



## MINUTES

### CERTIFICATION OF CONFIRMATION OF COMMITTEE MEETING MINUTES

5 SEPTEMBER 2013

I, Cr Steve Wolff hereby certify that the following minutes [pages 1 to 83] of the Meeting of **AUDIT COMMITTEE** held on 5 September 2013 were confirmed at a meeting of the Committee held on 6 March 2014.

A handwritten signature in black ink, appearing to read 'S.K. Wolff', written over a horizontal line.

**Signature**

Cr Steve Wolff

**Person presiding at the Committee Meeting held on 6 March 2014**

**AUDIT COMMITTEE**

**MINUTES**

**5 September 2013**

**(REF: COMMITTEES-15975)**

A meeting of the Audit Committee was held at the EMRC Administration Office, 1<sup>st</sup> Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 5 September 2013**. The meeting commenced at **6:30pm**.

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## 1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Acting Chairman, opened the meeting at 6:30pm and welcomed Mr Terry Tan and Mr Mit Gudka from Macri Partners along with Mr James Cottrill from Stantons International.

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

### Councillor Attendance

Cr David Färdig ( <b>Acting Chairman</b> )	EMRC Member	City of Swan
Cr Gerry Pule	EMRC Member	Town of Bassendean
Cr Frank Lindsey	EMRC Member	Shire of Kalamunda
Cr Tony Cuccaro (Deputising for Cr Pilgrim)	EMRC Member	Shire of Mundaring

### Apologies

Cr Janet Powell ( <b>Chairman</b> )	EMRC Member	City of Belmont
Cr Graham Pittaway OAM	EMRC Member	City of Bayswater
Cr Alan Pilgrim	EMRC Member	Shire of Mundaring

### EMRC Officers

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

### Visitors

Mr Terry Tan	Macri Partners
Mr Mit Gudka	Macri Partners
Mr James Cottrill	Stantons International

## 3 DISCLOSURE OF INTERESTS

Nil

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

Nil

## 5 PETITIONS, DEPUTATIONS AND PRESENTATIONS

Nil



**6 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

**6.1 MINUTES OF AUDIT COMMITTEE MEETING HELD ON 6 JUNE 2013**

That the Minutes of the Audit Committee meeting held 6 June 2013, which have been distributed, be confirmed.

**AC RESOLUTION(S)**

MOVED CR PULE

SECONDED CR LINDSEY

THAT THE MINUTES OF THE AUDIT COMMITTEE HELD ON 6 JUNE 2013, WHICH HAVE BEEN DISTRIBUTED, BE CONFIRMED.

**CARRIED UNANIMOUSLY**

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

Nil

**8 QUESTIONS BY MEMBERS WITHOUT NOTICE**

Nil

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

Nil

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

Nil



## 11 REPORTS OF EMPLOYEES

### 11.1 INTERNAL AUDIT REPORT PROGRAMME 2012/2013

**REFERENCE: COMMITTEES-15976**

#### PURPOSE OF REPORT

The purpose of this report is to present the Audit Committee (AC) with the internal audit report of the 2012/2013 internal audit programme.

#### KEY ISSUES AND RECOMMENDATION(S)

- At the September 2011 round of meetings, Council endorsed a four year internal audit programme consisting of 16 auditable areas.
- This year represents the second year of the internal audit programme which commenced in May 2013 for the Accounts Payable, Corporate Governance, Grant Management and Risk Management audit areas.
- The internal audit report covering each of the above areas is attached and has been assessed with overall ratings of very good and no major issues identified.

#### Recommendation(s)

That Council notes the internal audit report forming the attachment of this report.

#### SOURCE OF REPORT

Director Corporate Services

#### BACKGROUND

At the Audit Committee (AC) meeting held on 22 September 2011 (Ref: Committees-13105), the Committee endorsed a four year audit programme, which was subsequently adopted by Council at its meeting of 22 September 2011.

The four year programme consists of:

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



*Item 11.1 continued*

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

## REPORT

The internal audit programme for this year commenced in May 2013 for the following audit areas, specifically:

- Accounts Payable;
- Corporate Governance;
- Grant Management; and
- Risk Management.

The overall assessments of the quality of management controls for the Accounts Payable, Corporate Governance and Grant Management audit areas were very good with no issues identified.

As the EMRC is currently in the process of transitioning to a new computerised risk management system which is ISO 31000:2009 compliant, the Internal Auditor has not provided an assessment of the quality of management control for the Risk Management audit area.

The report for the 2012/2013 internal audit programme is attached.

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

## STRATEGIC/POLICY IMPLICATIONS

Key Result Area 4 – Good Governance

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

## FINANCIAL IMPLICATIONS

The annual budget provides for the internal audit function.



*Item 11.1 continued*

### **SUSTAINABILITY IMPLICATIONS**

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

### **MEMBER COUNCIL IMPLICATIONS**

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

### ATTACHMENT(S)

Internal Audit Report August 2013 (Ref: Committees-16001)

### VOTING REQUIREMENT

Simple Majority

### **RECOMMENDATION(S)**

That Council notes the internal audit report forming the attachment of this report.

The CEO summarised the report and discussion ensued.

### **AC RECOMMENDATION(S)**

MOVED CR PULE

SECONDED CR CUCCARO

That Council notes the internal audit report forming the attachment of this report.

**CARRIED UNANIMOUSLY**

**Stantons International**

Chartered Accountants and Consultants

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**Internal Audit Report**

**August 2013**

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## 1.0 SUMMARY OF FINDINGS

Auditable Area	Summary of Findings
Accounts Payable	There were no findings identified with regards to Accounts Payable.
Grant Management	There were no findings identified with regards to Grants Management
Risk Management	We identified that most of the risks reviewed in the risks register only indicated that there was only one cause and one control for each risk cause identified. In our assessment the risk appeared to have more than one cause. In reality the risks are likely to have more than one cause and one control designed to reduce the overall impact of the risk to acceptable levels should they occur
Corporate Governance	There were no findings identified with regards to Corporate Governance

## 2.0 AUDITABLE AREAS

The 2012- 13 Internal Audit was related to the following auditable areas:

- Accounts Payable
- Grant Management
- Risk Management
- Corporate Governance

Refer to section 4.0 for the detailed scope and objectives related to each broad auditable area listed above.

**3.0 RISK RATINGS AND INTERPRETATION**

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

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**Inherent Limitations**

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

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

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

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

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## 4.0 SUMMARY OF OBSERVATIONS

The sections below provide a summary of the areas assessed in our audit fieldwork.

### 4.1 ACCOUNTS PAYABLE

#### 4.1.1 Quality of Management Control

<b><u>Quality of Management Control:</u></b>	<input type="checkbox"/>	Excellent	<b><u>Overall Risk</u></b>	<b>Low</b>	<input checked="" type="checkbox"/>
	<input checked="" type="checkbox"/>	<b>Very Good</b>	<b><u>Exposure</u></b>	Medium	<input type="checkbox"/>
	<input type="checkbox"/>	Satisfactory	(considering	High	<input type="checkbox"/>
	<input type="checkbox"/>	Needs Improvement	controls in place)		
	<input type="checkbox"/>	Unsatisfactory			

#### 4.1.1 Scope and Objectives

<b><u>Audit Scope</u></b>	<p>The scope of this audit covered the following:</p> <ol style="list-style-type: none"><li>1. Local Government (Financial Management) regulations 1996 (r.11)</li><li>2. Local Government (Functions and General) regulations 1996 (r.11A)</li><li>3. Purchases in compliance with purchasing policy</li><li>4. Segregation of duties in both manual and electronic processing environments</li><li>5. Timeliness of payments of accounts</li><li>6. Payments within financial delegation</li><li>7. Prevention and detection of unauthorised payments (duplicates, overpayments and fictitious payments)</li><li>8. EMRC reconciliation process.</li></ol>
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<b><u>Audit Objectives:</u></b>	<p>The objectives of the audit were to review processes over:</p> <ol style="list-style-type: none"><li>1. Compliance with the Local Government regulations and internal policies.</li><li>2. Existence, effectiveness and adequacy of controls in relation to the Purchasing and Accounts Payable function at EMRC.</li></ol>
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#### 4.1.2 Detailed Audit Assessment

We performed audit procedures to determine the adequacy and appropriateness of controls in relation to the Accounts Payable financial cycle. This function is responsible for facilitating activities to do with purchasing and payments to suppliers for goods and services obtained by EMRC to achieve its daily operational objectives. Like any other activities with EMRC, controls are dictated by policies and procedures which are reflective of the Act and the regulations. As such our audit assessed the Accounts Payable function for compliance with the appropriate sections of the relevant legislation. *Local Government (Financial Management) Regulations 1996* 'Payment of Accounts' (r.11) provides for both the Purchasing policy and requirements for payments of accounts. Our assessment of the policy with regards to accounts payable indicated that it is a well-structured and detailed policy that provided for segregation of payment thresholds based on monetary values. It provides for further instructions on other purchasing provisions such as purchasing for contracted services.

