station and a compost manufacturing and soil blending facility. The EMRC holds a Department of Environment Regulation licence and is subject to the licence conditions in the way the facility is operated and managed. The Red Hill Waste Management Facility Environmental Policy sets out the commitments, objectives and responsibilities to achieve the desired environmental outcomes. The EMRC's Environmental Management System, for the Red Hill Waste Management Facility was certified to the international ISO 14001:2004 standard in February 2016.

1.2 Internal Audit Objective

The document entitled: "*EMRC – Strategic Internal Audit Plan – 2016 – 2019*" ("EMRC Plan") discloses the following identified risks for Waste Management:

- Leachate impacts on the surrounding environment leading to substantial clean-up costs;
- Inability to develop new disposal areas quickly enough to keep ahead of the waste;
- Cash management e.g. weighbridge operations;
- Safety of gatehouse operators from irate customers, particularly as gate fees increase;
- Fraud e.g. cash handling, incorrect charging etc.;
- Issue of incorrect tipping tickets;
- Charging incorrect tipping fees; and
- Calibration of weighbridge.

The EMRC Plan discloses the following audit objectives for Waste Management:

- Determine compliance with legislative requirements and Council policy;
- Assess whether processes are undertaken in an efficient manner; and
- Determine whether processes facilitate the achievement of waste management objectives.

The overall objective for this internal audit of Waste Management is to:

- Provide assurance that effective and efficient controls are in place to address the identified risks disclosed above; and
- Achieve the audit objectives disclosed above.

2 Scope

The following process was covered in the internal audit:

Process	Key Risks
Waste Management	<ul style="list-style-type: none"> • Leachate impacts on the surrounding environment leading to substantial clean-up costs; • Inability to develop new disposal areas quickly enough to keep ahead of the waste; • Cash management e.g. weighbridge operations; • Safety of gatehouse operators from irate customers, particularly as gate fees increase; • Fraud e.g. cash handling, incorrect charging etc.; • Issue of incorrect tipping tickets; • Charging incorrect tipping fees; and • Calibration of weighbridge.

The internal audit covered the period from 1 July 2016 to 30 April 2017.

3 Methodology

Our methodology for the internal audit comprised:

- Conducting an initial meeting with management to obtain an understanding of processes and potential issues;
- Developing overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluating the adequacy of the controls to cover the identified risks and testing the compliance with the key controls;
- Researching the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes including compliance with key controls;
- Developing appropriate recommendations for improvement for discussion with management;
- Drafting a report of findings and recommendations and obtaining formal responses from management; and
- Finalising the report and issuing it to the Director Corporate Services for distribution to the Audit Committee and relevant management.

4 Inherent Limitations

Due to the inherent limitations in any internal control structure, it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted that our internal audit was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The internal audit conclusion and any opinion expressed in this report have been formed on the above basis.

5 Detailed Audit Findings

Each issue detailed in this Section is rated based on the following scale:

Rating	Definition
High	<ul style="list-style-type: none"> Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	<ul style="list-style-type: none"> Significant contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	<ul style="list-style-type: none"> Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/Timing
<ul style="list-style-type: none"> There were no findings to note. 					

6 Efficiencies and Other Observations

Below is a summary of our other observations arising from the internal audit, which may assist you in improving the efficiency and effectiveness of your control environment. These observations are provided for your information and a formal response is not required.

