

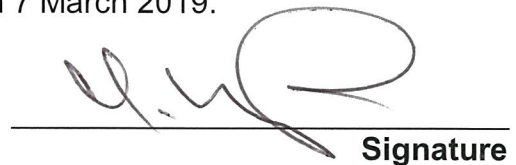


MINUTES

CERTIFICATION OF CONFIRMATION OF AUDIT COMMITTEE MINUTES

4 OCTOBER 2018

I, Cr Melissa Mykytiuk hereby certify that the minutes from the Audit Committee Meeting held on 4 October 2018 pages (1) to (209) were confirmed at a Committee meeting held on 7 March 2019.



Signature

Cr Melissa Mykytiuk
Person presiding at Meeting

AUDIT COMMITTEE

MINUTES

4 October 2018

(REF: D2018/10044)

A meeting of the Audit Committee was held at the EMRC Administration Office, 1st Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 4 October 2014**. The meeting commenced at **6:30pm**.

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1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Chairman opened the meeting at 6:30pm and welcomed Mr Liang Wong from the Office of the Auditor General, 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 Melissa Mykytiuk (Chairman)	EMRC Member	Town of Bassendean
Cr Geoff Stallard (Deputy Chairman)	EMRC Member	City of Kalamunda
Cr Sally Palmer	EMRC Member	City of Bayswater
Cr David Lavell	EMRC Member	Shire of Mundaring
Cr David McDonnell	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)

Visitor(s)

Mr Liang Wong (<i>departed 7:06pm</i>)	Office of the Auditor General
Mr Tony Macri (<i>departed 7:06pm</i>)	Macri Partners
Mr Suren Herathmudalige (<i>departed 7:06pm</i>)	Macri Partners
Mr Cameron Palassis (<i>departed 7:32pm</i>)	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 7 JUNE 2018

That the Minutes of the Audit Committee meeting held on 7 June 2018 which have been distributed, be confirmed.

AC RESOLUTION(S)

MOVED CR PALMER

SECONDED CR STALLARD

THAT THE MINUTES OF THE AUDIT COMMITTEE HELD ON 7 JUNE, 2018 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 2018

REFERENCE: D2018/10206

PURPOSE OF REPORT

The purpose of this report is to review and adopt Council's Annual Financial Report for the year ended 30 June 2018.

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.
- The Office of the Auditor General (OAG), via contractors Macri Partners, has completed the audit of the 2017/2018 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 2018 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in the response forming attachment 2 of this report.
3. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2018 forming attachment 3 of this report.
4. Council notes the contents of the 2018 Fraud & Error Assessment to the Audit Committee for the year ended 30 June 2018 forming attachment 4 of this report.
5. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2017/2018 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.

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

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

The Interim Audit for the 2017/2018 financial year was undertaken during March 2018 by Macri Partners as contactors to the OAG. The Interim Audit Report including the management comments provided in response has been included as attachment 2 to this report.

The Annual Audit for the 2017/2018 financial year was undertaken during August 2018 by Macri Partners as contactors to the OAG.

REPORT

In accordance with *The Local Government Amendment (Auditing) Act 2017*, the Office of the Auditor General (OAG) has completed the audit of the Eastern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2018, which is attached for Council adoption (refer attachment 1).

The following comments are provided on key elements of the financial results for 2017/2018:

Statement of Comprehensive Income (pg 6 - 7 of 70)

Total Revenue of \$39,351,664 for the period ending 30 June 2018 is \$2,511,404 above the 2016/2017 actual revenue and \$3,916,910 below budget for 2017/2018.

Total Expenses of \$27,903,608 is \$28,025 above the 2016/2017 actual expenses and \$9,424,345 below budget for 2017/2018.

A loss of \$11,500 was realised from the Disposal of Assets for the period ending 30 June 2018 and is above the 2016/2017 actual loss on disposals of \$173,517 and below the budgeted profit for 2017/2018 of \$34,599.

The changes in revaluation of non-current assets have resulted in a decrease of \$316,138 in 2017/2018 and relates to the revaluation undertaken on the Infrastructure and Artworks classes of assets. This compares with an increase of \$2,602,635 in 2016/2017 which related to the revaluation undertaken on the Land and Buildings classes of assets.

Total Comprehensive Income of \$11,120,418 for the period ending 30 June 2018 is \$273,377 below the 2016/2017 result and \$5,145,198 above the 2017/2018 budget.



Item 11.1 continued

Statement of Financial Position/Statement of Changes in Equity (pg 8 - 9 of 70)

Current assets as at 30 June 2018 have increased by \$6,320,852 to \$100,898,163 from \$94,577,311 as at 30 June 2017. This is primarily due to the increase in the level of cash and cash equivalents.

The overall impact on cash and cash equivalents at the close of the financial year is an increase of \$6,380,272 to \$97,180,201 as at 30 June 2018 compared to the level of cash and cash equivalents from the previous year.

Current liabilities as at 30 June 2018 have decreased by \$138,735 to \$5,146,182 compared to \$5,284,917 as at 30 June 2017.

The balance in the Reserves has increased by \$21,547,458 to \$86,979,194 over the past 12 months.

Overall equity has increased during the 2017/2018 financial year by \$11,120,418 to \$186,130,190.

Cash Flow Statement (pg 10 of 70)

The overall impact on the cash position at the end of the 2017/2018 financial year is an increase of \$6,380,272 to \$97,180,201 from the previous corresponding period (2016/2017) of \$90,799,929.

Net Cash provided by Operating Activities of \$11,234,931 in the 2017/2018 financial year reflects an increase of \$815,924 from the cash generated in 2016/2017 of \$10,419,008.

The cash flows utilised in investing activities for 2017/2018 reflects capital expenditure totalling \$5,181,705 compared to capital expenditure totalling \$6,126,607 during 2016/2017.

Significant items of capital expenditure during the year included:

- Leachate Project - Red Hill Landfill Facility - \$3,144,522;
- Construct RRP - WWtE Utilities/Infrastructure - \$547,298;
- Purchase Plant and Equipment - WWtE - \$321,728;
- Construct and Commission RRP - Site Infrastructure - \$275,317;
- Purchase Vehicles - Ascot Place & Red Hill Landfill Facility - \$194,948;
- Construct Class III Leachate Pond - Red Hill Landfill Facility - \$132,869;
- Construct Stormwater and Siltation Ponds - Red Hill Landfill Facility - \$124,636; and
- Construct Class III Cell - Stage 15B - Red Hill Landfill Facility - \$107,129.

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 - \$3,665,000;
- Purchase / Replace Plant - Red Hill Landfill Facility - \$3,539,497;
- Construct and Commission RRP - Site Infrastructure - \$2,650,000;
- Purchase RRP - WWtE Plant and Equipment - \$1,888,040;
- Purchase / Replace Plant - Hazelmere - \$1,866,276;
- Construct Class III Cell - Stage 15B - Red Hill Landfill Facility - \$1,511,222;
- Leachate Project (including Plant & Minor Plant) - Red Hill Landfill Facility - \$1,087,203;
- Construct and Commission RRP - Community Reuse Store - \$500,000;
- Design & Construct Class IV Cell - Stage 2 - Red Hill Landfill Facility - \$500,000;
- Purchase Information Technology & Communications Equipment - \$495,750;
- Construct Access Road to Lots 8, 9 & 10 - Red Hill Landfill Facility - \$475,000;
- Construct Class III Leachate Pond - Red Hill Landfill Facility - \$450,000;



Item 11.1 continued

- Purchase/Replace Other Equipment - Red Hill Landfill Facility - \$407,870;
- Construct and Commission RRP Site/Administration Office - \$330,000;
- Construct Roads/Carparks - Red Hill Landfill Facility - \$309,201;
- 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;
- Construct and Commission RRP - Weighbridges (x2) - \$225,000; and
- Construct Drainage Diversion & Infrastructures - Red Hill Landfill Facility - \$220,000.

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

- RRP WWtE Utilities/Infrastructure - \$631,757.

This item was previously reported at the half year budget review and was adopted by Council at the 22 March 2018 Ordinary Meeting of Council (Ref: D2017/02842).

Funding for the majority of the capital items budgeted but not purchased in 2017/2018 has been carried forward into the 2018/2019 financial year.

Footnote:

RRP = Resource Recovery Park.

WWtE = Wood Waste to Energy.

Reserves (pg 44 - 47 of 70)

At the end of the 2017/2018 financial year the amount held in Reserves (page 46 of 70, Note 17) increased by \$21,547,458 to a balance of \$86,979,194. This compares favourably to the 2017/2018 budget of \$73,306,261 by \$13,672,933.

The Auditor representing Macri Partners and a representative of the OAG 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 2018 (Ref: D2018/13344)
2. Interim Audit Report for Year Ended 30 June 2018 (Ref: D2018/12829)
3. Audit Completion Report to the Audit Committee for the Year Ended 30 June 2018 (Ref: D2018/13324)
4. EMRC - Fraud & Error Assessment (Ref: D2018/11909)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2018 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in the response forming attachment 2 of this report.
3. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2018 forming attachment 3 of this report.
4. Council notes the contents of the 2018 Fraud & Error Assessment to the Audit Committee for the year ended 30 June 2018 forming attachment 4 of this report.
5. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2017/2018 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 2018 and discussion ensued.

Further discussion took place regarding the Audit Completion Report (attachment 3) and the adjustment to the initial report provided by the OAG to include an adverse finding relating to the Asset Sustainability Ratio which did not meet the standard set by the Department of Local Government, Sport and Cultural Industries over the past three (3) years.

Members requested that the CEO make an application to the Department of Local Government, Sport and Cultural Industries seeking an exemption for the EMRC to waive the use of this ratio in its annual financial report as it was felt that this ratio was not applicable to the EMRC due to its limited application, particularly replacement of assets over time. It was acknowledged by the committee that this was a perverse outcome given EMRC's strong financial management.



Item 11.1 continued

Mr Wong, Mr Macri and Mr Herathmudalige departed the meeting at 7:06pm.

Cr McDonnell departed the meeting at 7:06pm.

AC RECOMMENDATION(S)

MOVED CR LAVELL

SECONDED CR MCDONNELL

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2018 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in the response forming attachment 2 of this report.
3. Council notes the contents of the Audit Completion Report to the Audit Committee for the year ended 30 June 2018 forming attachment 3 of this report.
4. Council notes the contents of the 2018 Fraud & Error Assessment to the Audit Committee for the year ended 30 June 2018 forming attachment 4 of this report.
5. In accordance with Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*, a copy of the 2017/2018 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 2018**

EASTERN METROPOLITAN REGIONAL COUNCIL

2017/2018 ANNUAL FINANCIAL REPORT

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STATEMENT BY CHIEF EXECUTIVE OFFICER



**For the Year Ended
30 June 2018**

EASTERN METROPOLITAN REGIONAL COUNCIL
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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 for the financial year ended 30 June 2018 is based on proper accounts and records to present fairly the financial position of the Eastern Metropolitan Regional Council at 30 June 2018 and the results of the operations for the financial year then ended in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the 25th day of September 2018



PETER B. SCHNEIDER
Chief Executive Officer

FINANCIAL REPORT



**For the Year Ended
30 June 2018**

EASTERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

BY PROGRAM	NOTE	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
REVENUE				
Governance		28,559	135,105	64,652
General Purpose Funding		2,420,067	2,159,626	2,575,308
Community Amenities		35,794,282	39,713,572	32,945,774
Other Property and Services		1,108,756	1,260,271	1,254,526
TOTAL REVENUE		39,351,664	43,268,574	36,840,260
EXPENSES				
Governance		725,167	1,100,954	772,226
Community Amenities		23,894,763	31,578,689	23,503,388
Other Property and Services		3,283,678	4,648,310	3,599,969
TOTAL EXPENSES		27,903,608	37,327,953	27,875,583
INCREASE / (DECREASE)		11,448,056	5,940,621	8,964,677
DISPOSAL OF ASSETS				
Profit on Sale		0	34,599	0
Loss on Sale		(11,500)	0	(173,517)
PROFIT / (LOSS) ON DISPOSALS	22	(11,500)	34,599	(173,517)
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
General Purpose Funding		0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		11,436,556	5,975,220	8,791,160
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	(316,138)	0	2,602,635
TOTAL OTHER COMPREHENSIVE INCOME		(316,138)	0	2,602,635
TOTAL COMPREHENSIVE INCOME		11,120,418	5,975,220	11,393,795

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 2018

BY NATURE AND TYPE	NOTE	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
REVENUE				
Fees and Charges	4	28,081,630	36,342,059	29,829,371
Grants, Subsidies and Contributions	5	1,783,424	1,899,885	2,340,762
Interest Earnings	2	2,416,358	2,159,626	2,471,983
Other Revenue	2	7,070,252	2,867,004	2,198,144
TOTAL REVENUE		39,351,664	43,268,574	36,840,260
EXPENSES				
Employee Costs		7,804,689	9,490,464	8,044,920
Materials and Contracts		4,705,008	8,568,545	5,059,905
Utility Expenses		357,516	403,101	353,105
Insurance Expenses		257,229	318,146	278,653
Other Expenditure	2	10,907,233	13,919,564	11,498,067
Depreciation Expenses on Non-Current Assets	2	3,871,933	4,628,133	2,640,933
TOTAL EXPENSES		27,903,608	37,327,953	27,875,583
INCREASE / (DECREASE)		11,448,056	5,940,621	8,964,677
DISPOSAL OF ASSETS				
Profit on Sale		0	34,599	0
Loss on Sale		(11,500)	0	(173,517)
PROFIT / (LOSS) ON DISPOSALS	22	(11,500)	34,599	(173,517)
FAIR VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
Gain/(Loss)		0	0	0
GAIN / (LOSS)		0	0	0
NET RESULT		11,436,556	5,975,220	8,791,160
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	(316,138)	0	2,602,635
TOTAL OTHER COMPREHENSIVE INCOME		(316,138)	0	2,602,635
TOTAL COMPREHENSIVE INCOME		11,120,418	5,975,220	11,393,795

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 2018

	NOTE	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
CURRENT ASSETS			
Cash and Cash Equivalents	10	97,180,201	90,799,929
Trade and Other Receivables	6	3,666,740	3,633,350
Inventories	7	29,845	28,834
Other Assets	8	21,377	115,198
TOTAL CURRENT ASSETS	21	<u>100,898,163</u>	<u>94,577,311</u>
NON CURRENT ASSETS			
Property, Plant and Equipment	12	73,642,629	75,590,604
Infrastructure	13	20,309,485	17,706,421
TOTAL NON CURRENT ASSETS	21	<u>93,952,114</u>	<u>93,297,025</u>
TOTAL ASSETS	21	<u>194,850,277</u>	<u>187,874,336</u>
CURRENT LIABILITIES			
Trade and Other Payables	15	3,604,991	3,846,227
Provisions	16	1,541,191	1,438,690
TOTAL CURRENT LIABILITIES		<u>5,146,182</u>	<u>5,284,917</u>
NON CURRENT LIABILITIES			
Provisions	16	3,573,905	7,579,647
TOTAL NON CURRENT LIABILITIES		<u>3,573,905</u>	<u>7,579,647</u>
TOTAL LIABILITIES		<u>8,720,087</u>	<u>12,864,564</u>
NET ASSETS		<u>186,130,190</u>	<u>175,009,772</u>
EQUITY			
Retained Surplus		57,548,967	67,395,109
Reserves	17	86,979,194	65,431,736
Revaluation Surplus	14	41,602,029	42,182,927
TOTAL EQUITY		<u>186,130,190</u>	<u>175,009,772</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 2018