Further detailed tests were performed to ensure that the provisions of the regulations and statement of the policy are well implemented. Tests were based on a sample extracted from a population of expenses incurred in the financial year (1 July 2012 to the time of the audit in April 2013). Below are the audit tests performed to determine if:

- Invoice/Document is addressed to EMRC and has been approved by an authorising officer
- Remittance advices agree to the corresponding invoice and other relevant documentation
- Invoices for services rendered were paid on a timely manner (within 30 days)
- GST was appropriately accounted for
- Purchase orders were raised where applicable and that details on the purchase order agreed to the invoice
- Invoice has been coded and signed by authorising officer
- Supporting documentation has been stamped 'POSTED', dated and signed
- Expenditure relates to EMRC or expenditure occurred within EMRC's policies.

In addition to the tests performed above, we determined the adequacy of controls around expenditure for:

##### Segregation of duties

We independently obtained the Synergysoft user access list from and assessed for compliance with policy delegations of authority. We assessed also to determine if Finance had the capability to change delegations of authority in the system. It was pleasing to note that only the IT section had the authority and capability to change any access/authority to different parts of the Synergysoft system at EMRC. Only the finance team has access to the creditors listing, and any changes to the creditors listing has to be approved by the finance team leader or the finance manager. Further review of segregation of duties indicated that an authorising officer has the ability to both raise a requisition and convert it to a purchase order provided it is below their credit limit. This does not pose any risk given the existing controls in place but may need to be reviewed for appropriateness.

##### Duplicate invoice testing

Using one of the invoice numbers from our sample of expenditure for testing purchases and payments above, we tested the Synergysoft system's ability to detect and report on duplicate invoices. We attempted to process the same invoice number into the Synergysoft system. A notification came up on screen in red stating this invoice number has been used and would not let us process the invoice into the system again confirming the controls in place.

#### Authority around bank payments

We assessed controls around the disbursements of funds to ensure that only appropriate persons are listed on the system for authorising payments. We also assessed this appropriateness by tracing the listed personnel to the payment documents. There were no issues noted.

In general we noted the controls around Accounts Payable have been implemented effectively by staff.

## 4.2 GRANT MANAGEMENT

### 4.2.1 Quality of Management Control

<b><u>Quality of Management Control:</u></b>	<input type="checkbox"/>	Excellent	<b><u>Overall Risk</u></b>	<b>Low</b>	<input checked="" type="checkbox"/>
	<input checked="" type="checkbox"/>	<b>Very Good</b>	<b><u>Exposure</u></b>	Medium	<input type="checkbox"/>
	<input type="checkbox"/>	Satisfactory	(considering	High	<input type="checkbox"/>
	<input type="checkbox"/>	Needs Improvement	controls in place)		
	<input type="checkbox"/>	Unsatisfactory			

### 4.2.1 Scope and Objectives

<b><u>Audit Scope</u></b>	<p>The scope of this audit covered the following:</p> <ol style="list-style-type: none"><li>1. Existence of effective grant program guidelines and procedures</li><li>2. Administering approved grants</li><li>3. Compliance with the terms of the grant agreement</li><li>4. Effectiveness of the grant administration processes which include:<ul style="list-style-type: none"><li>• Assessment</li><li>• Approval</li><li>• Execution and service delivery</li><li>• Monitoring</li><li>• Reporting.</li></ul></li><li>5. Determination of appropriateness of expenditure of grant monies</li><li>6. Recordkeeping of all grant related records.</li></ol>
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<b><u>Audit Objectives:</u></b>	<p>The objective of the audit was to review the processes over the management of grants within the Council and determine if the controls were effective.</p>
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## 4.1.2 Detailed Audit Assessment

### Incoming Grants

We performed audit procedures to determine the adequacy and appropriateness of controls in relation to Incoming Grants. We based our testing around EMRC's Business Management Systems (BMS) to ensure there were effective controls in place to monitor the grants effectively.

From the business management systems we performed the following tests on a sample of grants awarded during the year:

#### 1. Grant Application Process

With regards to the grant application process our audit assessed to determine if:

- Project Officer/Admin Officer has created a grant file for contract records
- Appropriate Project Officer has reviewed grant requirements
- Project Officer/Admin Officer has developed a grant application plan
- Sighted written Grant Application.

#### 2. Grants Management Process

We assessed the grants management process by:

- Evidencing that notification of successful grant application has been received
- Sighting evidence that contract/grant funder requirements have been reviewed and signed
- Identifying if there were any variations to the original contract. If any, we further assessed to ensure appropriate steps have been followed
- Sighting evidence that contract was signed off by either the CEO or their delegate as required
- Reviewing evidence that Grant project was implemented in accordance with project plan
- Sighting evidence that the Project Officer was managing contract reporting and invoicing.

#### 3. Grants Acquittal Process

We assessed the acquittal process by:

- Obtaining evidence that EMRC has written to relevant grant body submitting the acquittal documentation
- Evidencing that a grant register has been updated once the grant file has been closed off.

We noted all required documentation was filed accordingly and acquittals were performed appropriately as required. We based the majority of our testing around the BMS and it is useful to note that the BMS was developed as guidelines rather than a set procedure. While there are no issues, we recommend that EMRC adopts the BMS as the guideline for grants management.

### Outgoing Grants

We performed audit procedures to determine the adequacy and appropriateness of controls in relation to Outgoing Grants. Through discussions with staff and review of files, we noted that a budget to provide \$15,000 worth of grants in the 2012/13 period exists. As there was no Project Completion reports complete for the 2012/13, we tested the 2011/12 grants for completion testing. For the period 2012/13, nine grants were approved and the total funding granted came to a total of \$13,076.

All the approved community groups are required to follow the EMRC Community Grants Program Guidelines. If the community group breached any of the conditions in the



guidelines, EMRC can terminate the arrangement at any time and without giving the community group any prior notice.

Tests were conducted for a sample of grants around the Community Grants Program Guidelines which included;

1. Assessment:

We assessed for the assessment of grants to ensure:

- Application was fully completed and signed by two applicants (one being the president or equivalent of the organisation)
- Applicant had an ABN number, or states a reason for not having one
- Applicant related to one of the following regions: Gidgegannup, Hovea, Parkerville, and/or Stoneville area
- Grant was intended to be used for any of the following categories: recreational, social, cultural/community, and/or sustainability
- Intended expenditure of grant was in line with EMRC guidelines
- Quotes were presented on application.

2. Approvals

We assessed for the approval process of grants to ensure:

- Grant Evaluation Forms were fully completed
- Evidence of grant acceptance letter was maintained
- Grant acceptance letter was signed by the CEO.

3. Grant Payments

We assessed the adequacy of payment process controls of grants through:

- Tracing approved grants to the general ledger of the Synergysoft system
- Verifying that the need for payment was authorised/entered by the program manager
- Ensuring all amounts have been processed in the correct accounting period
- Ensuring all coding was correct
- Mathematical accuracy was achieved.

4. Project Completion Report

Our audit also tested the project completion reports for these projects to ensure:

- Project Completion Reports were filled out
- Project Completion Report were signed by two of the applicants (one being the president or equivalent of the organisation)
- Project Completion Report showed all supporting documentation on how grant monies were spent
- Expenditure is in line with EMRC guidelines
- Evidence was in the Project Completion Report that shows the applicant publically acknowledged the support from EMRC.

We noted the records management was very well maintained and compliance with the Community Grants Program Guidelines were excellent. There were no issues noted.