Audit Area	Description
None	None

Appendix A

Level	Rank	Stars	Financial Loss	Non-Financial Considerations
1	Unsatisfactory	☆	>\$1m	<ul style="list-style-type: none"> Several medium rated observations or one or more high rated observations, significant risk for non-compliance with policies and regulations, serious violations of law, significant opportunities for improvement, substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile and third-party actions.
2	Needs Improvement	☆☆	>\$100k<\$1m	<ul style="list-style-type: none"> Several medium rated observations and no high rated observations, control weak in one or more areas, non-compliance with policies and regulations, violation of law (not serious), substantial opportunities for improvement, substantiated, public embarrassment, high impact, high news profile and third-party actions.
3	Satisfactory	☆☆☆	>\$50k<\$100k	<ul style="list-style-type: none"> Many low rated observations and/or few medium rated observations, several low rated violations of policy, minor violations of regulations, no violations of law, moderate opportunities for improvement, substantiated, public embarrassment, moderate impact and moderate news profile.
4	Very Good	☆☆☆☆	>\$10k<\$50k	<ul style="list-style-type: none"> Several low rated observations and/or one or two medium rated observations, minor contraventions of policies and procedures, no violations of law, minor opportunities for improvement, substantiated, low impact and low news profile.
5	Excellent	☆☆☆☆☆ ☆	<\$10k	<ul style="list-style-type: none"> Few low rated observations, no internal control weaknesses noted, good adherence to laws, regulations and policies, excellent control environment, unsubstantiated, low impact, low profile or no news item.

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Table of Contents

Executive Summary	3
1 Introduction	4
1.1 Background	4
1.2 Internal Audit Objective.....	4
2 Scope	5
3 Methodology.....	6
4 Inherent Limitations.....	7
5 Detailed Audit Findings.....	8
6 Efficiencies and Other Observations	11
Appendix A.....	12

Executive Summary

Process	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	★★★★★	★★★★	★★★	★★	★
	Strengths		Weaknesses		Rating
Risk Management	<ul style="list-style-type: none"> Structured and ongoing communication and consultation take place with those who are affected by the operations of EMRC; EMRC understands both its external environment and internal environment; The identification of risks is a formal, structured process; A formal technique based on industry standards are used to consider the likelihood and consequence of each risk; The relative importance of each risk is assessed (ranked) and a treatment priority is established; and Rational risk treatment decisions are taken. 		<ul style="list-style-type: none"> Council and Audit Committee's role in monitoring the effectiveness of the EMRC's risk management function. 		★★★★★

Overall Report Rating

Rating	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	★★★★★				

See Appendix A for a guide to the overall report rating scale.

1 Introduction

1.1 Background

The document entitled: “Eastern Metropolitan Regional Council – Annual Report – 2015/2016” states:

“The EMRC Risk Management Policy is underpinned by the Risk Management Plan which is reviewed on an annual basis. This Risk Management Plan defines the Eastern Metropolitan Regional Council (“EMRC”) risk management system and provides the framework to ensure that the organisation has a systematic and consistent approach to risk across all functions of the business. The Risk Management Plan is based on the guidance as provided by AS/NZS ISO 31000 Risk Management and helps ensure that this approach is implemented consistently throughout the organisation. The Risk Management Steering Group (“RMSG”) meets regularly. This group ensures that the key risks facing the organisation are monitored and managed.”

Paxon Group (“Paxon”) has developed this Internal Audit Plan to examine the Risk Management operations of the EMRC for the period 1 July 2016 to 30 April 2017.

The methodology used to specifically develop the Internal Audit Plan comprised agreeing with EMRC’s management the objective, scope, methodology, outcome, communication protocols and project management for this internal audit.

1.2 Internal Audit Objective

The document entitled: “EMRC – Strategic Internal Audit Plan – 2016 – 2019” (“EMRC Plan”) discloses the following identified risks for Risk Management:

- What is the process and how is it measured and reported.

The EMRC Plan discloses the following audit objectives for Risk Management:

- Determine whether the risk management plan is developed and monitored in accordance with approved standards or policies; and
- Determine whether the risk management plan is regularly updated and reported to senior management and the Council.

The overall objective for this internal audit of Risk Management is to:

- Provide assurance that effective and efficient controls are in place to address the identified risks disclosed above; and
- Achieve the audit objectives disclosed above.