	NOTE	RETAINED SURPLUS \$	RESERVES \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 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
Net Result		11,436,556	0	0	11,436,556
Total Other Comprehensive Income		0	0	(316,138)	(316,138)
Revaluation Surplus Reversal	14	264,760	0	(264,760)	0
Transfer (from) / to Reserves		(21,547,458)	21,547,458	0	0
Balance as at 30 June 2018		57,548,967	86,979,194	41,602,029	186,130,190

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 2018

	NOTE	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Fees and Charges		31,517,167	36,342,060	33,995,233
Grants, Subsidies and Contributions		1,783,424	1,899,885	2,340,762
Interest Earnings		2,230,656	2,159,626	2,431,655
Other Revenue		2,834,606	3,701,553	2,198,145
Total Receipts		38,365,853	44,103,124	40,965,795
Payments				
Employee Costs		(7,729,687)	(9,461,855)	(8,060,525)
Materials and Contracts		(6,047,256)	(8,568,545)	(8,541,550)
Utility Expenses		(357,516)	(403,101)	(353,105)
Insurance Expenses		(230,134)	(318,146)	(293,373)
Other Expenditure		(10,649,704)	(14,550,069)	(11,218,377)
Goods and Services Tax paid		(2,116,625)	0	(2,079,857)
Total Payments		(27,130,922)	(33,301,716)	(30,546,787)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18(ii)	11,234,931	10,801,408	10,419,008
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment		327,046	605,924	386,700
Payments for purchase of property, plant and equipment		(5,181,705)	(25,956,194)	(6,126,607)
NET CASH USED IN INVESTING ACTIVITIES		(4,854,659)	(25,350,270)	(5,739,907)
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		90,799,929	92,285,179	86,120,828
Net Increase/(Decrease) in Cash Held		6,380,272	(14,548,862)	4,679,101
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18(i)	97,180,201	77,736,317	90,799,929

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 2018**

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

(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 2018.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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 2018

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, artworks and work in progress which are not depreciated, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

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

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

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

• Buildings	0.20 - 32.00% (based on components)
• Structures	
General	0.56 - 18.10%
Class III and IV Waste Cells	% of actual usage
• Plant	3.67 - 57.66%
• Furniture and fittings	5.97 - 33.33%
• Equipment	5.33 - 52.59%

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 2018

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 2018

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 2018

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 2018

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 five yearly cycle.

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 five year cycle.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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.

In August 2017 the EMRC Council approved the use of 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 2018

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 2017/2018). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2017/2018). 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 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 2018

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 2018

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 2018

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 2018

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 2019	<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 2018

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.	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 2018

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.

- AASB 2016-4 (Applicable to reporting periods commencing on or after 1 January 2017)
Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities.
- AASB 2016-7 (Applicable to reporting periods commencing on or after 1 January 2017)
Amendments to Accounting Standards - Deferral of AASB 15 for Non-for-Profit Entities.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

2. REVENUE AND EXPENSES

	ACTUAL 2017/2018 \$	BUDGET 2017/2018	ACTUAL 2016/2017 \$
Net Result			
The Net Result includes:			
(i) Crediting as Revenue:	\$	\$	\$
Interest Earnings			
Interest on funds held in Reserves	1,741,894	1,759,626	1,830,971
Interest on Municipal Cash and Investments	674,464	400,000	641,012
	2,416,358	2,159,626	2,471,983
Other Revenue			
Sale of Products	2,006,994		1,319,635
Gas Royalty Income	577,277		569,204
Carbon Tax (Refer Note 16)	4,235,645		0
Miscellaneous Income	250,336		309,305
	7,070,252		2,198,144
Significant Revenue			
General Purpose Funding	0		0
	0		0
(ii) Charging as an Expense:			
Auditors Remuneration			
Audit of the Financial Report	29,320		21,280
Audit and assurance of grant acquittals	600		1,683
	29,920		22,963
Depreciation and Amortisation Expense			
Buildings	109,791		156,312
Plant	2,054,270		2,101,289
Equipment	196,257		135,951
Furniture and Fittings	9,415		8,908
Structures - Landfill Cells	1,230,792		0
- Other	271,408		238,473
	3,871,933		2,640,933
Other Expenses			
State Landfill levy	9,426,579		9,909,291
Other Expenses	1,480,654		1,588,776
	10,907,233		11,498,067

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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 2018

4. FEES AND CHARGES SUMMARY BY PROGRAM	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
Community Amenities	28,078,480	36,336,059	29,821,213
Other Property and Services	3,150	6,000	8,158
Total Statutory Fees and Charges	28,081,630	36,342,059	29,829,371

5. GRANT, SUBSIDY AND CONTRIBUTION REVENUE BY PROGRAM	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
Governance	26,196	26,176	50,219
Community Amenities	807,208	784,438	1,203,782
Other Property and Services	950,020	1,089,271	1,086,761
Total Grant, Subsidy and Contribution Revenue	1,783,424	1,899,885	2,340,762

6. TRADE AND OTHER RECEIVABLES	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Current	\$	\$
Sundry Debtors	2,032,014	2,617,883
Loan Receivable ¹	414,884	0
Other Debtors	27,588	16,224
GST Receivable	0	0
Accrued Interest Earnings	1,240,676	1,054,975
Allowance for Impairment of Receivables ²	(48,422)	(55,732)
	3,666,740	3,633,350

¹ Loan Receivable is covered under a loan agreement on commercial terms with Anergy Australia Pty Ltd. This loan is treated as a current receivable as under the terms of the agreement payment may be made at any time by Anergy Australia Pty Ltd up to 12 months following practical completion.

² Reconciliation of changes in the Allowance for Impairment of Receivables

	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Balance at start of period	55,732	7,025
Doubtful debts expense	0	48,707
Amounts written off during the period	0	0
Impairment losses reversed during the period	(7,310)	0
Balance at end of period	48,422	55,732

The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectable are written-off against the allowance account. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the EMRC will not be able to collect the debts.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

7. INVENTORIES

	ACTUAL 2017/2018	ACTUAL 2016/2017
Current	\$	\$
Distillate	25,314	23,917
Oils	4,531	4,917
	<u>29,845</u>	<u>28,834</u>

8. OTHER ASSETS

	ACTUAL 2017/2018	ACTUAL 2016/2017
Current	\$	\$
Prepayment - Contract Expenses	2,387	13,887
Prepayment - General	8,767	42,181
Prepayment - Insurance	0	27,095
Prepayment - Miscellaneous	10,223	32,035
	<u>21,377</u>	<u>115,198</u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

9. CONTROL OVER GRANTS/CONTRIBUTIONS

Conditions Over Grants/Contributions

Grant/Contribution	Function/Activity	Opening Balance ⁽¹⁾ 1 July 2016 \$	Received ⁽²⁾ 2016/17 \$	Expended ⁽³⁾ 2016/17 \$	Closing Balance 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
20M Trees Program	Other Property and Services	22,055	41,950	(56,315)	7,690
Coordination of Community Led Projects	Other Property and Services	52,500	105,000	(105,000)	52,500
Healthy Wildlife Project	Other Property and Services	42,150	100,000	(133,322)	8,828
Operational Support for the Steamwand Machine	Other Property and Services	2,465	0	(2,465)	0
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
Water Quality Monitoring in the Lower Helena Sub Catchment	Other Property and Services	24,788	0	(24,104)	684
All West Australian Reducing Emergencies Program	Other Property and Services	0	20,000	(20,000)	0
Avon Descent	Other Property and Services	0	155,000	(155,000)	0
Bush Skills for Youth Program	Other Property and Services	0	25,000	(25,000)	0
Community Capability Project	Other Property and Services	0	80,000	(34,597)	45,403
Keep Australia Beautiful Community Litter Program	Other Property and Services	0	10,000	(8,260)	1,740
Keep Australia Beautiful Waste Education Program	Community Ammenities	0	800	(800)	0
Perth's Autumn Festival	Other Property and Services	0	40,000	(40,000)	0
		155,057	603,250	(628,662)	129,645

Conditions Over Grants/Contributions

Grant/Contribution	Function/Activity	Opening Balance ⁽¹⁾ 1 July 2017 \$	Received ⁽²⁾ 2017/18 \$	Expended ⁽³⁾ 2017/18 \$	Closing Balance 30 June 2018 \$
Lighthouse Project	Governance	2,800	0	(2,800)	0
Metropolitan Local Government Youth Development Scholarship	Governance	10,000	0	(10,000)	0
20M Trees Program	Other Property and Services	7,690	5,300	(12,990)	0
Coordination of Community Led Projects	Other Property and Services	52,500	105,000	(105,000)	52,500
Healthy Wildlife Project	Other Property and Services	8,828	38,006	(46,834)	0
Water Quality Monitoring in the Lower Helena Sub Catchment	Other Property and Services	684	0	(684)	0
Community Capability Project	Other Property and Services	45,403	100,000	(79,874)	65,529
Keep Australia Beautiful Community Litter Program	Other Property and Services	1,740	0	0	1,740
Avon Descent	Other Property and Services	0	155,000	(155,000)	0
Enhancing Biodiversity SALP Project	Other Property and Services	0	3,039	(130)	2,909
Farm Dams Project	Other Property and Services	0	50,000	(42,001)	7,999
Lotterywest Bush Skills for Youth	Other Property and Services	0	3,155	(3,155)	0
		129,645	459,500	(458,468)	130,677

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 2018

10. CASH AND CASH EQUIVALENTS

	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Cash and Cash Equivalents - Unrestricted	9,927,009	25,198,428
Cash and Cash Equivalents - Restricted	87,253,192	65,601,501
	<u>97,180,201</u>	<u>90,799,929</u>

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

Plant and Equipment	3,383,664	1,372,015
Site Rehabilitation Red Hill - Post Closure	2,482,057	2,314,792
Future Development	16,089,599	6,238,460
Environmental Monitoring Red Hill	975,126	885,502
Environmental Insurance Red Hill	11,844	13,506
Risk Management	14,737	14,377
Class IV Cells Red Hill	589,575	563,778
Regional Development	328,109	195,233
Secondary Waste Processing	56,190,599	48,550,081
Class III Cells	5,929,276	4,344,485
Building Refurbishment (Ascot Place)	74,411	72,593
Long Service Leave	910,197	866,914
	<u>86,979,194</u>	<u>65,431,736</u>
Add movement in accrued interest	273,998	169,765
Less unrealised gain/(loss) from changes in fair value of Investments	0	0
	<u>87,253,192</u>	<u>65,601,501</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 2017/2018 budget was \$22,108,614.

The actual net current asset position balance shown in the audited financial report as at 30 June 2017 and after adjustment for Restricted Assets was \$23,690,893.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

12. PROPERTY, PLANT AND EQUIPMENT	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Land - Independent Valuation 2017	50,570,000	50,570,000
Additions after Valuation - Cost	0	0
Less Disposals after Valuation	0	0
Total Land	50,570,000	50,570,000
Buildings - Independent Valuation 2017	7,485,440	7,485,440
Additions after Valuation - Cost	17,805	0
Less Disposals after Valuation	0	0
Less Accumulated depreciation	(109,791)	0
Total Buildings	7,393,454	7,485,440
Total Land and Buildings	57,963,454	58,055,440
Plant - Independent Valuation 2016	10,776,173	10,776,173
Additions after Valuation - Cost	4,216,873	3,881,077
Less Disposals after Valuation	(807,094)	(472,571)
Less Accumulated depreciation	(4,155,559)	(2,101,289)
Total Plant	10,030,393	12,083,390
Equipment - Independent Valuation 2016	658,759	658,759
Additions after Valuation - Cost	227,073	147,641
Less Disposals after Valuation	(3,387)	(611)
Less Accumulated depreciation	(332,208)	(135,951)
Total Equipment	550,237	669,838
Furniture and Fittings - Independent Valuation 2016	16,806	16,806
Additions after Valuation - Cost	8,244	8,244
Less Accumulated depreciation	(18,323)	(8,908)
Total Furniture and Fittings	6,727	16,142
Artworks - Independent Valuation 2018	150,125	145,040
Additions after Valuation - Cost	0	0
Total Artworks	150,125	145,040

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

12. PROPERTY, PLANT AND EQUIPMENT (Continued)	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Work in Progress - At Cost		
- Buildings	579,154	579,943
- Plant	4,362,539	4,040,811
- Equipment	0	0
Total Work in Progress	4,941,693	4,620,754
TOTAL PROPERTY, PLANT AND EQUIPMENT	73,642,629	75,590,604

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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:

	Land \$	Buildings \$	Total Land & Buildings \$	Plant \$	Equipment \$	Furniture & Fittings \$	Artworks \$	Work in Progress \$	Total \$
Balance at 1 July 2016	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	0	(156,312)	(156,312)	(2,101,289)	(135,951)	(8,908)	0	0	(2,402,460)
Balance at 30 June 2017	50,570,000	7,485,440	58,055,440	12,083,390	669,838	16,142	145,040	4,620,754	75,590,604
Additions	0	17,015	17,015	335,796	79,432	0	0	321,729	753,972
WIP - Transfers in/(out)	0	790	790	0	0	0	0	(790)	0
(Disposals)	0	0	0	(334,523)	(2,776)	0	0	0	(337,299)
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation increments/(decrements)	0	0	0	0	0	0	5,085	0	5,085
Impairment (losses)/reversals	0	0	0	0	0	0	0	0	0
Depreciation expense	0	(109,791)	(109,791)	(2,054,270)	(196,257)	(9,415)	0	0	(2,369,733)
Carrying amount at 30 June 2018	50,570,000	7,393,454	57,963,454	10,030,393	550,237	6,727	150,125	4,941,693	73,642,629

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Artworks:

The EMRC's artworks were revalued at 30 June 2018 by independent valuers.

The revaluation resulted in an overall increase of \$5,085 in the net value of the EMRC's artworks. All of the increase was credited to the revaluation surplus in the Council's equity and was recognised as changes on Revaluation of non-current assets in the Statement of Comprehensive Income.

Refer to Note 30 for detailed disclosures regarding fair value measurement of the EMRC's artworks.

They will next be revalued during the year ended 30 June 2021 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).