## 4.3 RISK MANAGEMENT

### 4.3.1 Quality of Management Control

<b>Quality of Management Control:</b>	<input type="checkbox"/>	Excellent	<b>Overall Risk</b>	Low	<input type="checkbox"/>
	<input type="checkbox"/>	Very Good	<b>Exposure</b>	Medium	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	Satisfactory	(considering	High	<input type="checkbox"/>
	<input type="checkbox"/>	Needs Improvement	controls in place)		
	<input type="checkbox"/>	Unsatisfactory			
	<input checked="" type="checkbox"/>	<b>N/A</b>	–		
		<b>Transitioning to a new system.</b>			

*Note: EMRC has put in place a new computerised risk management system which by design is appropriate. Effectiveness of the risk management process will be assessed after the new system has been used for at least twelve months from the date of commissioning.*

### 4.3.1 Scope and Objectives

<b><u>Audit Scope</u></b>	The scope of this audit covered: <ul style="list-style-type: none"><li>▪ EMRC's risk management framework</li><li>▪ Risk register</li><li>▪ ISO 31000:2009 risk management standard.</li></ul>
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<b><u>Audit Objectives:</u></b>	The objectives of the audit were to review the processes over: <ul style="list-style-type: none"><li>• EMRC's risk management and to evaluate the adequacy, appropriateness and effectiveness of controls using key elements of ISO 31000:2009 as a baseline</li><li>• Management review and reporting.</li></ul>
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### 4.1.2 Detailed Audit Assessment

#### Policies and Procedures

Policies and procedures provide guidance on the direction and expected way of managing business activities. They address and fill in the “what”, “who” “how”, “when” and “where” requisitions demanded of those tasked to carry out activities required to achieve objectives. With regards to risk management, the Standard provides guidance on the minimum expectations required of a good risk management policy (the policy). The Standard requires the following minimum requirements for a good risk management policy:

1. The organisation's rationale for managing risk
2. Links between the organisation's objectives and policies and the risk management policy
3. Accountabilities and responsibilities for managing risk

4. The way in which conflicts of interest are dealt with
5. Commitment to make the necessary resources available to assist those accountable and responsible for managing risk
6. The way in which risk management performance will be measured and reported
7. Commitment to review and improve the risk management policy and framework periodically and in response to an event or change in circumstance.

We performed a detailed assessment of EMRC's risk management policy to determine the level of compliance with the requirements listed above. It was pleasing to note that the policy is well documented and covers all the aspects of specified in the Risk Management Standard. Notably, the policy also quotes the standard as the primary matter of guidance with regards to risk management. There were no issues identified.

### **Risk Assessment**

Section 5.4 of the standard provides guidance on risk assessment processes that enable organisations to achieve an effective risk assessment process. EMRC's annual risk identification, assessment and evaluation process workflow identifies the assessment process in conjunction with the Standard. Our audit assessed the effectiveness with which EMRC implemented the elements of the risk assessment process to ensure risks impacting on achieving objectives are identified and dealt with. Below are the risk assessment elements:

- Risk Identification
- Risk Analysis
- Risk Evaluation
- Risk Treatment.

We assessed each of the above elements to determine their effectiveness in complying with the Standard taking into account the nature of the EMRC's business and operating environment. Refer to the sections below for more detail.

### **Risk Identification**

EMRC's Risk Management Plan, dated December 2011 provides that "The EMRC will develop procedures to assist with the efficient and consistent preparation of Risk Registers and Risk Treatment Plans across the organisation. These procedures will follow the risk assessment process outlined in AS/NZS/ISO 31000 and so enables the application of that Standard to the organisation's operations. Historically, EMRC used biennial Risk Surveys as the primary process to identify and assess its key risk exposures. Since March 2013, risk identification is now part of the annual business plan where the item of risk is captured within the strategic planning process. This is supplemented with annual workshops and meetings run by the Manager Risk Management to cover the Red Hill and Hazelmere operations.

Section 5.4.2 of the standard requires an organisation to "*generate a comprehensive list of risks based on those events that might create, enhance, prevent, accelerate or delay the achievement of objectives*" and "*people with the appropriate knowledge should be involved in identifying risks*".

Our audit sees the risk identification process as the most important aspect of risk assessment. The application of all other aspects for risk assessment is dependent on the accuracy and completeness with which risks are identified. Implementing rigour in risk identification is the key to effective risk management. We identified that the newly adopted method is adequate by design. The effectiveness of this approach has not been assessed as it was still new at the time of the audit. It is important to state that EMRC is in the process of automating its risk management process through the use of a customised risk management system, a module in the existing Synergysoft system. The risk management system is AS/NZS/ISO 31000:2009 compliant and is intended to support a centralised risk management process within EMRC.

## **Risk Analysis**

Section 5.4.3 of the Standard specifies that *“Risk analysis provides an input to risk valuation and risk decision on whether the risk needs to be treated, and the most appropriate risk treatment strategies and methods”*.

Our audit analysed the risk register to determine existence and application of the risk analysis tools and techniques. The EMRC Risk Management Plan provides Risk Assessment Criteria which consists of appropriate reference tables. We assessed the risks in the risk register to determine the adequacy of the implementation of the risk assessment criteria. Our audit also aimed to identify any documented analyses which could detail all the consequences and likelihood (with possible reasoning for likelihoods) of identified risks. There were no issues noted with risk analysis.

## **Risk Evaluation and Risk Treatment**

Section 5.4.4 of the Standard articulates that the *“The purpose of risk evaluation is to assist in making decisions, based on the outcome of risk analysis, about which risk needs treatment and the priority for treatment implementation”*. The Standard also states that each risk should be allocated to an owner whose responsibilities, among others, is to accept and sign-off on the risk and perform regular review of the risk.

Our audit was designed to review the documented risk evaluation process in relation to risks in the risk register. The review was meant to determine the adequacy and effectiveness of risk evaluation for all identified risks. Our review noted that at the time of the audit, EMRC was transitioning into a new and centralised risk management process using Synergysoft as noted under the “Risk identification” section above. The design of the system indicates that it has the capability of addressing issues regarding risk treatment action plans raised above. As such, there were no issues noted.

## **Design and Operating Effectiveness of Controls**

The design of controls is essential in mitigating against the severity of risk consequences. Our audit assessed the controls to determine if:

1. A clear description of the control was present
2. If the described controls was sufficient to prevent the identified cause or causes
3. Controls were assessed for operating effectiveness
4. Risks rating were adjusted as a result of assessing controls.

In relation to the above, our audit noted the finding below.

## **Findings**

We identified that most of the risks reviewed in the risks register only indicated that there was only one cause and one control for each risk cause identified. In our assessment the risk appeared to have more than one cause. In reality the risks are likely to have more than one cause and one control designed to reduce the overall impact of the risk to acceptable levels should they occur

## **Risks**

### ***Risk Rating: Moderate***

1. In the absence of an adequate identification of a number of causes for each risk, including adequate controls against any risk cause, there is always a risk that identified risks which seem to have adequate controls may still continue to pose significant risk exposure to EMRC.

## **Recommendations**

1. EMRC may develop a targeted controls assessment mechanism for assessing the effectiveness of controls assigned to mitigate the impact of risks should they occur. Both Internal and External Audit (for external auditors this is applicable to the extent of processes that directly impact on financial reporting) can also be used specifically to target certain controls and report on their design and operating effectiveness. Such reports will then be useful in reassessing the risk rating.

*It is important to note that this issue may be addressed by the new computerised risk management system as the design of the new system appear to have the required parameters for fully identifying all possible risk causes and assigning appropriate controls to mitigate against the overall impact of the risks should it occur.*

## **Management Comments**

*We agree that it is imperative to ensure that nominated risk controls assessment mechanism are in place to mitigate the impacts of the risks identified should they occur. It has been identified by the EMRC Risk Steering Group that this issue was exacerbated by the lack of a computerised-based approach to identify, implement controls and manage the risk in a systematic approach.*

*Consequently, the EMRC has commenced and is in the process of implementing ISO-compliant risk management software that will address the issues identified.*

## **Responsible Officer**

*Manager Risk Management*

## **Target completion date**

*30 June 2014*

## Resourcing

The standard requires a “Commitment to make the necessary resources available to assist those accountable and responsible for managing risk”. In light of this requirement, our audit determined the adequacy and existence of those resources accountable and responsible for managing risks. The risk Management Plan provides under section 3.3 *Risk Management Structure and Responsibilities* the resources available to manage risks. It is pleasing to note that the following resources have been assigned the responsibilities for managing risks:

- All staff
- Business Unit Managers
- Risk Management Steering Group (RMSG)
- Audit Committee.

Apart from the resources above, we also assessed to determine if training and awareness is regularly provided to employees. The Risk Management Plan provides that “Within this framework, training will provide appropriate tools and practices for the effective management of risks.” It is important to note that EMRC has positively identified the importance of training with regards to risk management. The EMRC has a Risk Steering group that meets regularly and is made up of the CEO, Directors, Site Manager Red Hill and Manager Risk Management. Our audit considers this adequate. There were no issues identified.