2 Scope

The following process and risk were covered in the internal audit:

Process	Key Risks
Risk Management	<ul style="list-style-type: none">Non-identification of the specific areas which pose the greatest risk of undesirable events that could adversely affect the financial and/or non-financial areas of EMRC as a whole.

The internal audit covered the period from 1 July 2016 to 31 May 2017.

3 Methodology

Our methodology for the internal audit comprised:

- Conducting an initial meeting with management to obtain an understanding of processes and potential issues;
- Developing overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluating the adequacy of the controls to cover the identified risks and testing the compliance with the key controls;
- Researching the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes including compliance with key controls;
- Developing appropriate recommendations for improvement for discussion with management;
- Drafting a report of findings and recommendations and obtaining formal responses from management; and
- Finalising the report and issuing it to the Director Corporate Services for distribution to the Audit Committee and relevant management.

4 Inherent Limitations

Due to the inherent limitations in any internal control structure, it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted that our internal audit was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The internal audit conclusion and any opinion expressed in this report have been formed on the above basis.

5 Detailed Audit Findings

Each issue detailed in this Section is rated based on the following scale:

Rating	Definition
High	<ul style="list-style-type: none"> Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	<ul style="list-style-type: none"> Significant contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	<ul style="list-style-type: none"> Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/Timing
<p>1. Council and Audit Committee's role in monitoring the effectiveness of the EMRC's risk management function</p> <ul style="list-style-type: none"> “EMRC – Strategic Internal Audit Plan – 2016 – 2019” (“EMRC Plan”) identifies one of the audit objectives for risk management is to “<i>Determine whether the risk management plan is regularly updated and reported to senior management and the Council</i>”; The Risk Management Plan was last reviewed and adopted in 18th of August 2015. The last draft (for 2017/2018) of the Risk Management Plan, Paxon understands has been completed and will go to the Executive Team on the 18 July 2017 for approval but has not been presented to Council for approval; The Risk Management Policy currently states that the “<i>The Audit Committee, in conjunction with the CEO, will have responsibility for monitoring the effectiveness of the EMRC's risk management function to ensure that the necessary resources and risk management processes are in place.</i>”; 	Low	<ul style="list-style-type: none"> No regular updates of the Risk Management Plan could lead to staff referring to an outdated Risk Management Plan that has not been approved by Council; and Duties and obligations noted in the Risk Management Policy and Plan for Council and Audit Committee are not met. 	<ul style="list-style-type: none"> Council should review and approve the updated Risk Management Plan; and The Audit Committee should as a minimum review the minutes of RMSG's meetings to fulfil its obligations under the Risk Management Policy. 	<p>The EMRC has in place an internal audit program approved by the Audit Committee and Council. The program is spread over a four year cycle to coincide with the requirements of the Local Government (Financial Management) Regulations 1996 for the CEO to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the Audit Committee and Council the results of those reviews (regulation 5(2)(c)). The internal audit review has been undertaken by an independent external organisation and the results of the review are presented to the Audit Committee and Council each year. The review concluded that the systems, controls and procedures in place are operating effectively and are appropriate for the EMRC's structure and operations.</p> <p>The internal audit program has also taken into account the requirement of the Local Government (Audit)</p>	

<ul style="list-style-type: none"> • Further the Risk Management Policy and Risk Management Plan states that RMSG is responsible for <i>“Analysing risk information and reporting to Council as required”</i>; • Currently the Audit Committee does not receive any reporting, other than the Internal Audit Report on risk management from the RMSG, therefore it is unclear how the Audit Committee monitors the effectiveness of the EMRC’s risk management function; and • Currently, the Council does not receive any reporting from the RMSG with respect to risk information. 				<p>Regulations 1996 for the CEO to report on the appropriateness and effectiveness of the local government’s systems in regard to risk management, internal control and legislative compliance every two years. The outcome of the review concluded that the EMRC has the appropriate and effective local government systems and procedures in place to comply with Regulation 17.</p> <p>The recommendations are acknowledged as improvement opportunities to enhance the existing risk management processes.</p> <ul style="list-style-type: none"> • Strategic Risk Management Plans will be sent to the Audit Committee for noting and review as required; and • The Minutes of the RMSG meetings will be sent to the Audit Committee for their noting and review. 	<ul style="list-style-type: none"> • Senior Risk Advisor / August 2018; and • Director Corporate Services/ As from the first RMSG meeting in 2018.
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6 Efficiencies and Other Observations