Land and Buildings:

Both land and buildings were revalued in 2017 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 next be revalued during the year ended 30 June 2020 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 2018

13. INFRASTRUCTURE	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Landfill Cells - Management Valuation 2018	6,676,510	11,473,806
Additions after Valuation - Cost	0	4,139,197
Less Accumulated depreciation	0	(7,705,701)
	6,676,510	7,907,302
Other Structures - Independent Valuation 2018	6,621,065	6,582,782
Additions after Valuation - Cost	0	952,002
Less Disposals after Valuation	0	(48,329)
Less Accumulated depreciation	0	(471,655)
	6,621,065	7,014,800
Work in Progress - At Cost		
- Landfill Cells	482,938	321,902
- Other Structures	6,528,972	2,462,417
Total Work in Progress	7,011,910	2,784,319
TOTAL INFRASTRUCTURE	20,309,485	17,706,421

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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 1 July 2016	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)
Balance at 30 June 2017	7,907,302	7,014,800	2,784,319	17,706,421
Additions	0	199,113	4,228,621	4,427,734
WIP - Transfers in/(out)	0	1,030	(1,030)	0
(Disposals)	0	(1,247)	0	(1,247)
Reclassification	0	0	0	0
Revaluation increments/(decrements)	0	(321,223)	0	(321,223)
Impairment (losses)/reversals	0	0	0	0
Depreciation expense	(1,230,792)	(271,408)	0	(1,502,200)
Carrying amount at 30 June 2018	6,676,510	6,621,065	7,011,910	20,309,485

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

13. INFRASTRUCTURE (Continued)

Infrastructure:

The EMRC's infrastructure assets were revalued at 30 June 2018 by independent valuers and a Management valuation was undertaken for the EMRC's landfill cells.

The revaluation resulted in an overall decrease of \$321,223 in the net value of the EMRC's infrastructure assets. All of the decrease was debited 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 infrastructure assets.

They will next be revalued during the year ended 30 June 2021 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 2018

14. REVALUATION SURPLUS

	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Revaluation surpluses have arisen as a result of the revaluation of the following classes of non-current assets:		
Plant and Equipment		
Opening balance	4,749,067	5,834,205
Revaluation Increment/(decrement)	0	0
Revaluation writeback on disposals	(264,746)	(1,085,138)
Closing Balance	<u>4,484,321</u>	<u>4,749,067</u>
Land		
Opening balance	31,540,697	29,475,609
Revaluation Increment/(decrement)	0	2,065,088
Closing Balance	<u>31,540,697</u>	<u>31,540,697</u>
Buildings		
Opening balance	1,711,014	1,205,328
Revaluation Increment/(decrement)	0	537,547
Revaluation writeback on disposals	0	(31,861)
Closing Balance	<u>1,711,014</u>	<u>1,711,014</u>
Artworks		
Opening balance	25,807	25,807
Revaluation Increment/(decrement)	5,085	0
Closing Balance	<u>30,892</u>	<u>25,807</u>
Infrastructure - Other Structures		
Opening balance	4,156,342	4,186,426
Revaluation Increment/(decrement)	(321,223)	0
Revaluation writeback on disposals	(14)	(30,084)
Closing Balance	<u>3,835,105</u>	<u>4,156,342</u>
Total Revaluation Surplus	<u><u>41,602,029</u></u>	<u><u>42,182,927</u></u>
Revaluation Surplus Summary		
Opening balance	42,182,927	40,727,375
Revaluation Increment/(decrement)	(316,138)	2,602,635
Revaluation writeback on disposals	(264,760)	(1,147,083)
Total Revaluation Surplus	<u><u>41,602,029</u></u>	<u><u>42,182,927</u></u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

15. TRADE AND OTHER PAYABLES

	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Current		
Payroll Accruals	74,777	74,651
GST Liability	63,055	127,014
Sundry Creditors	3,467,159	3,644,562
	<u>3,604,991</u>	<u>3,846,227</u>

16. PROVISIONS

Current Employee Benefits Related Provisions

Employees Annual Leave	635,506	646,193
Employees Long Service Leave	706,392	604,636
Employment On-Costs	199,293	187,861
	<u>1,541,191</u>	<u>1,438,690</u>

Non-current Employee Benefits Related Provisions

Employees Long Service Leave	104,482	128,421
Employment On-Costs	11,600	15,287
	<u>116,082</u>	<u>143,708</u>

Total Employee Benefits Provisions

	<u>1,657,273</u>	<u>1,582,398</u>
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Non-current Other Provisions

Red Hill Landfill Site Post Closure Rehabilitation	2,482,057	2,314,792
Red Hill Landfill Environmental Monitoring	975,766	885,502
Carbon Pricing Tax	0	4,235,645

Total Other Provisions

	<u>3,457,823</u>	<u>7,435,939</u>
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Total Provisions

	<u>5,115,096</u>	<u>9,018,337</u>
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Analysis of total provisions:

Current	1,541,191	1,438,690
Non-current	3,573,905	7,579,647
	<u>5,115,096</u>	<u>9,018,337</u>

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Provision for Employment On-Costs \$	Provision for Carbon Pricing \$	Provision for Site Rehabilitation \$	Provision for Environmental Monitoring \$	Total \$
Opening balance as at 1 July 2017	646,193	733,057	203,148	4,235,645	2,314,792	885,502	9,018,337
Additional provisions made	526,068	133,970	11,432	0	167,265	90,264	928,999
Amounts used	(536,755)	(56,153)	(3,687)	0	0	0	(596,595)
Unused amount reversed	0	0	0	(4,235,645)	0	0	(4,235,645)
Balance as 30 June 2018	635,506	810,874	210,893	0	2,482,057	975,766	5,115,096

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

16. PROVISIONS (Continued)

Annual Leave Liabilities

Classified as current as there is no unconditional right to defer settlement for at least 12 months after the end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2017/2018	2016/2017
	\$	\$
Within 12 months of the end of the reporting period	498,688	562,806
More than 12 months after the end of the reporting period	136,818	83,387
	635,506	646,193

The provision for annual leave is calculated at the present value of expected payments to be made in relation to services provided by employees up to the reporting date.

Long Service Leave Liabilities

Unconditional long service leave provisions are classified as current liabilities as the EMRC does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the EMRC has an unconditional right to defer settlement of the liability until the employee has completed the requisite years of service.

Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2017/2018	2016/2017
	\$	\$
Within 12 months of the end of the reporting period	101,177	78,034
More than 12 months after the end of the reporting period	709,697	655,023
	810,874	733,057

The provision for long service leave is calculated at the present value as the EMRC does not expect to wholly settle the amounts within 12 months. The present value is measured taking into account the present value of expected future payments to be made in relation to services provided by employees up to the reporting date. These payments are estimated using the remuneration rate expected to apply at the time of settlement, and discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

16. PROVISIONS (Continued)

Employment On-Cost Provision

The settlement of annual leave and long service leave liabilities give rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments.

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Employee Costs' in the Statement of Comprehensive Income. The related liability is included in 'Employment On-Costs' provision.

	2017/2018	2016/2017
	\$	\$
Carrying amount at start of period	203,148	207,262
Additional(reversal of) provisions recognised	7,745	(4,114)
	<u>210,893</u>	<u>203,148</u>

Carbon Pricing

The amount of \$4,235,645 held by the EMRC as at 30 June 2017, which represented Carbon Tax collections from unidentified sources, was transferred to the Other Revenue account in the Statement of Comprehensive Income.

The Australian Landfill Operators Association (ALOA) negotiated a position with the Federal Government over the fate of these unidentifiable collected funds. The Federal Government issued a Voluntary Waste Industry Protocol for the handling of early collected carbon charges in the landfill sector in August 2015. Consistent with this protocol, the EMRC Council at its meeting held on 24 August 2017 passed a resolution to use such funds for the resource recovery initiatives, specifically the development of Hazelmere Resource Recovery Park and the Resource Recovery Facility Project.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

17. RESERVES

	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
(a) Plant and Equipment Reserve			
Opening balance as at 1 July 2017	1,372,015	1,526,891	510,804
Transfer from retained surplus	2,134,690	5,551,377	3,002,368
Transfer to retained surplus	(157,381)	(6,299,497)	(2,155,934)
Interest	34,340	29,543	14,777
Closing Balance as at 30 June 2018	3,383,664	808,314	1,372,015
(b) Site Rehabilitation Reserve - Post Closure			
Opening balance as at 1 July 2017	2,314,792	2,330,654	2,132,389
Transfer from retained surplus	109,329	126,226	120,713
Transfer to retained surplus	0	0	0
Interest	57,936	61,136	61,690
Closing Balance as at 30 June 2018	2,482,057	2,518,016	2,314,792
(c) Future Development Reserve			
Opening balance as at 1 July 2017	6,238,460	6,272,601	6,063,056
Transfer from retained surplus	9,695,000	13,945,000	0
Transfer to retained surplus	0	0	0
Interest	156,139	346,626	175,404
Closing Balance as at 30 June 2018	16,089,599	20,564,227	6,238,460
(d) Environmental Monitoring Reserve			
Opening balance as at 1 July 2017	885,502	892,253	788,213
Transfer from retained surplus	67,461	77,821	74,486
Transfer to retained surplus	0	0	0
Interest	22,163	23,800	22,803
Closing Balance as at 30 June 2018	975,126	993,874	885,502
(e) Environmental Insurance Reserve			
Opening balance as at 1 July 2017	13,506	13,734	40,514
Transfer from retained surplus	40,000	40,000	0
Transfer to retained surplus	(42,000)	(42,000)	(28,180)
Interest	338	305	1,172
Closing Balance as at 30 June 2018	11,844	12,039	13,506

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

17. RESERVES (Continued)

	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
(f) Risk Management Reserve			
Opening balance as at 1 July 2017	14,377	14,456	13,973
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	361	369	404
Closing Balance as at 30 June 2018	14,738	14,825	14,377
(g) Class IV Reserve			
Opening balance as at 1 July 2017	563,778	566,846	544,803
Transfer from retained surplus	11,686	3,214	3,214
Transfer to retained surplus	0	(500,000)	0
Interest	14,111	7,908	15,761
Closing Balance as at 30 June 2018	589,575	77,968	563,778
(h) Regional Development Reserve			
Opening balance as at 1 July 2017	195,233	197,255	359,102
Transfer from retained surplus	580,000	580,000	250,000
Transfer to retained surplus	(452,010)	(637,738)	(424,258)
Interest	4,886	4,292	10,389
Closing Balance as at 30 June 2018	328,109	143,809	195,233
(i) Secondary Waste Reserve			
Opening balance as at 1 July 2017	48,550,081	48,985,881	46,773,843
Transfer from retained surplus	6,425,381	4,810,120	4,819,705
Transfer to retained surplus	0	(8,635,749)	(4,396,633)
Interest	1,215,137	1,195,844	1,353,166
Closing Balance as at 30 June 2018	56,190,599	46,356,096	48,550,081
(j) Class III Reserve			
Opening balance as at 1 July 2017	4,344,485	4,370,133	4,554,958
Transfer from retained surplus	1,676,259	1,767,464	0
Transfer to retained surplus	(200,204)	(5,376,426)	(342,248)
Interest	108,736	65,423	131,775
Closing Balance as at 30 June 2018	5,929,276	826,594	4,344,485

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

17. RESERVES (Continued)

	ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
(k) Building Refurbishment Reserve			
Opening balance as at 1 July 2017	72,593	72,990	70,552
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	1,817	1,862	2,041
Closing Balance as at 30 June 2018	74,410	74,852	72,593
(l) Long Service Leave Reserve			
Opening balance as at 1 July 2017	866,914	871,543	822,170
Transfer from retained surplus	21,586	21,586	20,958
Transfer to retained surplus	0	0	0
Interest	21,697	22,518	23,786
Closing Balance as at 30 June 2018	910,197	915,647	866,914
TOTAL RESERVES	86,979,194	73,306,261	65,431,736

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 2018

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 was established to receive surpluses from the Risk Management Service and to fund 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.

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 2018

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 2017/2018	BUDGET 2017/2018	ACTUAL 2016/2017
	\$	\$	\$
Cash and Cash Equivalents - Unrestricted	9,927,009	4,278,095	25,198,428
Cash and Cash Equivalents - Restricted	87,253,192	73,458,222	65,601,501
Total Cash	97,180,201	77,736,317	90,799,929

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

Net Result	11,436,556	5,975,220	8,791,160
<u>Non-Cash Flows in Net Result</u>			
Depreciation	3,871,933	4,628,133	2,640,933
(Profit)/Loss on sale of assets	11,500	(34,599)	173,517
<u>Changes in Assets and Liabilities</u>			
Increase/(Decrease) in provisions - Other	257,529	204,047	279,692
Increase/(Decrease) in provisions - Employee	74,875	28,607	(39,779)
Increase/(Decrease) in Sundry Creditors	(177,276)	0	(2,073,728)
Increase/(Decrease) in GST	(63,960)	0	30,036
Increase/(Decrease) in Other Revenue (Carbon Tax)	(4,235,645)	0	0
(Increase)/Decrease in accrued interest earnings	(185,701)	0	(40,328)
(Increase)/Decrease in Receivables	152,311	0	688,636
(Increase)/Decrease in Inventory	(1,011)	0	(992)
(Increase)/Decrease in Prepayments	93,821	0	(30,139)
Net cash from operating activities	11,234,932	10,801,408	10,419,008

(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	(11,269)	(7,069)
Total amount of credit unutilised	31,731	35,931

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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 2017/2018 \$	ACTUAL 2016/2017 \$
- Current	1,541,191	1,438,690
- Non-current	116,082	143,708
Total Employee Entitlements	<u>1,657,273</u>	<u>1,582,398</u>
	ACTUAL FTE's 2017/2018	ACTUAL FTE's 2016/2017
Total number of (FTE) employees at end of financial year	<u>80</u>	<u>85</u>

20. COUNCILLORS FEES AND ALLOWANCES

ACTUAL 2017/2018 \$	BUDGET 2017/2018 \$	ACTUAL 2016/2017 \$
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The following fees, expenses and allowances were paid to council members and the Chairman:

Councillors' meeting fees	115,005	115,005	115,005
Chairman's meeting fees	15,682	15,682	15,682
Deputy Councillors' meeting fees	1,888	12,393	3,068
Chairman's Local Government fee	19,864	19,864	19,864
Deputy Chairman's Local Government fee	4,966	4,966	4,966
	<u>157,405</u>	<u>167,910</u>	<u>158,585</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30 JUNE 2018

21. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
CURRENT ASSETS		
General Purpose Funding	17,028,635	30,347,825
Governance	1,273,343	1,123,650
Community Amenities	82,268,076	62,910,604
Economic Services	328,109	195,232
TOTAL CURRENT ASSETS	100,898,163	94,577,311
NON-CURRENT ASSETS		
Land		
Governance	5,450,000	5,450,000
Community Amenities	45,120,000	45,120,000
Buildings		
Governance	3,933,332	4,000,000
Community Amenities	3,460,122	3,485,440
Structures		
Governance	38,899	29,705
Community Amenities	13,258,676	14,892,398
Plant		
Governance	95,989	299,913
Community Amenities	9,934,403	11,783,476
Equipment		
Governance	327,046	431,416
Community Amenities	223,192	241,124
Furniture and Fittings		
Governance	156,852	158,479
Work In Progress		
Unclassified	11,953,603	7,405,074
TOTAL NON CURRENT ASSETS	93,952,114	93,297,025
TOTAL ASSETS	194,850,277	187,874,336

22. DISPOSAL OF ASSETS	ACTUAL 2017/2018			BUDGET 2017/2018		
	Net Book Value \$	Sale Price \$	Gain (Loss) \$	Net Book Value \$	Sale Price \$	Gain (Loss) \$
Plant	334,523	327,046	(7,477)	571,325	605,924	34,599
Structues	1,247	0	(1,247)	0	0	0
Equipment	2,776	0	(2,776)	0	0	0
Total Assets Disposed	338,546	327,046	(11,500)	571,325	605,924	34,599

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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 2017/2018 financial year.