## 4.4 CORPORATE GOVERNANCE

### 4.4.1 Quality of Management Control

<b><u>Quality of Management Control:</u></b>	<input type="checkbox"/>	Excellent	<b><u>Overall Risk Exposure</u></b>	<b>Low</b>	<input checked="" type="checkbox"/>
	<input checked="" type="checkbox"/>	<b>Very Good</b>	(considering controls in place)	Medium	<input type="checkbox"/>
	<input type="checkbox"/>	Satisfactory		High	<input type="checkbox"/>
	<input type="checkbox"/>	Needs Improvement			
	<input type="checkbox"/>	Unsatisfactory			

### 4.4.2 Scope and Objectives

<b><u>Audit Scope</u></b>	The scope of this audit will focus on the reliability and integrity of information, compliance, and achievement of objectives in relation to the corporate governance processes.
---------------------------	--

<b><u>Audit Objectives:</u></b>	<p>The objectives of this audit was to review the processes over:</p> <ol style="list-style-type: none"><li><b>I. Reliability and Integrity of Information</b><ul style="list-style-type: none"><li>● Provision of information to the Council (relevant, timely, accurate and concise information).</li></ul></li><li><b>II. Compliance</b><ul style="list-style-type: none"><li>● Processes in place to monitor organisational compliance with applicable legislation</li><li>● Compliance with Local Governance Act 1995 – Part 2 has been complied with.</li></ul></li><li><b>III. Achievement of Objectives</b><ul style="list-style-type: none"><li>● Determine how the Council assesses its own performance</li><li>● Determine how the Council assesses the performance of the organisation.</li></ul></li><li><b>IV. Good corporate governance practices in accordance to the AS8000:2003 standard</b></li></ol>
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#### 4.4.3 Detailed Audit Assessment

A number of recommendations on corporate governance best practice generally exist to support effective monitoring for those responsible for organisational oversight. There are no Local Government specific written recommendations or standards on corporate governance. We performed an audit of EMRC's Corporate Governance practices by applying best practice guidelines as baseline standards. The Australian Stock Exchange (ASX) and the Public Sector Commission (PSC) provide best practice recommendations and general guidelines on corporate governance. More pertinent to our audit was the definition of corporate governance stated in the ASX Corporate Governance Principles and Recommendations as "the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations." While this statement is more applicable to the corporations, our audit identified that it is equally applicable to the council hence we adopted a number of fundamentals against which the Council's effectiveness on Corporate Governance was assessed.

The strategic plan provides the general direction to which an organisation pursues its goals. It is the basis for allocating resources in a way that ensure effective and efficient use of such resources to achieve goals. Operational plans supports the strategic plans in providing more direct support to the activities required to move the organisation towards the goals. In relation to corporate governance, the existence of strategic and operational plans provides the definition of what is to be overseen by those tasked to do so, so the organisation can achieve its goals. Our audit assessed the existence and effectiveness of monitoring activities in place to ensure effective oversight.

#### Monitoring the control environment

Policies and procedures are developed to ensure minimal losses associated with any authorised activity are incurred by EMRC. Our audit assessed for the existence of a policy relevant to governance, specifically those that provide guidance on conduct to ensure conformity with requirements both legislative and non-legislative. We assessed if the Council had a code of conduct that sets out the expected conduct of its employees to ensure the level of compliance with all other policies and practices are followed. We assessed the code of conduct to determine if it covered the minimum expectations with regards to statement of practices that ensured integrity within the Council and clear statements of practice that provides for the accountability of individuals for reporting and investigating reports of unethical practices. It was pleasing to note that Council has a very comprehensive Code of Conduct. Among other things, the code of conduct covers the following:

- Details the objectives of code and role of members (primary role is to represent the community links with expectation to stakeholders)
- Details breaches and misconduct. EMRC's complaints officer is the CEO who will conduct the investigation for any unethical practices
- Members and employees behavior guidance
- Conflict of interests guidance (including disclosure requirements)
- Acceptance of gifts / and other personal benefits
- Conduct of members and employees.

Apart from the key policy regarding corporate governance above, the audit further assessed for the existence of policies that govern the conduct of the Councillors responsible for the oversight of the Council. The Establishment Agreement provides guidance on the key responsibilities of the councillors pursuant to the provisions of Part 2 of the *Local Government Act*. The existence of the Establishment Agreement was assessed to ensure it covered the requirements of the provisions of Part 2 of the Act which were within the control of EMRC. Our assessment did not reveal or identify any issues.



### **Internal and external reporting**

Reporting is an integral part of monitoring the activities of the organisation to determine if there are any areas having an impact on achieving objectives. Reports provide information for timely decision making with regards to corrective and/or value adding course of actions. We assessed for the effectiveness of reporting on matters that are relevant to governance. As part of this assessment we also verified for the frequency of meetings in place to discuss any matters of significance identified by the reports on matters of governance. Pertinent to internal reporting was the existence and effectiveness of reporting on monitoring strategic objectives. The Strategic Plan sets out the strategic objectives which have a number of strategies attached to them. The strategies are carried out by business units through the interplan. The interplan is a summary of progress of actions against strategies listed in the Strategic Plan. This is reported to Council on a four monthly basis. Further discussion with key staff members indicated that reporting will be carried out on a quarterly basis. We also assessed for the existence of any external reporting that also further strengthens the aspect of governance. We identified that EMRC provides a Compliance Audit return to the Department of Local Government and Regional Development pursuant to regulation 14 of the Local Government (Audit) Regulation 1996: Compliance audits by local governments. There were no issues identified.

## **5.0 CONCLUSION**

It was pleasing to note that controls around Accounts Payable, Corporate Governance and Grant Management were adequate and did not indicate any issues that warranted presentation in this report. EMRC is currently improving its risk management processes through the introduction of a centralised automated system. In our assessment, we were pleased by the current design and direction EMRC is taking towards Risk Management. Evidence obtained to date indicated that in its current design, the automated risk management is adequate. We however encourage that EMRC perform an independent post implementation review of the new centralised risk management system. The post implementation review includes assessing the appropriateness of take-up of the new system, training on the new environment, and effectiveness of risk Identification and the application of risk assessment processes embedded in the new system. It is also important to state that risk identification is part of the risk assessment process and all other processes are dependent on its effectiveness.



## 11.2 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2013

REFERENCE: COMMITTEES-16012

### PURPOSE OF REPORT

To review and adopt Council's draft Annual Financial Report for the year ended 30 June 2013.

### KEY ISSUES AND RECOMMENDATION(S)

- The Terms of Reference of the Audit Committee includes a list of duties and responsibilities, among which is a requirement for the Committee to:
  - Review Council's draft annual financial report; and
  - Recommend adoption of the Annual Financial Report to Council.
- Council's auditors have completed their audit of the 2012/2013 Financial Report and is attached for Council adoption.

#### Recommendation(s)

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2013 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, a copy of the 2012/2013 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.

### SOURCE OF REPORT

Director Corporate Services  
Manager Financial Services

### BACKGROUND

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

### REPORT

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

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



*Item 11.2 continued*

Council's auditor, Mr A Macri of Macri Partners has completed the audit of the Eastern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2013.

Attached is a copy of the audited Annual Financial Report for the year ended 30 June 2013 for recommendation to Council for adoption (refer Attachment 1).

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

The following comments are provided on key elements of the financial results for 2012/2013:

**Statement of Comprehensive Income (pg 6 - 7 of 50)**

Total Revenue of \$46,967,388 as at 30 June 2013 is \$6,016,067 greater than the 2011/2012 actual revenue and \$4,369,816 below budget for 2012/2013.

Total Expenses of \$33,613,480 is \$6,084,418 greater than the 2011/2012 expenses and \$5,691,595 below budget for 2012/2013.

An actual profit of \$39,598 has resulted from the Disposal of Assets as at 30 June 2013 and is \$760,485 below the 2011/2012 actual profit of \$800,083 and \$125,490 below the budget for 2012/2013 of \$165,088.

The total change in Fair Value of Investments for the period ending 30 June 2013 is a realised gain of \$940,914 and an unrealised loss of \$21,862 compared to a realised gain of \$336,965 as at 30 June 2012. The realised gains from the change in fair value of investments represents the profit above book value from the sale of CDO's during the year.

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

The changes in revaluation of non-current assets has resulted in a surplus of \$1,140,349 and relates to the revaluation undertaken during 2012/2013 on the Plant and Equipment class of assets.

Total Comprehensive Income of \$15,452,907 as at 30 June 2013 is \$893,600 above the level of 2011/2012 and \$3,255,690 above the 2012/2013 budget.