Below is a summary of our other observations arising from the internal audit, which may assist you in improving the efficiency and effectiveness of your control environment. These observations are provided for your information and a formal response is not required.

Audit Area	Description
Risk Management	<p>Observation 1:</p> <ul style="list-style-type: none"> • The Risk Management Policy was last adopted and reviewed by Council in 18 September 2014; • Inconsistencies between Risk Management Policy and Plan – for example responsibilities of the RMSG is slightly different in the policy when compared with the plan; • The Risk Management Policy should be reviewed and adopted more frequently, such as annually; and • The Risk Management Policy should be reviewed and updated to ensure consistency with the Risk Management Plan. <p>Observation 2:</p> <ul style="list-style-type: none"> • The Risk Management Policy does not adequately address “Risk Management Objectives” and “Monitor and Review”; • The Risk Management Plan section on Monitoring and Review does not refer to Key Performance Indicators at both the organisation level and personal performance level; • The Risk Management Policy can be improved by incorporating recommended sections and headings noted in the <i>Department of Local Government and Communities - Model Risk Management Policy</i>. For example, the Monitor and Review section of the Model Policy states “The Organisation will implement a robust reporting and recording system that will be regularly monitored to ensure closeout of risks and identification of ongoing issues and trends. Risk management key performance indicators, relating to both organisational and personal performance will be developed, implemented and monitored, by the City/Shire/Town.”; and • The Risk Management Plan should adequately discuss Monitoring and Reviewing in terms of “measuring the performance of risk management components against key performance indicators and can demonstrate the effectiveness of the risk management systems and processes as well as identifying where and why objectives are not met.” – <i>Department of Local Government and Communities – Risk Management Resources March 2013</i>.

Appendix A

Level	Rank	Stars	Financial Loss	Non-Financial Considerations
1	Unsatisfactory	☆	>\$1m	<ul style="list-style-type: none"> Several medium rated observations or one or more high rated observations, significant risk for non-compliance with policies and regulations, serious violations of law, significant opportunities for improvement, substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile and third-party actions.
2	Needs Improvement	☆☆	>\$100k<\$1m	<ul style="list-style-type: none"> Several medium rated observations and no high rated observations, control weak in one or more areas, non-compliance with policies and regulations, violation of law (not serious), substantial opportunities for improvement, substantiated, public embarrassment, high impact, high news profile and third-party actions.
3	Satisfactory	☆☆☆	>\$50k<\$100k	<ul style="list-style-type: none"> Many low rated observations and/or few medium rated observations, several low rated violations of policy, minor violations of regulations, no violations of law, moderate opportunities for improvement, substantiated, public embarrassment, moderate impact and moderate news profile.
4	Very Good	☆☆☆☆	>\$10k<\$50k	<ul style="list-style-type: none"> Several low rated observations and/or one or two medium rated observations, minor contraventions of policies and procedures, no violations of law, minor opportunities for improvement, substantiated, low impact and low news profile.
5	Excellent	☆☆☆☆ ☆	<\$10k	<ul style="list-style-type: none"> Few low rated observations, no internal control weaknesses noted, good adherence to laws, regulations and policies, excellent control environment, unsubstantiated, low impact, low profile or no news item.

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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 2017

Thursday	5	October (if required)	at	EMRC Administration Office
Thursday	16	November (if required)	at	EMRC Administration Office

16 DECLARATION OF CLOSURE OF MEETING

There being no further business the meeting was closed at 6:45pm.