(c) Unspent Loans

There were no unspent loans during the 2017/2018 financial year.

24. INTEREST IN THE EMRC

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

Member Council	2017/2018		2016/2017	
	%	\$	%	\$
Town of Bassendean	4.27	7,954,836	4.31	7,538,338
City of Bayswater	18.86	35,096,066	18.67	32,684,701
City of Belmont	11.35	21,132,204	11.42	19,990,184
City of Kalamunda	16.30	30,331,642	16.43	28,747,212
Shire of Mundaring	10.69	19,891,176	10.84	18,974,932
City of Swan	38.53	71,724,266	38.33	67,074,405
Total Equity	100.00	186,130,190	100.00	175,009,772

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
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25. FINANCIAL RISK MANAGEMENT

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

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

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

The Council held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2017/2018	2016/2017	2017/2018	2016/2017
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	97,180,201	90,799,929	97,180,201	90,799,929
Receivables	3,666,740	3,633,350	3,666,740	3,633,350
Financial Assets at fair value through profit and loss	0	0	0	0
	<u>100,846,941</u>	<u>94,433,279</u>	<u>100,846,941</u>	<u>94,433,279</u>
Financial Liabilities				
Payables	3,541,936	3,719,213	3,541,936	3,719,213
	<u>3,541,936</u>	<u>3,719,213</u>	<u>3,541,936</u>	<u>3,719,213</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
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FOR THE YEAR ENDED 30 JUNE 2018

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.

	2017/2018	2016/2017
	\$	\$
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	16,767	20,965
- Statement of Comprehensive Income	16,767	20,965

(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.

EASTERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30 JUNE 2018

25. FINANCIAL RISK MANAGEMENT (Continued)

(c) Ageing Analysis of Receivables

	Carrying Amount	Not Past due and not Impaired	Past due but not Impaired					Impaired Receivables
			Up to 1 month	1 - 3 Months	3 Months to 1 Year	1 - 5 Years	More than 5 Years	
	\$	\$	\$	\$	\$	\$	\$	\$
<u>2017/2018</u>								
Receivables *	3,251,856	3,118,823	79,667	53,366	0	0	0	0
Loan receivable	414,884	414,884	0	0	0	0	0	0
	3,666,740	3,533,707	79,667	53,366	0	0	0	0
<u>2016/2017</u>								
Receivables *	3,633,350	3,169,643	463,707	0	0	0	0	0
	3,633,350	3,169,643	463,707	0	0	0	0	0

* The amount of receivables excludes the GST recoverable from the ATO (statutory receivable)

EASTERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30 JUNE 2018

25. FINANCIAL RISK MANAGEMENT (Continued)

(d) 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>2017/2018</u>					
Payables *	3,541,936	0	0	3,541,936	3,541,936
	3,541,936	0	0	3,541,936	3,541,936
<u>2016/2017</u>					
Payables *	3,719,213	0	0	3,719,213	3,719,213
	3,719,213	0	0	3,719,213	3,719,213

* The amount of payables excludes the GST payable to the ATO (statutory payable)

(e) 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.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

25. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk and Interest Rate Exposure

The following table details the EMRC's interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The interest rate exposure section analyses the only the carrying amounts of each item.

Interest Rate Exposure and Maturity Analysis of Financial Assets and Financial Liabilities

	Interest Rate Exposure					Maturity Dates				
	Weighted Average Effective Interest Rate %	Carrying Amount \$	Fixed Interest Rate \$	Variable Interest Rate \$	Non- Interest Bearing \$	Nominal Amount \$	Up to 1 month \$	1 - 3 Months \$	3 Months to 1 Year \$	More than 1 Year \$
<u>2017/2018</u>										
<u>Financial Assets</u>										
Cash and cash equivalents	2.28%	9,927,009	8,246,808	1,676,751	3,450	9,927,009	2,543,741	2,633,797	4,749,471	0
Restricted cash and cash equivalents	2.64%	87,253,192	87,253,192	0	0	87,253,192	9,136,460	27,866,203	50,250,529	0
Receivables *	-	3,251,856	0	0	3,251,856	3,251,856	3,251,856	0	0	0
Loan receivable	8.00%	414,884	414,884	0	0	414,884	0	0	414,884	0
		100,846,941	95,914,884	1,676,751	3,255,306	100,846,941	14,932,057	30,500,000	55,414,884	0
<u>Financial Liabilities</u>										
Payables *	-	3,541,936	0	0	3,541,936	3,541,936	3,541,936	0	0	0
		3,541,936	0	0	3,541,936	3,541,936	3,541,936	0	0	0
<u>2016/2017</u>										
<u>Financial Assets</u>										
Cash and cash equivalents	2.72%	25,198,428	23,098,499	2,096,479	3,450	25,198,428	5,224,867	7,161,316	12,812,245	0
Restricted cash and cash equivalents	2.91%	65,601,501	65,601,501	0	0	65,601,501	8,875,062	20,338,684	36,387,755	0
Receivables *	-	3,633,350	0	0	3,633,350	3,633,350	3,633,350	0	0	0
		94,433,279	88,700,000	2,096,479	3,636,800	94,433,279	17,733,279	27,500,000	49,200,000	0
<u>Financial Liabilities</u>										
Payables *	-	3,719,213	0	0	3,719,213	3,719,213	3,719,213	0	0	0
		3,719,213	0	0	3,719,213	3,719,213	3,719,213	0	0	0

* The amount of receivables/payables excludes the GST recoverable/payable from/to the ATO (statutory receivable/payable)

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

26. COMMITMENTS FOR CAPITAL EXPENDITURE	ACTUAL 2017/2018 \$	ACTUAL 2016/2017 \$
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities:		
- Payable not longer than one year	2,381,392	1,022,587
Total Capital Commitments	<u>2,381,392</u>	<u>1,022,587</u>

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 2021.

28. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period required to be included in the 2017/2018 Annual Financial Report.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

29. FINANCIAL RATIOS

	ACTUAL 2017/2018	ACTUAL 2016/2017	ACTUAL 2015/2016
<i>Liquidity Ratio</i>			
Current Ratio ⁽¹⁾	3.07	6.19	4.16
<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⁾	1.35	1.23	1.28
<u>Own Source Operating Revenue</u>			
<u>Operating Expense</u>			
<i>Financial Performance Ratio</i>			
Operating Surplus Ratio ⁽⁴⁾	0.30	0.25	0.27
<u>Operating Revenue less Operating Expense</u>			
<u>Own Source Operating Revenue</u>			
<i>Asset Management Ratio</i>			
Asset Sustainability Ratio ⁽⁵⁾	0.10	0.69	0.49
<u>Capital Renewal and Replacement Expenditure</u>			
<u>Depreciation Expense</u>			
Asset Consumption Ratio ⁽⁶⁾	0.79	0.79	0.82
<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>NPV of planned Capital renewals over 10 years</u>			
<u>NPV of required Capital expenditure over 10 years</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 indicates whether Council is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
- ⁽⁶⁾ This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
- ⁽⁷⁾ This ratio is a measure of the ability of Council to fund its projected asset renewal / replacements in the future.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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 2018			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	10	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	3,933,332	3,460,122	7,393,454
Plant	12	0	4,391,949	5,638,444	10,030,393
Equipment	12	0	550,237	0	550,237
Furniture and Fittings	12	0	6,727	0	6,727
Artworks	12	0	150,125	0	150,125
Infrastructure	13	0	0	13,297,575	13,297,575
Total non-financial assets recognised at fair value on a recurring basis		0	59,602,370	22,396,141	81,998,511

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

30. FAIR VALUE MEASUREMENT (Continued)

		30 June 2017			
	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Assets	10	0	0	0	0
<hr/>					
Total financial assets recognised at fair value on a recurring basis		0	0	0	0
<hr/>					
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	669,838	0	669,838
Furniture and Fittings	12	0	16,142	0	16,142
Artworks	12	0	145,040	0	145,040
Infrastructure	13	0	0	14,922,102	14,922,102
<hr/>					
Total non-financial assets recognised at fair value on a recurring basis		0	61,304,547	24,587,405	85,891,952
<hr/>					

(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 2018

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 2018 \$	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	3,460,122	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	3,933,332	Market and income approach	Rental yields and price per square metre.
Plant	2	4,391,949	Market approach	Make, size, year of manufacture and condition.
	3	5,638,444	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	550,237	Market approach	Make, size, year of manufacture and condition.
Furniture and Fittings	2	6,727	Market approach	Make, size, year of manufacture and condition.
Artworks	2	150,125	Market approach	Estimated value expected to be realised.
Infrastructure	3	13,297,575	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		81,998,511		

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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.

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 2018

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.

Equipment, 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 2018

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 2018, a comprehensive revaluation was undertaken for the other structures class of assets by external valuers, APV Valuers and Asset Management, except for the Landfill Cell asset class which were subject to a management valuation.

As at 30 June 2018, a comprehensive revaluation was undertaken for the artworks class of assets by art valuer, Richard McDonald from RSM Art Conservation, as a sub-contractor to 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 2018

31. RELATED PARTY TRANSACTIONS

Key Management Personal (KMP) Compensation Disclosure

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

	2017/2018	2016/2017
	\$	\$
Short-term employee benefits	607,911	603,598
Post-employment benefits	96,146	95,388
Other long term benefits	71,741	70,529
Termination benefits	0	0
	<u>775,798</u>	<u>769,515</u>

Short-term employee benefits

These amounts include all salary, 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 annual leave and 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 2018

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:

	2017/2018	2016/2017
	\$	\$
<i>Member Councils:</i>		
Sale of goods and services	25,372,410	24,520,682
Purchase of goods and services	0	0
<i>Amounts outstanding from related parties:</i>		
Trade and other receivables	1,419,667	1,989,376

INDEPENDENT AUDITOR'S REPORT



**For the Year Ended
30 June 2018**



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Members of the Eastern Metropolitan Regional Council

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Eastern Metropolitan Regional Council which comprises the Statement of Financial Position as at 30 June 2018, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Eastern Metropolitan Regional Council:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Council for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Council in accordance with the *Auditor General Act 2006* and the relevant 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 my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the Act. Regulation 16 of the *Local Government (Financial Management) Regulations 1996* (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Council is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of the Council.

The Council is responsible for overseeing the Council's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

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

- 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 my 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 CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- 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.

I communicate with the Council and the CEO regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

In accordance with the *Local Government (Audit) Regulations 1996* I report that:

- (i) In my opinion, the following material matter indicates significant adverse trends in the financial position or the financial management practices of the Council:
 - a. The Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries standard for the last three years. The financial ratios are reported at Note 29 to the financial report.
- (ii) All required information and explanations were obtained by me.
- (iii) All audit procedures were satisfactorily completed.
- (iv) In my opinion, the asset consumption ratio and the asset renewal funding ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Eastern Metropolitan Regional Council for the year ended 30 June 2018 included on the Council's website. The Council's management is responsible for the integrity of the Council's website. This audit does not provide assurance on the integrity of the Council's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. 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.



CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
5 October 2018



Our Ref: 7911



Chief Executive Officer
Eastern Metropolitan Regional Council
1ST FLOOR ASCOT PLACE
226 GREAT EASTERN HIGHWAY
BELMONT WA 6104

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Dear Sir

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2018**

We have completed the interim audit for the year ending 30 June 2018. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

An audit is not designed to identify all internal control deficiencies that may require management attention. It is possible that irregularities and deficiencies may have occurred and not been identified as a result of our audit.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the Chairman. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7542 if you would like to discuss these matters further.

Yours faithfully

LIANG WONG
ASSISTANT DIRECTOR
FINANCIAL AUDIT

19 September 2018

Attach

EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT

	INDEX OF FINDINGS	RATING		
		Significant	Moderate	Minor
	Statutory Compliance			
1	Late presentation of the monthly Statement of Financial Activity		✓	
	Receipts and Sundry Debtors			
2	Lack of Review of Recipient Created Tax Invoice	✓		
3	System Accepts Duplicate RCTI numbers when Raising Invoices		✓	
4	Listing of receipts not reviewed		✓	
5	No Date of Review on Debtors' Reconciliations			✓
	Payroll			
6	Excessive Leave Balances		✓	
7	Unrestricted Access to Payroll Module by Non HR/Payroll Officers		✓	
	Investments			
8	"Management of Investment Policy" has not been reviewed by the Council since September 2014			✓
	Purchases, Payments And Creditors			
9	Long Outstanding Purchase Orders with Zero Value			✓

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

**EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

STATUTORY COMPLIANCE

1. Late presentation of the monthly Statement of Financial Activity

Finding

Regulation 34 (4) A of the Local Government (Financial Management) Regulations 1996 requires the monthly Statement of Financial Activity and the accompanying documents to be presented at an ordinary meeting of the council within 2 months after the end of the month to which the statement relates.

We noted instances where this requirement had not been complied with. E.g. The Statement of Financial Activity for the months of August 2017 and September 2017 had been presented at the ordinary meeting of the council held on 7 December 2017 and the Statement of Financial Activity for the month of November 2017 had been presented at the ordinary council meeting held on 15 February 2018.

Rating: Moderate

Implication

The accountability and transparent reporting requirements of the Regulations have not been met.

Recommendation

We recommend that monthly Statement of Financial Activity be submitted at the ordinary meetings of the council in accordance with the requirements under Regulation 34 (4) A of the Local Government (Financial Management) Regulations 1996.

Management Comment

The monthly Statement of Financial Activity (financial reports) are submitted at the earliest possible ordinary meeting of Council in accordance with the requirements under Regulation 34 (4) A of the Local Government (Financial Management) Regulations 1996.

The monthly financial reports are finalised within 2 to 3 weeks following end of the month. As ordinary meetings are usually held on the third (3rd) week of each month, that would mean that the earliest the financial reports can be submitted to Council is some 6 to 7 weeks following end of the month due to the preparation of agendas timeframe.

Additionally, Council meetings are scheduled to be held ten times a year. Some meetings are designated as "if required" and hence there is a likelihood that those "if required" meetings may not be held due to a lack of other reports requiring Council decisions.