**Statement of Financial Position (pg 8 - 9 of 50)**

Current assets as at 30 June 2013 have increased by \$7,643,912 to \$58,486,183 from \$50,842,271 in 30 June 2012. This is primarily due to the increase in the level of cash and cash equivalents as well as an increase in Trade and Other Receivables.

The overall impact on cash and investments at the close of the financial year is an increase of \$6,867,515 to \$54,022,470 compared to the level of cash and investments from the previous year.

Current liabilities as at 30 June 2013 have increased by \$1,196,286 to \$6,638,779 compared to 30 June 2012.

The value of Reserves has decreased by \$2,380,775 to \$42,319,723 compared to the previous financial year. This is primarily attributable to the use of funds to purchase land and to construct the new Class III cell.

Overall equity has increased during the 2012/2013 financial year by \$15,452,908 to \$92,596,221.



*Item 11.2 continued*

### **Cash Flow Statement (pg 10 of 50)**

The overall impact on the cash position at the end of the financial year is an increase of \$6,896,863 to \$54,022,470 from the previous corresponding period (2011/2012) of \$47,125,607.

Net Cash provided by Operating Activities of \$21,082,084 in 2012/2013 reflects an increase of \$5,635,989 from the cash generated in 2011/2012 of \$15,446,095.

The cash flows utilised in investing activities for 2012/2013 reflects capital expenditure totalling \$15,480,303 compared to capital expenditure totalling \$7,101,569 during 2011/2012.

Significant items of capital expenditure during the year included:

- Purchase Waste Management Land - Red Hill Waste Disposal Site (\$6,710,163);
- Construct Class III Cell Farm Stage 2 - Red Hill Landfill Facility (\$4,052,349);
- Purchase/Replace Plant - Red Hill Waste Management Facility (\$1,769,003);
- Purchase/Replace Plant - Hazelmere (\$606,377);
- Purchase of Vehicles - Ascot Place and Red Hill (\$554,880);
- Leachate Project - Red Hill Landfill Facility (\$519,701);
- Purchase Fire Fighting System/Equipment - Hazelmere (\$313,847);
- Purchase/Replace Minor Plant & Equipment - Red Hill Waste Management Facility (\$247,470); and
- Construct Hardstand and Road - Hazelmere (\$163,726).

Significant capital items that were budgeted but not purchased, constructed below budget or construction not completed during the year included (to the nearest thousand dollars):

- Resource Recovery Park - Hazelmere (\$3,680,396);
- Purchase/replace plant - Hazelmere facility (\$897,402);
- Information technology purchases - Ascot Place (\$579,716);
- Construct water storage dam - Red Hill Landfill Facility (\$490,960);
- Construction of roads/carparks - Red Hill Landfill Facility (\$485,000);
- Purchase/replace other equipment - Red Hill Landfill facility (\$271,310);
- Construct Class III Cell Stage 14(a) - Red Hill Waste Management Facility (\$270,000);
- Construct greenwaste processing area - Red Hill Landfill Facility (\$175,000);
- Construct Class III leachate pond - Red Hill Waste Management Facility (\$150,000);
- Purchase/replace security system - Red Hill Landfill facility (\$143,033).
- Construct siltation pond - Red Hill Landfill facility (\$130,000);
- Construct hardstand and road - Hazelmere (\$122,449);
- Construct perimeter bunds - Red Hill Landfill Facility (\$120,000);
- Purchase of Vehicles - Ascot Place (\$113,549);
- Construct stormwater control pond - Red Hill Landfill facility (\$100,000); and
- Construct perimeter fencing - Red Hill Landfill Facility (\$100,000).



*Item 11.2 continued*

Funding for the majority of the capital items listed above has been carried forward into the 2013/2014 financial year.

**Reserves (pg 36 - 39 of 50)**

At the end of the 2012/2013 financial year the amount held in Reserves (page 38 of 50, Note 17) decreased by \$2,380,775 to a balance of \$42,319,723. This compares favourably by \$1,276,672 to the 2012/2013 budget of \$41,043,051 due to higher than budgeted surpluses.

**STRATEGIC/POLICY IMPLICATIONS**

Addresses the following:

Key Result Area 4 – Good Governance

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

**FINANCIAL IMPLICATIONS**

As outlined in the report and attachments

**SUSTAINABILITY IMPLICATIONS**

Nil

**MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	} Proportional share in the total equity of the EMRC for 2012/2013.
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

**ATTACHMENT(S)**

1. Annual Financial Report for the Year Ended 30 June 2013 (Ref: Committees-16126)
2. Interim Audit Report for Year Ended 30 June 2013 (Ref: Committees-16127)

**VOTING REQUIREMENT**

Simple Majority



*Item 11.2 continued*

## **RECOMMENDATION(S)**

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2013 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, a copy of the 2012/2013 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government and Communities, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report

The CEO gave a brief overview of the Annual Financial Results.

The Acting Chairman thanked and congratulated EMRC officers.

## **AC RECOMMENDATION(S)**

MOVED CR PULE

SECONDED CR LINDSEY

That:

1. Council adopts the audited Annual Financial Report for the year ended 30 June 2013 and the Independent Auditor's Report on that Annual Financial Report forming attachment 1 of this report.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response forming attachment 2 of this report.
3. In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, a copy of the 2012/2013 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 2013**

**EASTERN METROPOLITAN REGIONAL COUNCIL**

**2012/2013 ANNUAL FINANCIAL REPORT**

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**STATEMENT BY CHIEF EXECUTIVE OFFICER**



**For the Year Ended  
30 June 2013**

**EASTERN METROPOLITAN REGIONAL COUNCIL  
FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2013**

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

**STATEMENT BY CHIEF EXECUTIVE OFFICER**

The attached financial report of the Eastern Metropolitan Regional Council being the annual financial report and supporting notes and other information for the financial year ended 30 June 2013 are in my opinion properly drawn up to present fairly the financial position of the Eastern Metropolitan Regional Council at 30 June 2013 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and the regulations under that Act.

Signed as authorisation for issue on the 27<sup>th</sup> day of August 2013

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

## FINANCIAL REPORT



**For the Year Ended  
30 June 2013**

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

BY PROGRAM	NOTE	ACTUAL 2012/2013 \$	BUDGET 2012/2013 \$	ACTUAL 2011/2012 \$
<b>REVENUE</b>				
Governance		94,324	301,443	57,406
General Purpose Funding		2,422,128	2,371,694	2,575,309
Community Amenities		42,825,808	46,903,101	36,954,974
Other Property and Services		1,625,128	1,760,966	1,363,632
<b>TOTAL REVENUE</b>		<b>46,967,388</b>	<b>51,337,204</b>	<b>40,951,321</b>
<b>EXPENSES</b>				
Governance		789,860	1,289,060	40,293
Community Amenities		28,419,164	32,541,820	23,019,671
Other Property and Services		4,404,456	5,474,195	4,469,098
<b>TOTAL EXPENSES</b>		<b>33,613,480</b>	<b>39,305,075</b>	<b>27,529,062</b>
<b>INCREASE / (DECREASE)</b>		<b>13,353,908</b>	<b>12,032,129</b>	<b>13,422,259</b>
<b>DISPOSAL OF ASSETS</b>				
Profit on Sale		48,158	165,088	805,991
Loss on Sale		(8,560)	0	(5,908)
<b>PROFIT / (LOSS) ON DISPOSALS</b>	22	<b>39,598</b>	<b>165,088</b>	<b>800,083</b>
<b>REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS</b>				
General Purpose Funding	7(c)	919,052	0	336,965
<b>GAIN / (LOSS)</b>		<b>919,052</b>	<b>0</b>	<b>336,965</b>
<b>NET RESULT</b>		<b>14,312,558</b>	<b>12,197,217</b>	<b>14,559,307</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Changes in Revaluation of Non-Current Assets	12	1,140,349	0	0
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>1,140,349</b>	<b>0</b>	<b>0</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>15,452,907</b>	<b>12,197,217</b>	<b>14,559,307</b>