The month of January is a recess where no Council meetings are held. Additionally, the December ordinary meeting of Council is held earlier in the first week due to the Christmas festive season. Accordingly, there is no November ordinary meeting of Council. This means that some financial reports, such as the November month are not able to be presented to Council any earlier than the February Council meeting.

EASTERN METROPOLITAN REGIONAL COUNCIL
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The 2017 year was also a Local Government election year, which means that the October meeting was not held as the EMRC Council was dissolved ahead of the election in September 2017 and Councillors were not be appointed back to the EMRC Council until the Special Meeting of Council in November 2017.

As such, none of the financial reports were late in being presented to Council.

Responsible Person: David Ameduri
Completion Date: N/A - Ongoing based on annual EMRC Ordinary council meeting timetable.

EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
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RECEIPTS AND SUNDRY DEBTORS

2. Lack of Review of Recipient Created Tax Invoice

Finding

We noted that the Council places complete reliance on the Recipient Created Tax Invoice (RCTI) that it receives from Landfill Gas & Power Pty Ltd in respect of sale of methane gas and large scale generation certificate royalties.

**Rating: Significant
 Implication**

Lack of verification of RCTIs can result in errors not being detected and misstatement of income.

Recommendation

We recommend that RCTIs together with the supporting documentation be reviewed, verified and authorised by an appropriate authorising officer from the Waste Services section prior to being processed in SynergySoft system.

This matter was raised by the previous auditor, Macri Partners in his management letter dated 25 May 2017 and the management comments then were:

"The Director, Waste Services, has contacted Landfill Gas & Power who have advised that the units of electricity sent out from Red Hill Power Station are verified from the Western Power portal where the data is downloaded into spreadsheets and RCTIs are created based on the information downloaded. Copies of the spreadsheets accompanied by a screenshot of the Western Power portal will be provided as supporting documentation to future RCTIs .

Copies of the certificate sales records have been requested as supporting documentation in order to verify the RCTIs that are received relating to the sale of LGC's (large generation certificates).

Future RCTIs together with the supporting documentation will be reviewed, verified and authorised by an appropriate authorising officer from the Waste Services section prior to being processed by the Finance section."

Management Comment

As landfill produces methane gas naturally following the decomposition of the waste materials, some landfills use flares to extinguish the excess methane gas. EMRC has had an existing arrangement with Energy Developments Pty Ltd (previously known as Landfill Gas & Power) to extract the methane gas to generate electricity.

This has been a long standing relationship and has been beneficial to the EMRC to generate other income in addition to the core operations. This has been subjected to audit over the many years.

We acknowledge the findings that the supporting documentation process can be better improved.

EASTERN METROPOLITAN REGIONAL COUNCIL
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Since January 2018 details have been extracted and checked against the Australian Energy Market Operator (AEMO) website for verification of the RCTI values for which the kWh royalty was based. Following the Interim Audit additional procedures have been put in place for Energy Developments Pty Ltd to provide the following as supporting documentation for RCTIs and these are now being received:

- Extract of the Western Power data showing the monthly kWh for which the royalty payments are based.
- Copy of the sales certificate for large scale generation certificates (LGCs) sales showing the unit value of the LGCs sales.
- Monthly notification of the LGCs created & submitted for approval by the regulator.
- Confirmation of the LGCs approved by the regulator.

The EMRC has requested supporting documentation not previously received relating to the first half of 2017/2018 which will be verified against the RCTIs as well.

The above supporting documentation will provide verification of the electricity generated for which each RCTI is based as well as data relating to the creation and sale of LGCs for which a cumulative balance of LGCs held is maintained by the EMRC.

Responsible Person: David Ameduri
Completion Date: September 2018 & ongoing based on RCTIs received.

**EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

3. System Accepts Duplicate RCTI numbers when Raising Invoices

Finding

During our review we noted an instance where two sales invoices were created with the same invoice number RCTI9269 in SynergySoft system.

Rating: Moderate

Implication

Duplicated sales invoices result in misstatement of revenue and debtor balances.

Recommendation

A control should be put in place to ensure that the SynergySoft system does not allow a user to re-process an invoice with the same invoice number.

Management Comment

The RCTI9269 highlighted was erroneously inputted twice by staff. This was picked up during the weekly reconciliation and was corrected immediately.

EMRC officers are investigating with the software provider, Synergysoft, whether a similar setup to the creditors module can be established for RCTIs to prevent duplication of RCTI numbers when raising invoices. In the interim, a process has been put in place to ensure duplications do not occur.

Responsible Person:

David Ameduri

Completion Date:

Currently in progress and will be dependent on the response received from the software provider.

**EASTERN METROPOLITAN REGIONAL COUNCIL
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MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

4. Listing of Receipts Not Reviewed

Finding

We reviewed the income receipting and banking procedures in place at EMRC.

We did not see evidence of review by an independent officer of a periodic report of receipts raised during the period.

Rating: Moderate

Implication

Lack of review of the receipts listing may provide opportunities for misappropriation of income.

Recommendation

We recommend that a monthly report of all the receipts raised be generated and reviewed by an officer independent of the receipting function.

Management Comment

The EMRC currently accepts the following forms of payment:

- EFT;
- Credit card;
- Cheque; and
- Cash.

The majority of payments are made by EFT and credit card. On rare occasions a cheque is received as well as cash payments for reimbursements from staff members for which debtor's invoices have been raised.

Should the cash payment not be processed or allocated in the correct manner, the debtor's invoice will remain outstanding and become overdue on the Debtors Trading Terms Analysis Report. Because the Debtors Trading Terms Analysis Report is compiled and submitted to the Manager, Financial Services and Director Corporate Services for review on a weekly basis, enquiries will be raised with the relevant staff member regarding the overdue invoice. For this reason, the risk of income (cash) misappropriation is low.

This is also the case with cheques that have been received. Should a cheque be misplaced and not processed the outstanding amount from the debtor will remain outstanding & follow up processes should reveal the misplacement of the cheque which would then be cancelled and a replacement cheque issued.

Payments made by EFT and credit cards go directly into the EMRC's bank account. A bank reconciliation is performed on a monthly basis which is then reviewed and signed by both the Finance Team Leader and Manager Financial Services. As funds have already been deposited directly into the EMRC's bank account, the chance of fund misappropriation is mitigated.

**EASTERN METROPOLITAN REGIONAL COUNCIL
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All cash and cheques that are receipted are banked.

All banking is verified by a system generated Receipting Update Report and a Cash Receipting Bank Deposit Listing for which a file copy is retained and a copy forwarded to the bank with the cash &/or cheques to be banked.

All cash deposits are sighted & signed off by 2 EMRC officers in accordance with the standard EMRC practice.

The EMRC have put the aforementioned processes in place to help with cash flow, to increase debtor management effectiveness and also to prevent opportunities for misappropriation of income.

In addition to the above processes, and with reference to the above recommendation, the EMRC will produce a consolidated report of daily receipting batches which will be reviewed by an officer independent of the receipting function.

Responsible Person: David Ameduri
Completion Date: 30 September 2018 and ongoing procedures

**EASTERN METROPOLITAN REGIONAL COUNCIL
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MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

5. No Date of Review on Debtors' Reconciliations

We noted 5 instances (out of 9 samples tested) where although the monthly debtor reconciliations were reviewed, the date of review was not indicated.

**Rating: Minor
Implication**

Without the date of review, we were unable to verify whether the debtor reconciliations were reviewed in a timely manner.

Recommendation

The date of review should be indicated on all monthly debtor reconciliations.

Management Comment

The Monthly General Ledger Trial Balance and the Debtors Aged Trial Balance are verified monthly by the Manager, Financial Services following the completion of the financial activity for each month.

The verification has generally been by way of signature and stating "verified" or "reviewed" on each of the following documents:

- Monthly General Ledger Trial Balance;
- Monthly Debtors Aged Trial Balance; and
- Monthly Creditors Aged Trial Balance.

All verifications are undertaken each month to ensure that the Debtors & Creditors balances reconcile to the General Ledger Trial Balance prior to the compiling of the Financial Activity Statements for Council.

Following this issue being raised by the Auditors during the interim audit period the documents since this time have also been dated when the verification was undertaken.

Responsible Person: David Ameduri
Completion Date: March 2018

EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT

PAYROLL

6. Excessive Leave Balances

Finding

We obtained a listing of the Employee Annual Leave Entitlement Balances as at 26 April 2018. The listing contained 10 staff with outstanding annual leave entitlements in excess of 8 weeks to a maximum of 14 weeks.

The Local Government Industry Award 2010 stipulates that an employee has excessive leave accrual if the employee has accrued more than 8 weeks.

We note that the management has processes in place to identify and monitor staff that have accrued excess annual leave balances and take appropriate action.

Rating: Moderate

Implication

Excessive annual leave balances may have adverse effects on the Council including:

- key staff not being rotated, a preventive control against fraud;
- health and safety concerns with staff members not taking their annual leave entitlements;
- increase the Council's costs given salary rises and increments over time.

Recommendation

We recommend that excessive employee annual leave balances be reviewed regularly and appropriate measures taken to minimise the above mentioned implications of excessive annual leave.

Management Comment

A monthly report outlining Employee Annual Leave balances is distributed to Directors and Managers. This report is utilised by Directors and Managers to manage leave owed to employees.

With reference to the comment that it may "...increase the Council's costs given salary rises and increments over time", currently the salary increases for employee costs are significantly less than the term deposit rates that the EMRC is currently receiving on its investments. Therefore any increase in salary rates is minimised due to the higher return being achieved on investments.

It is acknowledged however, that in cases where an employee is promoted or moves into a higher paying position that the cost of the outstanding leave will result in a higher increase than the general salary increases from year to year.

Efforts are continually being made with employees with excessive leave balances to reduce their leave to an acceptable level.

Responsible Person:	Executive Management Team
Completion Date:	Ongoing monthly monitoring

EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT

7. Unrestricted Access to Payroll Module by Non HR/Payroll Officers

Finding

We noted that full access to the payroll module is available to non HR/Payroll officers. Full access (i.e. edit and read) should be restricted to key HR and Payroll officers.

Rating: Moderate

Implication

Full access to the payroll module by non HR/Payroll officers creates a risk of unauthorised data entry into the payroll module, and changes to the payroll, and also impacts on the security and confidentiality of the payroll information.

Recommendation

Full access (i.e. edit and read) should be restricted to authorised HR and/or payroll officers in order to ensure the integrity of the payroll system and data. Any other senior officers who are involved in the review process of the payroll should only be granted read only access.

Management Comment

It should be noted that any access, additions, amendments and changes made by users are tracked by the system and able to be audited. The non HR/Payroll officers identified as having full access are senior staff members:

- CEO;
- Director Corporate Services;
- Manager, Information Services; and
- Manager, Financial Services.

While we regard this as highly improbable, we have nonetheless changed their access to enquiry access only:

Following this change, the only officers with full access to the payroll module are:

- Payroll Officer; and
- Finance Team Leader (Payroll Supervisor / Relief Payroll Officer).

The Officers in the HR section have only ever had enquiry access to the payroll module.

Responsible Person: David Ameduri
Completion Date: August 2018

**EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

INVESTMENTS

- 8. "Management of Investment Policy" has not been reviewed by the Council since September 2014**

Finding

Our review of the "Management of Investment Policy" revealed that it has not been reviewed by the Council since 18 September 2014.

Rating: Minor

Implication

An outdated policy may fail to comply with new/amended laws and regulations.

Recommendation

The Council should review the Investment Policy regularly to ensure that it remains relevant and valid and update the policy where it is considered necessary.

Management Comment

The EMRC Council have adopted a review regime of Council Policies to be undertaken every 4 years, 12 months after the Local Government elections.

With the exception of new policies and policies that have required to be reviewed due to legislative changes or other changed circumstances, the EMRC's policies were last reviewed by Council in September 2014.

In line with the aforementioned regime the EMRC's policies will be updated and put to a meeting of council for review this calendar year.

The investment of the EMRC's funds are supported and advised by EMRC's financial advisors, Prudential, who also provide advice and/or recommendations regarding any changes that should be considered to the "Management of Investment Policy".

Responsible Person: David Ameduri
Completion Date: December 2018

**EASTERN METROPOLITAN REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

PURCHASES, PAYMENTS AND CREDITORS

9. Long Outstanding Purchase Orders with Zero Value

Finding

Our review of the outstanding purchase orders listing as at 31 March 2018 revealed that some purchase orders with zero value were outstanding since July 2010.

Our checks revealed that some of these outstanding purchase orders with zero value were completed and require cancellation.

**Rating: Minor
Implication**

Without regular clearing of unwanted purchase orders in the system, there is a risk of misuse of purchase orders to perform unauthorised purchases.

Recommendation

Management should regularly review the outstanding purchase orders and purge unwanted and fulfilled purchase orders from the system. This will ensure that only valid outstanding purchase orders remain in the system.

Management Comment

All outstanding purchase orders including utility orders (UOs) are reviewed at least quarterly. Any unrequired purchase orders (including UOs) are marked either "cancelled" or "completed" whichever the case may be.

All of the purchase orders identified in the audit are UOs.

UOs are used for such payments as utility accounts (electricity, water & telephone charges) and due to the variability of consumption, they have been assigned with a zero value in the accounting system.

To ensure the costs are reviewed, before an invoice can be processed against a UO, the invoice is required to be authorised and signed off by the appropriate Responsible Officer, having regard to the consumption level and the appropriateness of the costs.

Responsible Person: David Ameduri
Completion Date: N/A - Ongoing

Eastern Metropolitan Regional Council



Audit Completion Report to the
Audit Committee
For the Year Ended 30 June 2018

4 October 2018

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1. Executive Summary

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

This report has been prepared for the 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 2018.

1.1 Status of Audit

Our audit field work at the EMRC for the financial year ended 30 June 2018 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	9 April 2018
Interim Audit Management Letter	19 September 2018
Present the Audit Completion Report to the Audit Committee	4 October 2018
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 recommend 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 2018 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 to the extent that they are not inconsistent with the Act, 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 Infrastructure – Other Structures	<p>Regulation 17A(4) of the LG (Financial Management) Regulations 1996 requires Infrastructure assets to be measured at fair value for the year ending 30 June 2018. The EMRC'S Infrastructure asset classes were revalued at fair value by external valuers, APV Valuers at 30 June 2018.</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. Results of the audit procedures conducted did not note any material misstatement of the infrastructure asset classes.</p>

2	Infrastructure – Landfill Cells	<p>EMRC's Landfill Cells were internally revalued at fair value at 30 June 2018. 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>Audit procedures tested on a sample basis:</p> <ul style="list-style-type: none"> • Calculation of amortisation charge for the year based on the volume of material land filled during the year provided by Crossland & Hardy (Consulting Surveyors). • 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 2018.</p> <p>Results of the audit procedures conducted did not note any material misstatement of the Provisions for Site Rehabilitation and Environmental Monitoring.</p>

4	Contingent Liabilities	<p>Contingent liabilities at the reporting date relate to an action by Lehman Brothers in the United States Bankruptcy Court for Federation notes which was also disclosed in the financial report for the year ended 30 June 2018.</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 2021.</p> <p>We have also obtained a management representation letter to confirm that there are no further contingent liabilities required to be disclosed, other than those currently disclosed in the financial report.</p> <p>At this date, we are satisfied with management's disclosure of the contingent liability in the financial report.</p>
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We are satisfied that these key areas of focus have been addressed appropriately based on our audit procedures and are properly reflected in the EMRC's financial report.