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

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

BY NATURE AND TYPE	NOTE	ACTUAL 2012/2013 \$	BUDGET 2012/2013 \$	ACTUAL 2011/2012 \$
<b>REVENUE</b>				
Fees and Charges	4	41,053,206	41,954,640	35,119,314
Grants, Subsidies and Contributions	5	2,364,866	5,267,033	1,949,618
Interest Earnings	2	2,422,128	2,371,694	2,575,309
Other Revenue		1,127,188	1,743,837	1,307,080
<b>TOTAL REVENUE</b>		<b>46,967,388</b>	<b>51,337,204</b>	<b>40,951,321</b>
<b>EXPENSES</b>				
Employee Costs		8,088,700	9,469,318	7,759,113
Materials and Contracts		6,765,807	9,332,254	5,731,700
Utility Expenses		254,715	258,782	232,023
Insurance Expenses		273,199	257,589	226,205
Interest Expenses		18,921	15,300	16,159
Other Expenditure		14,122,584	13,898,009	10,587,500
Depreciation Expenses on Non-Current Assets	2	4,089,554	6,073,823	2,976,362
<b>TOTAL EXPENSES</b>		<b>33,613,480</b>	<b>39,305,075</b>	<b>27,529,062</b>
<b>INCREASE / (DECREASE)</b>		<b>13,353,908</b>	<b>12,032,129</b>	<b>13,422,259</b>
<b>DISPOSAL OF ASSETS</b>				
Profit on Sale		48,158	165,088	805,991
Loss on Sale		(8,560)	0	(5,908)
<b>PROFIT / (LOSS) ON DISPOSALS</b>	22	<b>39,598</b>	<b>165,088</b>	<b>800,083</b>
<b>REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS</b>				
Realised Gain/(Loss)		940,914	0	336,965
Unrealised Gain/(Loss)		(21,862)	0	0
<b>GAIN / (LOSS)</b>	7(c)	<b>919,052</b>	<b>0</b>	<b>336,965</b>
<b>NET RESULT</b>		<b>14,312,558</b>	<b>12,197,217</b>	<b>14,559,307</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Changes in Revaluation of Non-Current Assets	12	1,140,349	0	0
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>1,140,349</b>	<b>0</b>	<b>0</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>15,452,907</b>	<b>12,197,217</b>	<b>14,559,307</b>

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

# EASTERN METROPOLITAN REGIONAL COUNCIL

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	NOTE	ACTUAL 2012/2013 \$	ACTUAL 2011/2012 \$
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	7(a)	54,022,470	47,125,607
Investments	7(b)	0	29,348
Trade and Other Receivables	9	4,312,629	3,534,293
Inventories	11	86,077	44,528
Other Assets	10	65,007	108,495
<b>TOTAL CURRENT ASSETS</b>		<b><u>58,486,183</u></b>	<b><u>50,842,271</u></b>
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	12	31,417,707	22,883,120
Infrastructure	13	9,152,875	10,102,339
Work in Progress	13	5,019,398	412,862
<b>TOTAL NON CURRENT ASSETS</b>		<b><u>45,589,980</u></b>	<b><u>33,398,321</u></b>
<b>TOTAL ASSETS</b>	21	<b><u>104,076,163</u></b>	<b><u>84,240,592</u></b>
<b>CURRENT LIABILITIES</b>			
Trade and Other Payables	15	5,409,053	4,251,981
Provisions	16	1,229,726	1,190,512
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>6,638,779</u></b>	<b><u>5,442,493</u></b>
<b>NON CURRENT LIABILITIES</b>			
Provisions	16	4,841,163	1,654,786
<b>TOTAL NON CURRENT LIABILITIES</b>		<b><u>4,841,163</u></b>	<b><u>1,654,786</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>11,479,942</u></b>	<b><u>7,097,279</u></b>
<b>NET ASSETS</b>		<b><u>92,596,221</u></b>	<b><u>77,143,313</u></b>
<b>EQUITY</b>			
Retained Surplus		49,136,149	32,442,815
Reserves	17	42,319,723	44,700,498
Revaluation Surplus	14	1,140,349	0
<b>TOTAL EQUITY</b>		<b><u>92,596,221</u></b>	<b><u>77,143,313</u></b>

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013**

	NOTE	RETAINED SURPLUS \$	RESERVES \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 30 June 2011		31,530,289	31,053,717	0	62,584,006
Net Result		14,559,307	0	0	14,559,307
Total Other Comprehensive Income		0	0	0	0
Transfer (from) / to Reserves		(13,646,781)	13,646,781	0	0
<b>Balance as at 30 June 2012</b>		<b>32,442,815</b>	<b>44,700,498</b>	<b>0</b>	<b>77,143,313</b>
Net Result		14,312,559	0	0	14,312,559
Total Other Comprehensive Income		0	0	1,140,349	1,140,349
Transfer (from) / to Reserves		2,380,775	(2,380,775)	0	0
<b>Balance as at 30 June 2013</b>		<b>49,136,149</b>	<b>42,319,723</b>	<b>1,140,349</b>	<b>92,596,221</b>

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013**

	NOTE	ACTUAL 2012/2013 \$	BUDGET 2012/2013 \$	ACTUAL 2011/2012 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Fees and Charges		44,892,851	41,954,640	38,693,206
Grants, Subsidies and Contributions		2,364,866	5,267,033	1,949,618
Interest Earnings		2,266,085	2,371,694	2,390,812
Other Revenue		1,127,188	1,743,837	1,307,080
<b>Total Receipts</b>		<b>50,650,990</b>	<b>51,337,204</b>	<b>44,340,716</b>
<b>Payments</b>				
Employee Costs		(8,088,393)	(9,453,735)	(7,547,868)
Materials and Contracts		(7,829,115)	(9,332,254)	(7,756,969)
Utility Expenses		(254,715)	(258,782)	(232,023)
Insurance Expenses		(284,418)	(257,589)	(225,296)
Interest Expenses		(18,921)	(15,300)	(16,159)
Other Expenditure		(10,877,800)	(13,775,483)	(10,464,969)
Goods and Services Tax paid		(2,215,544)	0	(2,651,337)
<b>Total Payments</b>		<b>(29,568,906)</b>	<b>(33,093,143)</b>	<b>(28,894,621)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	18(ii)	<b>21,082,084</b>	<b>18,244,061</b>	<b>15,446,095</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Cash receipts from sale of assets		346,682	690,226	1,667,098
Cash payments for acquisition of assets		(15,480,303)	(24,090,652)	(7,101,569)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(15,133,621)</b>	<b>(23,400,426)</b>	<b>(5,434,471)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash receipts from sale of investments		948,400	1,167	2,874,732
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>948,400</b>	<b>1,167</b>	<b>2,874,732</b>
<b>SUMMARY OF CASH FLOWS</b>				
Cash and cash equivalents at the beginning of the year		47,125,607	45,708,979	34,239,251
Net Increase/(Decrease) in Cash Held		6,896,863	(5,155,198)	12,886,356
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	18(i)	<b>54,022,470</b>	<b>40,553,781</b>	<b>47,125,607</b>

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



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



**For the Year Ended  
30 June 2013**

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Preparation**

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

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

**The Local Government Reporting Entity**

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

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

**(a) Trust Funds**

Monies held in the Trust Fund, which Council holds 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 2013.

**(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.

**(c) Property, Plant and Equipment**

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

**Initial Recognition**

All assets are initially recognised at cost. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income in the period in which they are incurred.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

**(c) Property, Plant and Equipment (continued)**

**Application of Fair Value to Local Government Financial Reporting**

Regulation 17A of the Local Government (Financial Management) Regulations 1996 mandates the measurement of non-current assets at Fair Value effective from 1 July 2012.

The table provides the phased-in implementation of fair value in accordance with the timeframe below:

<u>Financial Year</u>	<u>Asset Group - Resources</u>
• 2012/2013	Plant and Equipment
• 2013/2014 or 2014/2015 (Alternate year to infrastructure)	Land and Buildings
• 2013/2014 or 2014/2015 (Alternate year to land and buildings)	Infrastructure
• 2014/2015	All Other Class of Assets

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

The Council has commenced the process of adopting Fair Value in accordance with the Regulations. Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary

**Land Under Control**

In accordance with Local Government (Financial Management) Regulation 16(a), the Council is required to include as an asset (by 30 June 2013), Crown Land operated by the local government 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 as at 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) Regulation 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) Regulation 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 FM Reg 4 (2) Government (Financial Management) Regulation 4(2) provides, in the event of such an inconsistency, the Local Government (Financial Management) Regulations prevail.