4. Assessment of Internal Controls

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

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

Our follow up indicates that the management comments for the interim audit visit conducted during the financial year ended 30 June 2018 are being 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 7.445million 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 2018 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 2019 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 2018. 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. ➤ A few disclosure adjustments to the financial statements have been discussed and amended during the course of our audit. ➤ There was no misstatement which was above our trivial error but below our performance materiality. Therefore no rectification of the error was requested.
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 in Dealing with Management when Performing the Audit such as:	<ul style="list-style-type: none"> ➤ There were no serious difficulties encountered in dealing with management when performing the audit.

<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 	
Fraud and Illegal Acts	<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.
Compliance with laws and regulations	<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.
Other Legal and Regulatory Requirements	<ul style="list-style-type: none"> ➤ We have noted that the Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries standard for the last three years. This matter has been reported in the Independent Auditor's Report under 'Report on Other Legal and Regulatory Requirements'.
Books and records and conduct of the audit	<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.
Other Information in Documents Containing Audited Financial Statements	<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.

Related Party Transactions	➤ None of which we are aware.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	➤ None.
Going concern	➤ As part of our audit, we have assessed and agreed with the conclusions reached by the management concerning the application of the going concern concept.
Independence	<p>➤ We confirm that, as the date of this report, we are independent having regard to professional rules and relevant statutory requirements regarding auditor independence.</p> <p>➤ During the year ended 30 June 2018, our office has not provided any non-audit services to the EMRC.</p>

7. Disclaimer

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

8. Appendix 1 - Proposed Audit Opinion

INDEPENDENT AUDITOR'S REPORT

To the Members of the Eastern Metropolitan Regional Council

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Eastern Metropolitan Regional Council which comprises the Statement of Financial Position as at 30 June 2018, 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 notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Eastern Metropolitan Regional Council:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Council for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Council in accordance with the *Auditor General Act 2006* and the relevant 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 my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996 (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Council is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of the Council.

The Council is responsible for overseeing the Council's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

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

- 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 my 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 CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- 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.

I communicate with the Council and the CEO regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

In accordance with the *Local Government (Audit) Regulations 1996* I report that:

- (i) In my opinion, the following material matter indicates significant adverse trends in the financial position or the financial management practices of the Council:
 - a. The Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries standard for the last three years. The financial ratios are reported at Note 29 to the financial report.
- (ii) All required information and explanations were obtained by me.
- (iii) All audit procedures were satisfactorily completed.
- (iv) In my opinion, the asset consumption ratio and the asset renewal funding ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Eastern Metropolitan Regional Council for the year ended 30 June 2018 included on the Council's website. The Council's management is responsible for the integrity of the Council's website. This audit does not provide assurance on the integrity of the Council's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. 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.

CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
5 October 2018

MACRI PARTNERS

2018 FRAUD & ERROR ASSESSMENT

EASTERN MERTROPOLITAN 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.

The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.

Fraud and Error Assessment – Management

EASTERN METROPOLITAN REGIONAL COUNCIL

FOR THE YEAR ENDED 30 JUNE 2018

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 & guidelines and the overarching principle 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.

The guidelines, policies, systems, controls & processes that are in place are operating effectively and therefore 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 practise and good management. Examples of these management guideline 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 Officer responsible for risk 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 appropriately qualified external organisation and the results of the review have been presented to the Audit Committee and Council each year. The review highlighted 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 this year. The outcome of the last 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 pursues 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.*
- *Whistle-blower 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 includes 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 fraud 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. Where appropriate, the EMRC CEO will report matters 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 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, over the past year, the Public Interest Disclosure policy has also been developed and implemented.

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 that have been 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 2017? If yes, provide details of what occurred and who was involved.

Response:

There have been no instances of actual, suspected or alleged, fraud, within the Council since 1 July 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 2017/2018

Signature:

Name:

Position:

Date:



Peter Bernard Schneider

Chief Executive Officer

23-8-18

Fraud and Error Assessment – Audit Committee

EASTERN METROPOLITAN REGIONAL COUNCIL

FOR THE YEAR ENDED 30 JUNE 2018

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We have performed our Interim Audit risk assessment of your Council in relation to the audit for the year ended 30 June 2018. 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:

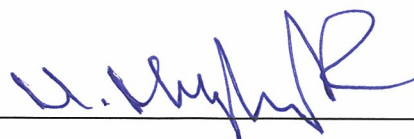
Members of the Audit Committee have the opportunity to ask questions of the CEO and the Internal and/or External Audits on the details outlined in the relevant reports that are presented to the Audit Committee.

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

Response:

There have been no instances of actual, suspected or alleged, fraud, within the Council reported to the Audit Committee in 2017/2018.

Signature:



Name:

Cr Melissa Mykytiuk

Position:

Audit Committee Chairman

Date:

29.8.18.

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 – 2018 PROGRAMME

REFERENCE: D2018/10205

PURPOSE OF REPORT

The purpose of this report is to present the Audit Committee (AC) with the internal audit report of the 2018 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 third year of the four year internal audit programme which commenced in June 2016 for the Contract Management, Human Resource Management and OH&S, Procurement, Corporate Governance, Grants Management and Records Management audit areas.
- The internal audit report covering the above areas is attached and each area has been assessed to be “very good” or “excellent”.

Recommendation(s)

That Council notes the 2018 internal audit reports forming attachments 1 to 6 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 June 2018 for the following audit areas:

- Contract Management;
- Human Resource Management and OH&S;
- Procurement;
- Corporate Governance;
- Grants Management; and
- Records Management.

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

The reports for the 2018 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



Item 11.2 continued

FINANCIAL IMPLICATIONS

The annual budget provides for the internal audit function.

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: Contract Management (Ref: D2018/11732)
2. Internal Audit Report: Human Resources Management and Occupational Safety & Health (Ref: D2018/11684)
3. Internal Audit Report: Procurement (Ref: D2018/11784)
4. Internal Audit Report: Corporate Governance (Ref: D2018/11730)
5. Internal Audit Report: Grants Management (Ref: D2018/11731)
6. Internal Audit Report: Records Management (Ref: D2018/11739)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That Council notes the 2018 internal audit reports forming attachments 1 to 6 to this report.

The CEO provided a brief overview of the areas audited and expressed that he was proud of the areas that received an excellent rating and in particular the OH&S review. Discussion ensued.

Cr McDonnell returned to the meeting at 7:09pm.

Cr Palmer expressed that she was extremely happy with the report provided.

Mr Palassis from Paxon Group thanked staff for their cooperation and helpfulness.

AC RECOMMENDATION(S)

MOVED CR STALLARD

SECONDED CR MCDONNELL

That Council notes the 2018 internal audit reports forming attachments 1 to 6 to this report.

CARRIED UNANIMOUSLY

Eastern Metropolitan Regional
Council

Internal Audit Report:
Contract Management

PAXON GROUP

Private Client Services
Audit and Assurance
Taxation

Perth • Melbourne • Sydney | August 2018 Final

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Executive Summary

Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆
Strengths		Weaknesses		
<ul style="list-style-type: none"> Contract information is recorded accurately and in a timely manner in TRIM; Contracts are renewed and extended on a timely basis to ensure continuity of services; Contract management reports are discussed at management meetings and assist in timely decision making; EMRC's contract management complies with the Local Government Act 1995, Local Government (Functions and General) Regulations 1996 and other relevant regulations; Contracts are managed in accordance with contractual requirements; The General Conditions of Contract used by EMRC are in accordance with the legislative framework; Contract approval and advice is provided to tenderers promptly; Contracts are managed in accordance with the governing contractual requirements, quality control and delivery timeframes; Contract insurance coverage is maintained and extended as required to provide continuity of cover throughout the contractual term; Variations to contracts have been approved at the appropriate level; and There were no instances identified by Paxon of contracts expiring prior to EMRC tendering for continuation of services. 		<ul style="list-style-type: none"> Paxon identified instances where the EMRC Current Contracts spreadsheet and summary sheet had not been updated and contained inaccurate data; The contract management system is presently manually maintained and not integrated with the financial management system. This should be addressed when the Synergy Soft system is fully populated and operational; and There are presently no documented procedures for the contract management process. 		

Overall Report Rating

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

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

New Contract Management System

This audit focused on the period from 1 July 2017 to 30 June 2018. Although the Synergy Soft system had been partially introduced at the end of the audit review period, it is not anticipated that the new system will be fully populated and functional until 30 August 2018. There will also be a requirement for staff training in the new system.

EMRC may wish to consider a follow up audit on Contract Management during 2019 - 2020 once Synergy Soft has become fully operational in order to obtain an independent assessment on its impact and to ensure that the full benefits of the new system are being achieved in practice.

1 Introduction

1.1 Background

Eastern Metropolitan Regional Council ("EMRC") currently has under contract a range of recycling, haulage, maintenance and service delivery contracts.

Due to the comparatively small scale of operations and the nature of the business unit, there is a cross over between the Contract management team and some procurement activities. Procurement is outside of the scope of this present audit but is the subject of a separate internal audit review.

Contract management procedures and operations are required to be compliant with the Local Government Act and Regulations.

The previous internal audit of Contracts Management was conducted in 2016 and was also undertaken by Paxon Group.

1.2 Internal Audit Objectives

As per EMRC's Strategic Internal Audit Plan 2016 – 2019, the overall objectives for this internal audit are to review and provide assurance on the following areas of the contract management process:

- Reliability and integrity of information:
 - Determine whether contracts information is recorded accurately and in a timely manner;
 - Identify if contracts are renewed on a timely basis; and
 - Determine whether contract management reports assist in timely decision making.
- Compliance with legislation and contractual requirements:
 - Determine if contracts are managed in accordance with contractual requirements;
 - Determine if contract requirements are in accordance with applicable legislative requirements; and
 - Identify the process in place to manage contract variations.
- Safeguarding of assets:
 - Determine whether contracts have appropriate and adequate insurance coverage in place for the duration of the contract.

2 Scope

The following processes, risks and management action in response to identified risks were covered in this internal audit:

Process	Key Risks
Contract Management	<ul style="list-style-type: none"> • Compliance with Local Government Act and Regulations; • Contract approval and advice to tenderers, both successful and unsuccessful; • Variations and extensions to contracts; • Adherence to contractual Terms and Conditions; • Insurances: termination of coverage and renewal; • Health, safety and environment factors and compliance by contractor; • Quality control monitoring of contractor performance in accordance with requirements; • Timeliness of contract delivery; • Maintenance and usefulness of the Contracts Register, and • Extensions to contracts and continuity, ie that there is no expiry of existing contracts prior to extensions being approved.

The scope of this present internal audit excludes the following:

- Procurement. This is being covered in a separate internal audit which focuses specifically on the procurement process.

This internal audit covered the period from 1 July 2017 to 30 June 2018.

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
1. Contract Management System <ul style="list-style-type: none"> EMRC currently monitors all of its tenders and contracts via a comprehensive contracts Excel spreadsheet and summary sheet. <p>There was evidence of outdated information in this spreadsheet, eg the EMRC Current Contracts Summary is dated 2012 – 2017. None of the contracts listed on the spreadsheet had up to date certificates of currency. However, in the sample of contracts selected by Paxon, all contracts had current certificates of currency.</p>	Low	<ul style="list-style-type: none"> There is a risk that management could be relying on information that is inaccurate or outdated. 	<ul style="list-style-type: none"> That the Contract Management spreadsheet is reviewed regularly to ensure that it is accurate and kept up to date. 	With the implementation of SynergySoft contracts module this will be very easy to manage as the information will all be assigned to an officer with timelines set.	Manager Administration & Compliance, within 12 months.
2. Contract management system and Finance <ul style="list-style-type: none"> Paxon has identified that there is currently no integrated accounting system of contract management and finance; Presently the following functions are performed manually: <ul style="list-style-type: none"> i. Progress claims; ii. Milestones; 	Low	<ul style="list-style-type: none"> That EMRC could be exposed to financial loss as the monitoring of contracts is not presently linked directly to the financial terms of the awarded contract. 	<ul style="list-style-type: none"> Paxon believes that the current processes undertaken by EMRC are satisfactory due to the small number of contracts that are awarded and their level of complexity; It is noted that EMRC is presently populating the SynergySoft system with a view to having 	Final implantation of all EMRC contracts into SyngerySoft.	Manager Administration & Compliance. <ol style="list-style-type: none"> 1. Data input 30 September 2018 2. Data checking and report testing by 31 October 2018 3. Updating all EMRC staff by 30 November 2018.

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/Timing
iii. Budget monitoring; and iv. Remaining contract value			this system fully operational by the end of August 2018.		
3. There are no documented Contract management procedures or guidelines. • Although EMRC has procedures and guidelines for Purchasing (12/15), Tender Process (12/08/08), Verbal Quotes (07/15) and Written Quotes (07/15) it does not presently have a formalised procedure for contract Management.	Low	• Risk of inconsistent practices; • Risk of non – compliance with requirements, eg accurate and timely recording of contract information.	• A formal documented procedure is produced to cover Contract Management.	EMRC will develop a guideline together with a Business Management System (BMS) for Contract Management	Manager Administration & Compliance 30 November 2018

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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Internal Audit Report:
Human Resource Management and
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Executive Summary

	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆
Process	Strengths		Weaknesses		Rating
Human Resource Management	<ul style="list-style-type: none"> A comprehensive set of policies, management guidelines and templates exist to help manage human resource activities; A register of applicable legislative instruments is kept; A risk register is kept which identifies human resources management risks; A comprehensive register is kept for staff training completed; and A “EMRC Workforce Plan – 2013-2017” exists to help articulate an overall workforce strategy for the EMRC. 		<ul style="list-style-type: none"> A significant number of management guidelines were last reviewed more than five years ago; and 		☆☆☆☆
OS&H	<ul style="list-style-type: none"> Several process documents exist to help manage the EMRC’s Occupational Safety and Health (“OS&H”) environment, including: <ul style="list-style-type: none"> “Occupational Health and Safety Policy”; “Safety Management Plan”; and Several “Management Guidelines”. Roles and responsibilities are clearly defined, documented and communicated with respect to OS&H; Induction training is provided to new employees relevant to the specific needs of their position and to the duties they will perform; The “HR/OH&S – Annual Calendar” schedules numerous activities to pro-actively manage the OS&H environment within the EMRC; and 		<ul style="list-style-type: none"> No weaknesses were noted. 		☆☆☆☆☆

	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆
Process	Strengths		Weaknesses		Rating
	<ul style="list-style-type: none"> Reports are compiled to address incidents and hazards, and which provide detail of inspections performed. 				