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

**(c) Property, Plant and Equipment (continued)**

**Revaluation**

The Council uses a mix of both independent and management valuations using the following as a guide:

- Revalued assets are carried at their fair value being the price that would be received to sell the asset, in an orderly transaction between market participants at the measurement date (Level 1 inputs in the fair value hierarchy).
- For land and buildings, fair value will be determined based on the nature of the asset class. For land and non-specialised buildings, fair value is determined on the basis of observable open market values of similar assets, adjusted for conditions and comparability at their highest and best use (Level 2 inputs in the fair value hierarchy).
- With regards to specialised buildings, fair value is determined having regard for current replacement cost and both observable and unobservable costs. These include construction costs based on recent contract prices, current condition (observable Level 2 inputs in the fair value hierarchy), residual values and remaining useful life assessments (unobservable Level 3 inputs in the fair value hierarchy).
- For infrastructure and other asset classes, fair value is determined to be the current replacement cost of an asset (Level 2 inputs in the fair value hierarchy) less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset (Level 3 inputs in the fair value hierarchy).
- 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 profit or loss.
- Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.
- Those assets carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses, are to be revalued with sufficient regularity to ensure the carrying amount does not differ materially from that determined using fair value at reporting date.
- In addition, the amendments to the Financial Management Regulations mandating the use of Fair Value impose a further minimum of 3 years revaluation requirement. As a minimum, all assets carried at a revalued amount, will be revalued at least every 3 years.

**Transitional Arrangement**

During the time it takes to transition the carrying value of non-current assets from the cost approach to the fair value approach, the Council will still be utilising both methods across differing asset classes.

Those assets carried at cost will be carried in accordance with the policy detailed in the Initial Recognition section as detailed above.

Those assets carried at fair value will be carried in accordance with the Revaluation Methodology section as detailed above.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

**(d) Depreciation of Non-Current Assets (excluding freehold land)**

All non-current assets having a limited useful life are separately and systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets.

Depreciation is recognised on a straight-line basis, using rates which are reviewed each reporting period, as follows:

• Buildings	2-10%
• Structures	
General	2-10%
Class III and IV Waste Cells	% of actual usage
• Plant	15-40%
• Furniture and fittings	10-40%
• Equipment	10-40%

**(e) Intangible Assets**

**Easements**

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

**(f) Rates**

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

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

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

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

**(h) Trade and Other Payables**

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**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 made.

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

**(j) Revenue Recognition**

**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 2013**

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

**(m) Provisions**

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

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

**(n) Provision for Site Rehabilitation**

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

Previously Council has consistently recognised this provision by way of an incremental charge based on the volumetric usage of the landfill air space. From June 2011, the present value for the rehabilitation of the site has been calculated to be \$1,500,000 and has been deemed sufficient for post closure management purposes. To ensure that the principles of the present value are maintained, the annual increase in cumulative interest income relating to the \$1,500,000 is reflected as a provision expense each year.

The provision is measured using the best estimate of the amounts required and is reassessed periodically.

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

**(o) Provision for Environmental Monitoring**

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

Previously Council has consistently recognised this provision by way of an incremental charge based on the volumetric usage of the landfill air space. From June 2011, the present value for the environmental monitoring of the site has been calculated to be \$500,000 and has been deemed sufficient for post closure management purposes. To ensure that the principles of the present value are maintained, the annual increase in cumulative interest income relating to the \$500,000 is reflected as a provision expense each year.

The provision is measured using the best estimate of the amounts required and is reassessed periodically.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

**(p) Provision for Carbon Pricing**

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

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

**(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 2013**

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

**(t) Employee Entitlements**

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

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

The provision for employees' benefits to wages, salaries, annual leave and long service leave expected to be settled within 12 months represents the amount the municipality has a present obligation to pay resulting from employees services provided to end of the reporting period. The provision has been calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

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

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

**(iii) Superannuation Fund**

The Council contributes to the WA Local Government Superannuation Plan (LGSP) and other choice funds for qualifying employees as per statutory requirements (9% for 2012/13). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2012/13). Contributions to defined contribution plans are recognised as an expense as they become payable.

**(u) Rounding Of Amounts**

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

**(v) Comparative Figures**

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

**(w) Budget Comparative Figures**

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**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 either 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 profit or loss.

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.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

**(y) Financial Instruments (continued)**

*(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 tainted and 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.

*(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.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

**(y) Financial Instruments (continued)**

**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.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Council for the annual reporting period ended 30 June 2013.

Council's assessment of these new standards and interpretations is set out below:

Title and topic	Issued	Applicable	Impact
(i) ASB 9 – Financial Instruments  AASB 2012 – 6 Amendments to Australian Accounting Standards – Mandatory effective date of AASB 9 and Transition Disclosures	December 2009  September 2012	1 January 2013  Deferred AASB 9 until 1 January 2015	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 2009 – 11 Amendments to Australian Accounting Standards arising from AASB 9  [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	December 2009	1 January 2013	Nil – The revisions embodied in this standard give effect to the consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council (refer (i) above).
(iii) AASB 2010 – 7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	December 2010	1 January 2013	Nil – The revisions embodied in this standard give effect to the consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council (refer (i) above).

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued	Applicable	Impact
(iv) AASB 10 – Consolidated Financial Statements AASB 11 – Joint Arrangements AASB 12 – Disclosure of Interests in Other Entities AASB 127 – Separate Financial Statements AASB 128 – Investments in Associates and Joint Ventures AASB 2011 – 7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 131, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]	August 2011	1 January 2013	Nil – None of these except for AASB 128, are expected to have significant application to the operations of the Council.  With respect to AASB 128, where the Council has an interest in a Joint Venture, the requirements of AASB 128 supercede those of the current Joint Venture Standard AASB 131. The new standard more clearly defines the accounting treatment and disclosure in relation to it.  Due to the nature of the Joint Venture, it is not expected to have a significant impact on the Council.
(v) AASB 2011 - 9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income  [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	September 2011	1 July 2013	The main change embodied in this standard is the requirement to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. It effects presentation only and is not expected to significantly impact the Council.
(vi) AASB 119 – Employee Benefits AASB 2011 – 10 Amendments to Australian Accounting Standards arising from AASB 119 [AASB 1, 8, 101, 124, 134, 1049 & 2011 – 8 and Interpretation 14]	September 2011	1 January 2013	The changes in relation to defined benefit plans contained in this standard are not expected to significantly impact the Council nor are the changes to AASBs in relation to termination benefits.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued	Applicable	Impact
(vii) AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & 32]	June 2012	1 January 2013	<p>Principally amends AASB 7: Financial Instruments: Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.</p> <p>This Standard is not expected to significantly impact on the Council's financial statements.</p>
(viii) AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]	June 2013	1 January 2014	<p>This Standard adds application guidance to AASB 132: <i>Financial Instruments: Presentation</i> to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.</p> <p>This Standard is not expected to significantly impact the Council's financial statements.</p>
(ix) AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle. [AASB1,101,116,132,134 and Interpretation 2]	June 2012	1 January 2013	<p>Outlines changes to the various standards and interpretations as listed. These topics are not currently relevant to Council, nor are they expected to be in the future. As a consequence, this Standard is not expected to significantly impact on the Council's financial statements.</p>

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued	Applicable	Impact
(x) AASB 2012-10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments.  [AASB 1, 5, 7, 8, 10, 11, 12, 13, 101, 102, 108, 112, 118, 119, 127, 128, 132, 133, 134, 137, 1023, 1038, 1039, 1049 & 2011-7 and Interpretation 12]	December 2012	1 January 2013	Mainly consequential changes relating to transition guidance. It is not expected to have a significant impact on Council.

#### (aa) 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 became mandatory and which were applicable to its operations.

These new and revised standards were:

AASB 2010 – 8

AASB 2011 - 3

AASB 2011 - 13

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



**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**2. REVENUE AND EXPENSES**

**ACTUAL**  
**2012/2013**  
**\$**

**ACTUAL**  
**2011/2012**  
**\$**

**Net Result**

The Net Result includes:

(i) Charging as an Expense:

**Auditors Remuneration**

- Audit of the Financial Report	9,860	9,360
- Audit and assurance of grant acquittals	1,870	2,400

	<b>11,730</b>	<b>11,760</b>
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**Depreciation and Amortisation Expense**

Buildings	268,407	225,802
Structures	1,101,210	611,493
Plant	2,455,117	1,937,381
Equipment	241,917	178,422
Furniture and Fittings	22,903	23,264

	<b>4,089,554</b>	<b>2,976,362</b>
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**ACTUAL**  
**2012/2013**  
**\$**

**BUDGET**  
**2012/2013**  
**\$**

**ACTUAL**  
**2011/2012**  
**\$**

(ii) Crediting as Revenue:

**Interest Earnings**

Interest on funds held in Reserves	1,910,460	2,133,360	1,622,164
Interest on Municipal Cash and Investments	355,625	238,334	768,648
Accrued Interest Earnings	156,043	0	184,497

	<b>2,422,128</b>	<b>2,371,694</b>	<b>2,575,309</b>
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**ACTUAL**  
**2012/2013**  
**\$**

**ACTUAL**  
**2010/2011**  
**\$**

**Significant Revenue**

General Purpose Funding	919,052	336,965
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	<b>919,052</b>	<b>336,965</b>
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The Significant Revenue relates to the recognition of gains on investments during the year.  
(Refer Note 7(c) for details).