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

Employee costs for the 2016-2017 financial year was \$8,044,920. This represents 29 percent of total expenses of \$27,875,583 for the 2016-2017 financial year.

The Human Resources Team ("HR Team") works closely with the CEO and Executive Management Team to develop and provide an environment that motivates staff to perform at optimum levels. The HR Team assists the organisation in achieving the EMRC's vision:

"To be a responsive and innovative leader in assisting Perth's Eastern Region to be a great place to live, work, play and do business"

The HR Team provides leadership and guidance in the development, implementation and equitable administration of HR policies, guidelines and procedures. The HR Team ensures a diverse workforce in a safe and discrimination free environment by maintaining compliance with employment laws, OS&H and other relevant legislation.

The previous internal audit of Human Resource Management and Occupational Safety and Health was conducted in 2016 by the Paxon Group ("Paxon").

1.2 Internal Audit Objective

The overall objective for this internal audit is to provide assurance that effective and efficient controls are in place in respect of Human Resource Management and Occupational Safety and Health ("OS&H").

2 Scope

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

Process	Key Risks
Human Resource Management and OS&H	<ul style="list-style-type: none">• Compliance with legislation;• Lack of awareness;• Not having appropriate policies in place;• Security; and• Completeness of information.

The internal audit covered the period from 1 July 2017 to 30 June 2018.

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 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
Human Resource Management					
1. Management guidelines. <ul style="list-style-type: none"> Paxon has found most management guidelines were not reviewed on the “Next Review” date as stipulated in the management guidelines. As a result, a significant number of management guidelines were last reviewed more than five years ago. 	Low	<ul style="list-style-type: none"> Management guidelines may not record current operational practices within the EMRC. 	<ul style="list-style-type: none"> Management guidelines should be reviewed on the dates stipulated therefore. 	A register of Management Guidelines will be developed containing information regarding review dates. Guidelines will be reviewed as per the time frames.	Manager, Human Resources, within 12 months.

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
Not applicable	

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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Executive Summary

Process	Excellent	Very Good	Satisfactory	Needs Improvement	Not Satisfactory
	★★★★★	★★★★	★★★	★★	★
	Strengths		Weaknesses		Rating
Procurement	<ul style="list-style-type: none"> • A “Purchasing Policy” is in place; • Corporate credit card guidelines are in place; • A pre-numbered electronic purchase order system is used; and • Management reports are produced to help ensure the probity of the procurement process. 		<ul style="list-style-type: none"> • The tender procedure document is outdated and does not comply with legislative stipulations; and 		★★★★

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

The 2016/2017 Annual Report of the Eastern Metropolitan Regional Council ("EMRC") records total expenses of \$27,875,583 and total revenue of \$36,840,260.

Paxon has been engaged by the EMRC to review the Procurement process of the Council.

1.2 Internal Audit Objective

The overall objective for this internal audit of Procurement was to provide assurance effective and efficient controls are in place for the Procurement process of the EMRC.

2 Scope

The following process was covered in the internal audit:

Process	Key Risks
Procurement	<ul style="list-style-type: none">• Efficiency;• Probity on tenders; and• Compliance with Local Government Act and Regulations.

Scope exclusions:

The scope of the internal audit of Procurement excluded the following:

- Contract Management.

The internal audit covered the period from 1 July 2017 to 30 June 2018.

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 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. Tender procedure document.</p> <ul style="list-style-type: none"> Paxon examined the procedure document entitled: “1.3 Tender Process”. (“Tender Procedure Document”). This procedure document was last updated on 19 April 2012; Paxon notes the Tender Procedure Document states: “Note if Tender value is: <ul style="list-style-type: none"> under \$150,000 CEO can approve over \$150,000 needs council approval”; The minutes of an ordinary meeting of Council, held on 15 February 2018 record the CEO can accept tenders: <ul style="list-style-type: none"> Conditional upon provision having been made in the current budget for the purchase of the item or as authorised by Council in advance; and To \$400,000 excluding GST. The Tender Procedure Document states: “Tenders to be opened by Manager Compliance or delegate” <p>This differs from the stipulations of section 16(3)(a)</p>	Low	<ul style="list-style-type: none"> The Tender Procedure Document: <ul style="list-style-type: none"> Is outdated and provides incorrect guidance to users thereof; and Does not comply with the stipulations of the Local Government (Functions and General) Regulations 1996. 	<ul style="list-style-type: none"> The Tender Procedure Document should be updated to: <ul style="list-style-type: none"> Reflect the current operational practices and Council approvals at the EMRC; and Comply with updates of legislative requirements. The Tender Procedure Document should be subjected to a regular review interval. 	<p>The Purchasing Policy, Authorisation of Expenditure Management Guidelines and Tender Request Forms are all correct and reflect the requirements of the <i>Local Government Act 1995</i> and regulations as well as Council resolutions.</p> <p>The current practice for tenders include at least two persons being present and members of the public are entitled to be present and have attended tender openings in the past. As a procurement team member is closely involved in every tender, the risk of breaching internal guidelines and legislative requirements is considered minimal, however management agrees that the Tender Procedure Document in the Business Management System should be updated</p>	<p>Manager Administration & Compliance</p> <p>31 October 2018</p>

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Action	Ownership/ Timing
<p>and (b) of the Local Government (Functions and General) Regulations 1996 which stipulates:</p> <ul style="list-style-type: none"> o At least two persons must be present when tenders are opened; and o Members of the public are entitled to be present. 					

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
Procurement	• None

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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Executive Summary

Process	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆
	Strengths		Weaknesses		Rating
Corporate Governance	<ul style="list-style-type: none"> Strategic Internal Audit Plan. External and Internal Audit Program. Audit Committee that meets regularly and as per a timetable. Terms of Reference for the Audit Committee. Existence of a Risk Management Policy, Strategic Risk Management Plan and a Risk Register that is reviewed and monitored regularly. The Risk Management function is conducted in accordance with ISO 31000 -2009. Annual Returns for all Senior Employees have been completed in accordance with the Local Government Act (1995) and Regulations. Register of Disclosure of Interest and Gifts have been maintained as per the Local Government Act (1995) and Regulations. Existence of a Code of Conduct; EMRC's Integrated Planning Framework has been developed in accordance with the Department of Local Government and Communities (DLGC), Framework & Guidelines, (September 2016). EMRC is effectively reporting against these Long Term Plans to Council. The Annual Compliance Return (CAR) was completed and submitted to the DLGC within the applicable timeframes with full compliance noted. Evidence of an induction program for all newly elected members. 		<ul style="list-style-type: none"> None 		☆☆☆☆☆

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

1 Introduction

1.1 Background

The 2016/2017 Annual Report of the Eastern Metropolitan Regional Council (“EMRC”) identifies “Good Governance” as one of the three Key Results Areas for the Council. The results were focused on:

- Continue to implement the Regional Advocacy Strategy;
- Coordinate Council and Committee Elections; and
- Update Council Policies.

1.2 Internal Audit Objective

The overall objective for this internal audit of Corporate Governance was to provide assurance that the Governance framework is effective, appropriate and complies with legislation.

2 Scope

The following processes was covered in the internal audit:

Process	Key Risks
Corporate Governance	<ul style="list-style-type: none">• Register of Interest being out of date; and• New Councillors not being fully informed about their roles and responsibilities about the EMRC; and• Ensure compliance with applicable legislation.

The internal audit covered the period from 1 July 2017 to 30 June 2018.

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 Governance Review

EMRC have developed a detailed and effective program for the management of Corporate Governance.

In reviewing the Corporate Governance framework Paxon utilised the methods within the following industry benchmarks:

- The Institute of Internal Auditors of Australia, *International Standards for the Professional Practice of Internal Auditing (Standards)* Standard 2110: Governance.
- ISO 31000, Risk Management – Principles and Guidelines.

We can determine that EMRC Governance Process has achieved the following objectives:

- Promoting appropriate ethics and values within the Council;
- Ensuring effective organisational performance management and accountability;
- Effective communicating risk and control information to appropriate business areas of the Council; and
- Effective coordination and communication of the activities and information among the Council, management and internal and external auditors.

The Executive Summary explains the list of strengths within the Governance Framework.

5.1 Governance Management

It is noted from our review that the Corporate Governance approach taken by EMRC is an active function and is constantly part of the ethos of the organisation.

EMRC should ensure that it stays a foot of the changing landscape within Local Government in Western Australia. With the recent announcement (1/08/2018) of the Local Government Act (1995) review by the Minister for Local Government, the proposed changes will affect the compliance requirements of items within EMRC's Governance Framework. Some of the key reforms include the following:

- Universal training for candidates and council members.
- Better standards of behaviour.
- Improvements to CEO recruitment and performance review.
- Simplified gift framework.

At present these proposed changes are still in consultation, but the proposed amendments have already gathered significant support. It is recommended that EMRC should ensure that any future amendments (once legislated) to the Act are included within their current Governance Framework and Policies.

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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Executive Summary

Process	Excellent	Very Good	Satisfactory	Needs Improvement	Not Satisfactory
	★★★★★	★★★★	★★★	★★	★
	Strengths		Weaknesses		Rating
Grants Management	<ul style="list-style-type: none"> A “Grant Suitability Assessment Matrix” is completed for grants; A management guideline and a comprehensive set of procedure documents exist; and A “Grants Register” is kept which records details of both successful and unsuccessful grant applications. 		<ul style="list-style-type: none"> A Grants Process Checklist is not completed for every grant received. 		★★★★★

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

Grants, subsidies, and contributions amounted to \$2,340,762 during the 2016/2017 financial year. This represented 6.35% of total revenue for the 2016/2017 financial year.

Paxon has been engaged by the EMRC to review the Grants Management 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 Grants Management:

- Tracking of grants received or proposed;
- Acquittal of grant funding; and
- Audit of grant expenditure for final report.

The overall objective for this internal audit of Grants Management was to provide assurance effective and efficient controls were in place to address the identified risks disclosed above.

2 Scope

The following process was covered in the internal audit:

Process	Key Risks
Grants Management	<ul style="list-style-type: none">• EMRC does not capitalise on opportunities to obtain grant funding;• Incomplete tracking of grants received or proposed;• Incorrect and/or incomplete acquittal of grant funding; and• Audit of grant expenditure.

The internal audit covered the period from 1 July 2017 to 31 May 2018.

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 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
1. Grants Process Checklist. <ul style="list-style-type: none"> • Paxon examined a sample of grants included in the EMRC's "Grants Register" for 2017-2018; • Paxon could not find, nor was the EMRC able to provide upon request, "Grants Process Checklists" ("Checklist") for the following grants: <ul style="list-style-type: none"> ◦ Creating a Capable Community in NRM; ◦ Enhancing Biodiversity and Protecting Water Quality in Perth's Eastern Region; and ◦ Healthy Wildlife Healthy Lives. • Paxon notes two of the above-mentioned grants have not been acquitted; and • Paxon examined the Checklist and found it to be an excellent grant management tool. 	Low	<ul style="list-style-type: none"> • Non-completion of a Checklist creates the risk not all grant management activities will be performed. 	<ul style="list-style-type: none"> • The EMRC should initiate the completion of a Checklist when a grant is awarded; • This Checklist should be updated on a continuous basis as the sequential grant management activities are completed; and • The completed Checklist should be captured in the TRIM system. 	The team acknowledges the findings and has put in place measures to ensure all grants include the necessary checklists and follow the established processes.	Director Regional Services – immediate.

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	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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Executive Summary

	Excellent	Very Good	Satisfactory	Needs Improvement	Unsatisfactory
	★★★★★	★★★★	★★★	★★	★
Process	Strengths		Weaknesses		Rating
Records Management	<ul style="list-style-type: none"> EMRC has developed a Recordkeeping Plan (RKP) which has been approved by the State Records Commission; EMRC has produced a Records Disaster Prevention and Recovery Plan which has been acknowledged by the State Records Commission; and EMRC's record keeping is compliant with the State Records Act 2000 and Australian Standards. 		<ul style="list-style-type: none"> Policies and procedures require updating; EMRC's Records Officer left in January 2018 and has not been replaced. During this time some functions required to be undertaken are still outstanding. Some of the issues raised by the State Record Commission in 2015 have not been actioned; and There is no FoI procedure, checklist or other means of monitoring compliance with an FoI request. 		★★★★

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 – Recordkeeping Plan 2015” states that the purpose of the Eastern Metropolitan Regional Council’s (EMRC) Recordkeeping Plan (RKP) is to set out how EMRC keeps its records: “The RKP is to provide an accurate reflection of the recordkeeping programme within the organisation, including information regarding the organisation’s recordkeeping system(s), disposal arrangements, policies, practices and processes. The RKP is the primary means of providing evidence of compliance with the Act and the implementation of best practice recordkeeping within the organisation.”

The EMRC’s Strategic Internal Audit Plan for the period 2016 – 2019 schedules an internal audit review of Records Management to be undertaken in 2018. Paxon Group (“Paxon”) has undertaken an Internal Audit review to examine the Record Management Process at 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 risk for Records Management:

- Compliance with policies and legislation re: State Records Act 2000.

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

- Determine the extent to which legislation, Australian standards, policies and procedures have been complied with.

To comply with the objectives of the EMRC Strategic Internal Audit Plan, the overall objective for this internal audit of Records Management is to:

- to determine the extent to which legislation, Australian Standards, policies and procedures have been complied with;
- to assess the adequacy of the control environment in ensuring compliance with the above; and
- to identify systems weaknesses and instances of non-compliance.

2 Scope

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

Process	Key Risks
Records Management	<ul style="list-style-type: none">• Non-compliance with legislation and Standards, ie the State Records Act 2000; and• Non-compliance with policies and procedures.

The internal audit covered the period from 1 July 2017 to 31 May 2018.

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;
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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 Plan	Ownership/Training
1. Records Officer responsibilities. <ul style="list-style-type: none"> The EMRC Records Officer departed in early January 2018 and has not been replaced. The objective of the Records Officer position is to maintain and administer an efficient and effective records management system in line with legislative requirements; to maintain the integrity of the Records Management System; and to assist all EMRC business units to implement and use the records management system in accordance with the State Records Act and other related requirements. Responsibilities of this vacated position include: providing staff training; preparing user guides; assisting in developing policies and procedures; ensuring recommended actions from the Records Keeping Manual were implemented; administering the records management system control records; and conducting file tracking and control procedures including records audits. It is not clear that all responsibilities formerly exercised by the Records Officer have been allocated to other staff or have been undertaken since the departure. 	Low	<ul style="list-style-type: none"> Since the vacating of the Records Officer position, there is an increased risk that the integrity of the records management system may be compromised. There is a greater risk that EMRC fails to meet its legislative requirements under the State Records Act 2000. Roles and responsibilities contained in the Records Officer Position Description are not being undertaken nor allocated to another officer. There have been delays in satisfying areas for improvement identified in the RKP, eg staff survey on use and effectiveness of recordkeeping and training by June 2016; a Records Procedure Manual by December 2016 (both RKP 6.5) and also several policies and guidelines have not been completed or updated. 	<ul style="list-style-type: none"> The position of Records Officer is filled at the earliest opportunity. In the interim all functions pertaining to the Records Management be distributed to appropriate resources (either internally or externally) to ensure ongoing compliance. 	<p>The Records Officer retired in January 2018. Following a review of the role, it was assessed that the position was not required as day- to-day responsibilities could be assigned to existing staff. While the job functions of the Records Officer role have been provisionally allocated to existing staff, they are being monitored to ensure its effectiveness.</p> <p>Once management is assured of the appropriateness of this arrangement, the assignment of the responsibilities will be formalised in the position descriptions by October 2018.</p> <p>There is also provision in the 2018/2019 budget to bring in specific records management expertise that may be required from time to time.</p>	Manager Information Services
2. Issues raised by The State Record Commission in their approval of the 2015 RKP have not yet been	Low	<ul style="list-style-type: none"> EMRC advised Paxon that although these points are outstanding, there are plans in 	<ul style="list-style-type: none"> Paxon recommends that the outstanding actions raised in the attachment 	<p>The target date for these as per the State Records Commission is 7 August 2020.</p>	Manager Information Services

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Plan	Ownership/Training
<p>addressed.</p> <p>The following required actions were raised by the SRC in the attachment to their approval of the RKP in August 2015:</p> <ul style="list-style-type: none"> Development of a Records Procedure Manual and a Records Management Policy (Management Guideline); Evidence that the CEO has certified all updated recordkeeping policies and procedures; An estimate of the quantity of State archives held in onsite and offsite storage locations; and Development of a staff survey eliciting feedback on use and effectiveness of recordkeeping system/training. 		<p>place to attend to them during the period prior to the deadline requirement. The deadline for several of these points is not until the submission of the RKP for approval in August 2020.</p> <ul style="list-style-type: none"> Although development of guidelines, and staff surveys may not necessarily require actioning until 2020, these are nonetheless important tools in promoting compliance with record keeping requirements. 	<p>to the State Record Commission approval of the RKP in August 2015 are actioned as soon as practically possible.</p>	<p>Significant work has been done in developing the Records Disaster Recovery procedures which was identified as a high risk / high priority area. This was completed.</p> <p>Plans are in place to ensure meeting those other identified actions before the target date.</p>	
<p>3. There is no documented FOI procedure nor checklist</p> <ul style="list-style-type: none"> There is no documented FOI procedure nor checklist for ensuring FOI applications are dealt with efficiently by the deadline date and demonstrating compliance with the FoI Act. There has historically been a low level of FoI applications received by EMRC with only one FoI application received by EMRC in the period under review. 	Low	<ul style="list-style-type: none"> EMRC may not be able to demonstrate compliance with the FOI Act. Guidelines are not available for staff to act on in the absence of the FoI Officer 	<ul style="list-style-type: none"> FOI Guidelines and a Checklist are produced. 	<p>Over the past 5 years the EMRC has received only one FOI claim.</p> <p>The Office of the Information Commissioner provides an extremely comprehensive flowchart that is kept updated and linked to supporting material. (https://www.oic.wa.gov.au/en-au/FA001).</p> <p>The EMRC considers that comprehensive in-house guidelines and checklist would be subject to review each time an FOI claim was processed to ensure they were up to date.</p>	Manager Administration & Compliance

Business Issue	Risk Rating	Implication	Recommendation	Agreed Management Plan	Ownership/Training
				It is agreed that an FOI guideline will be produced outlining the basic process and directing staff to this flowchart.	

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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11.3 CEO REVIEW OF RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE

REFERENCE: D2018/11600

PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee the Chief Executive Officer's report on the appropriateness and effectiveness of the EMRC's systems in regard to risk management, internal control and legislative compliance for its consideration and referral to Council.

KEY ISSUES AND RECOMMENDATION(S)

- Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the Chief Executive Officer to review and report on the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance at least once every two calendar years.
- The review has determined that the EMRC has in place appropriate and effective systems, policies and procedures, as well as sound internal controls and audits by external parties to ensure the EMRC meets its obligations with regards to risk management, internal control and legislative compliance obligations.

Recommendation(s)

That the report be received.

SOURCE OF REPORT

Chief Executive Officer

BACKGROUND

The *Local Government (Audit) Regulations 1996* were amended in February 2013 to extend the functions of local government Audit Committees. Regulation 17 was introduced requiring the Chief Executive Officer to review the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance.

The review process is to occur at least once every two calendar years, with the first review to be completed by the Chief Executive Officer, and to be reported to the Audit Committee by 31 December 2014.

The first review was reported to the Audit Committee on 4 September 2014 (D2014/10145). The review determined that the EMRC has in place appropriate and effective systems, policies and procedures, as well as sound internal controls and audits by external parties to ensure the EMRC meets its obligations with regards to risk management, internal control and legislative compliance obligations.

At the Audit Committee (AC) meeting held on 10 March 2016 (Ref: D2016/03760), the Committee endorsed a Strategic Internal Audit Plan 2016-2019 (SAIP), which was subsequently adopted by Council at its meeting of 24 March 2016. As part of the SAIP, the Internal Auditor is to assist and support the CEO with the review to meet the requirement of the r.17 of the Audit Regulations. The last review was received by the Audit Committee on 8 September 2016 (D2016/13225).



Item 11.3 continued

REPORT

In accordance with the requirements of r.17 of the *Local Government (Audit) Regulations 1996*, a review of the appropriateness and effectiveness of the systems and procedures relating to risk management, internal control and legislative requirements was undertaken.

The outcome of the review, forming an attachment to this report, was conducted by the EMRC's Auditors, Paxon Group. It was concluded that "... the EMRC has the appropriate and effective local government systems and procedures in place to comply with Regulation 17."

It is thus considered that the systems and procedures related to risk management, internal control and legislative compliance are both appropriate and effective.

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 3 – Good Governance

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

FINANCIAL IMPLICATIONS

Nil

SUSTAINABILITY IMPLICATIONS

Nil

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)

Review of Risk Management Internal Control and Legislative Compliance (Ref: D2018/11748)

VOTING REQUIREMENT

Simple Majority



Item 11.3 continued

RECOMMENDATION(S)

That the report be received.

The CEO provided a brief overview of the report and expressed that the analysis done by Paxon Group on Risk Management, Internal Control and Legislative Compliance indicated that the EMRC systems and procedures were both appropriate and effective to the organisation. Discussion ensued.

Mr Palassis departed the meeting at 7:32pm.

AC RECOMMENDATION(S)

MOVED CR MCDONNELL

SECONDED CR PALMER

That the report be received.

CARRIED UNANIMOUSLY

Eastern Metropolitan Regional
Council

Review of Risk Management, Internal
Control and Legislative Compliance

PAXON GROUP

Private Client Services
Audit and Assurance
Taxation

Perth • Melbourne • Sydney | August 2018 – Final Version
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Executive Summary

Paxon has undertaken a review of the Risk Management, Internal Controls and Legislative compliance of the Eastern Metropolitan Regional Council ("EMRC"), as per Regulation 17 of the Local Government (Audit) Regulations 1996.

Paxon can confirm that EMRC has the appropriate and effective local government systems and procedures in place to comply with Regulation 17.

1 Introduction

1.1 Background

Regulation 17 of the Local Government (Audit) Regulations 1996 require the Chief Executive Officer (CEO) to review risk management, internal control and legislative compliance and to report the results of that review to the Audit and Risk Committee. Each of these matters is to be reviewed at least once every two calendar years.

An extract from the Local Government (Audit) Regulations 1996 is as follows:

The CEO is to review certain systems and procedures

1. The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:
 - a. Risk Management;
 - b. Internal Control;
 - c. Legislative Compliance.
2. The review may relate to any or all of the matters referred to in sub regulation 1(a), (b) and (c), but each of those matters is to be the subject of a review at least once every two (2) calendar years.
3. The CEO is to report to the audit committee the results of that review.

For this review, Paxon has undertaken a review on all three areas.

2 Review Findings

Area of Compliance	Systems and Procedures
Risk Management	<p>The EMRC's Risk Management Framework includes the following cyclical steps:</p> <ul style="list-style-type: none"> • Identification of risk management objectives (Policy); • Compilation of a risk management plan and implementation of a risk management program; • Updating of risk registers and risk treatment action plans and documentation on an annual basis; • Monitoring and reporting of risks; and • Reviewing of risk management objectives. <p>The framework for the development of the risk management program includes the following cyclical steps:</p> <ul style="list-style-type: none"> • Holding annual risk identification workshops (per individual business Units and the Management Group). These workshops present and review incidents, claims, litigation etc. and identify new risks; • Evaluating risks which involves: <ul style="list-style-type: none"> ○ Prioritising risks; ○ Considering risk treatments; and ○ Allocating ownerships. • Updating system documentation which includes plans and procedures; • Holding meetings by the Risk Management Steering Group to review and monitor progress and consider emerging issues; • Updating system documentation based upon the results of the Risk Management Steering Group reviews; • Commissioning external audit performance reviews (External and Internal; and • Reporting to the Audit Committee. <p>The outcome of the framework work is an endorsed Risk Management Plan and Strategic Internal Audit Plan.</p> <p>As the three-year Strategic Audit Plan (2016-2019) is coming to a close, it is recommended that</p>

Area of Compliance	Systems and Procedures
	<p>Management begin the process of preparing the next Strategic Audit Plan.</p>
Internal Controls	<p>The control framework within EMRC, which is reviewed through the Risk Management Plan and via External and Internal Audits includes the following features:</p> <ul style="list-style-type: none"> • Delegation of authority; • Documented policies and procedures, reviewed and maintained regularly; • Trained and qualified employees; • System controls, via sophisticated electronic systems; • Effective policy and process review; • Mitigate against frauds and misstatements; • Documentation of risk identification and assessment; and • Regular liaison with auditors and legal advisors.
Legislative Compliance	<p>The audit objectives as included in the “EMRC – Strategic Internal Audit Plan – 2016 – 2019” include “Compliance” as a primary objective. The sub focus of this primary objective is:</p> <ul style="list-style-type: none"> • Policies; • Plans; • Procedures; • Laws; and • Regulations. <p>This primary (audit) objective is included for all the auditable areas across 2016 to 2019. Compliance with legislative instruments is also disclosed as a risk for the majority of the auditable areas across 2016 to 2019. As such, this risk is reviewed and monitored through the various internal audit and external audits that are conducted on an annual basis, which is reported through to Management, Audit Committee and Council.</p> <p>As such there have been no reports of any legislative non-compliance for the period for the past two years.</p>

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12 REPORTS OF STRATEGIC RISK STEERING GROUP

12.1 Minutes of the Strategic Risk Steering Group Meeting Held On 22 August 2018

The Minutes of the Strategic Risk Steering Group meeting held 22 August 2018 accompany and form part of this agenda.

RECOMMENDATION(S)

That Council notes the Minutes of the Strategic Risk Steering Group meeting held 22 August 2018.

AC RESOLUTION(S)

MOVED CR MCDONNELL

SECONDED CR STALLARD

THAT COUNCIL NOTES THE MINUTES OF THE STRATEGIC RISK STEERING GROUP MEETING HELD 22 AUGUST 2018.

CARRIED UNANIMOUSLY

STRATEGIC RISK STEERING GROUP MINUTES

Wednesday, 22 August 2018 – 10:00am - ASCOT PLACE

1. ATTENDANCES

Peter Schneider
Hua Jer Liew
Stephen Fitzpatrick
Wendy Harris
David Ameduri
Annie Hughes-d'Aeth

Chief Executive Officer
Director Corporate Services
Director Waste Services
Director Regional Services
Manager Financial Services
PA Director Corporate Services (Minutes)

2. APOLOGIES

Nil

3. CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING

That the minutes of the Strategic Risk Steering Group meeting held on the 11 May 2018 which have been distributed, were confirmed.

4. STRATEGIC RISK EXPOSURES

4.1 Projects/Contracts

Resource Recovery Facility

The Director Waste Services provided a brief update on the Resource Recovery Facility (RRF) Project. Environmental approval is progressing with the EPA.

Wood Waste To Energy (WWTE) Plant

The Director Waste Services advised the following:

- WWTE proceeding with procurement, acquisition of plant and equipment. Practical completion and commission of plant is estimated for early November 2018.
- Operation and maintenance contract currently in discussions.

4.2 Market Place

Director Waste Services advised that WALGA will be holding a briefing session on Friday 24 August 2018 to discuss the impact on recyclable waste collections now that China has banned the import of contaminated recycling waste from Australia.

4.3 Reputation/ Image

No matters reported.

4.4 Environmental

No matters reported.

4.5 Political

Director Waste Services advised that the State Waste Strategy Review was due to be released for comment.

4.6 Liability

Nil

5 RISK MANAGEMENT SYSTEM

5.1 Internal Audit Process

Director Corporate Services summarised the findings and ratings of this years' internal Audit.

5.2 Key Changes To System / Framework

Director Corporate Services advised the new single touch payroll module is being implemented with submissions to be made to the Australian Tax Office after every pay.

Director Corporate Services and Manager Financial Services provided a brief overview of the process and the impact on the EMRC .

5.3 Regulatory Environment

External Audit

Director Corporate Services advised the Annual Financial statements are currently being audited and will be finalised for tabling at the 6 September 2018 Audit Committee meeting.

Manager Financial Services advised that the Auditor's report will be received the day after the Audit Committee meeting.

5.4 Business Continuity Planning

Last updated May 2018. To be distributed to members of Executive Management Team.

It is noted that the Business Continuity Planning was distributed in May 2018. The Manager Financial Services will distribute a copy to EMT for review and feedback at the next SRSG meeting.

5.5 Insurance Program

An update of the outcomes of the 2018/2019 Insurance Renewal Program was provided by the Manager Financial Services.

5.6 Risk Management Culture

No matters reported.

5.7 System Performance

There were 4 workers compensation claims in 2017/18 compared to 3 claims in the previous year. The total YTD new workers compensation claim is 1.

Directors are requested to continue to reinforce responsible officers to utilise the Risk Management module to ensure risks identified are treated and managed.

6 CONSIDERATION OF REPORTS

Nil

7 DATE AND TIME OF NEXT MEETING

The Group discussed scheduling another meeting prior to the end of the year with the date and time to be advised.

8 CLOSE OF MEETING

The meeting closed at 10:52am.



13 REPORTS OF DELEGATES

Nil

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

Nil

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

Nil

16 FUTURE MEETINGS OF THE AUDIT COMMITTEE

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

“4 Meetings

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

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

Future Meetings 2018

Thursday 22 November (if required) at EMRC Administration Office

The Chairman thanked the EMRC staff for going above and beyond with their response in answering questions in a timely manner.

17 DECLARATION OF CLOSURE OF MEETING

There being no further business the meeting was closed at 7:35pm.