# **EASTERN METROPOLITAN REGIONAL COUNCIL**

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013**

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

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

#### **Governance**

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

#### **General Purpose Funding**

Records interest revenue as well as other general purpose revenue.

#### **Community Amenities**

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

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

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

#### **EMRC MISSION STATEMENT**

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

<b>4. FEES AND CHARGES SUMMARY BY PROGRAM</b>	<b>ACTUAL 2012/2013 \$</b>	<b>BUDGET 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
Governance	340	600	604
Community Amenities	41,035,446	41,924,040	35,045,448
Other Property and Services	17,420	30,000	73,262
<b>Total Statutory Fees and Charges</b>	<b>41,053,206</b>	<b>41,954,640</b>	<b>35,119,314</b>

<b>5. GRANT, SUBSIDY AND CONTRIBUTION REVENUE BY PROGRAM</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
Community Amenities	913,165	728,021
Other Property and Services	1,451,701	1,221,597
<b>Total Statutory Fees and Charges</b>	<b>2,364,866</b>	<b>1,949,618</b>

<b>6. CONTROL OVER CONTRIBUTIONS</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>Conditions over Contributions</b>		

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

• Eastern Hill Catchment Management Project	46,359	325
• Helping the Helena Project	7,705	0
• EHCM Project - Community Engagement	13,928	0
• Marri Canker Project	1,515	0
• Community Energy Efficient Program (CEEP)	19,023	0
• Regional Active Transport Plan	0	25,000
	<u>88,530</u>	<u>25,325</u>

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

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

• Eastern Hill Catchment Management Project	325	0
• Regional Active Transport Plan	25,000	0
• Perth Solar City Project	0	46,647
	<u>25,325</u>	<u>46,647</u>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

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

	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
Cash and Cash Equivalents - Unrestricted	12,301,653	5,061,846
Cash and Cash Equivalents - Restricted	41,720,817	42,063,761
	<u><b>54,022,470</b></u>	<u><b>47,125,607</b></u>

**7(b). INVESTMENTS**

Investments - Restricted	0	29,348
	<u><b>0</b></u>	<u><b>29,348</b></u>

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

At the beginning of the year	29,348	2,567,115
Disposals	(948,400)	(2,874,732)
Unrealised gain/(loss) from change in fair value of investments	919,052	336,965
<b>Value at the end of the year</b>	<u><b>0</b></u>	<u><b>29,348</b></u>

**Held for Trading**

- Financial Instruments	0	29,348
<b>Value at the end of the year</b>	<u><b>0</b></u>	<u><b>29,348</b></u>

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

Plant and Equipment	1,029,772	1,211,123
Site Rehabilitation Red Hill - Post Closure	1,664,322	1,697,942
Future Development	234,694	2,913,350
Environmental Monitoring Red Hill	550,617	526,688
Environmental Insurance Red Hill	168,280	195,912
Risk Management	12,619	12,071
Class IV Cells Red Hill	439,250	362,862
Regional Development	20,193	17,913
Secondary Waste Processing	35,964,254	33,522,665
Class III Cells	1,473,747	3,517,865
Building Refurbishment (Ascot Place)	63,714	60,945
Long Service Leave	698,261	661,162
	<u>42,319,723</u>	<u>44,700,498</u>
Add movement in accrued interest	2,579	0
Less unrealised gain/(loss) from changes in fair value of Investments	(601,485)	(2,607,389)
	<u><b>41,720,817</b></u>	<u><b>42,093,109</b></u>

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

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

	ACTUAL 2012/2013	ACTUAL 2011/2012
General Purpose Funding	<u>919,052</u>	<u>336,965</u>

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

The realised/unrealised gains/(losses), of the investments existing as at 30 June 2013, reflected in the Statement of Comprehensive Income are summarised as follows:

Year	\$
2007/2008	(4,180,201)
2008/2009	(3,250,474)
2009/2010	621,457
2010/2011	2,614,794
2011/2012	1,587,035
<b>Opening Balance as at 1 July 2012</b>	<b>(2,607,389)</b>
Add: Realised/Unrealised gains on disposal of Investments for 2012/2013	919,052
Add: Write back of accumulated unrealised losses on disposals	1,086,852
<b>Balance as at 30 June 2013</b>	<b>(601,485)</b>

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

### 8. NET CURRENT ASSET POSITION

The net current asset position balance carried forward from the previous financial year after adjustment for Restricted Assets for the purpose of the 2012/2013 budget was \$1,635,317.

The actual net current asset position balance shown in the audited financial report as at 30 June 2012 and after adjustment for Restricted Assets was \$3,306,669.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

<b>9. TRADE AND OTHER RECEIVABLES</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>Current</b>		
Sundry Debtors	3,504,054	2,888,717
Other Debtors	48,842	45,851
Accrued Interest Earnings	760,143	604,100
Provision for Impairment of Receivables	(410)	(4,375)
	<u><b>4,312,629</b></u>	<u><b>3,534,293</b></u>

<b>10. OTHER ASSETS</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>Current</b>		
Prepayment - General	33,097	88,621
Prepayment - Insurance	22,310	11,091
Prepayment - Miscellaneous	9,600	8,783
	<u><b>65,007</b></u>	<u><b>108,495</b></u>

<b>11. INVENTORIES</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>Current</b>		
Distillate	31,803	32,178
Oils	2,186	3,571
Unleaded Fuel	8,179	8,779
Jumbobags	43,909	0
	<u><b>86,077</b></u>	<u><b>44,528</b></u>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

<b>12. PROPERTY, PLANT AND EQUIPMENT</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
Land - At Cost	16,361,457	9,255,511
Buildings - At Cost	7,052,800	6,871,451
Less Accumulated depreciation	(2,269,633)	(2,001,227)
	<b>4,783,167</b>	<b>4,870,224</b>
<b>Total Land and Buildings</b>	<b>21,144,624</b>	<b>14,125,735</b>
Plant - Independent Valuation 2013	9,825,700	14,487,134
Less Accumulated depreciation	0	(6,416,340)
	<b>9,825,700</b>	<b>8,070,794</b>
Equipment - Independent Valuation 2013	291,050	1,791,183
Less Accumulated depreciation	0	(1,252,755)
	<b>291,050</b>	<b>538,428</b>
<b>Total Plant and Equipment</b>	<b>10,116,750</b>	<b>8,609,222</b>
Furniture and Fittings - Independent Valuation 2013	156,333	491,205
Less Accumulated depreciation	0	(343,042)
	<b>156,333</b>	<b>148,163</b>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>31,417,707</b>	<b>22,883,120</b>

**MOVEMENT IN CARRYING AMOUNTS**

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	LAND	BUILDINGS	PLANT	EQUIPMENT	FURNITURE and FITTINGS	TOTAL
	\$	\$	\$	\$	\$	\$
Balance as at the beginning of the year	9,255,511	4,870,224	8,070,794	538,428	148,163	<b>22,883,120</b>
Additions	7,105,946	181,349	3,189,208	181,991	63,527	<b>10,722,021</b>
Disposals	0	0	(298,524)	(8,461)	(99)	<b>(307,084)</b>
Impairment Loss	0	0	0	0	(32,354)	<b>(32,354)</b>
Revaluation - Increment/(Decrement)	0	0	1,319,340	(178,991)	0	<b>1,140,349</b>
Depreciation Expense	0	(268,406)	(2,455,118)	(241,917)	(22,904)	<b>(2,988,345)</b>
<b>Carrying amount at the end of the year</b>	<b>16,361,457</b>	<b>4,783,167</b>	<b>9,825,700</b>	<b>291,050</b>	<b>156,333</b>	<b>31,417,707</b>

The Council's Plant and Equipment was revalued at 30 June 2013 by independent valuers. All of the valuations were made on the basis of open market values of similar assets adjusted for condition and comparability (Level 2 inputs in the fair value hierarchy).

The revaluation resulted in an overall increase of \$1,140,349 in the net value of the Council's plant and equipment. All of this increase was credited to the revaluation surplus in the Council's equity and was recognised as changes on Revaluation of non-current assets in the Statement of Comprehensive Income.

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

<b>13. INFRASTRUCTURE</b>	<b>ACTUAL 2012/2013</b>	<b>ACTUAL 2011/2012</b>
	<b>\$</b>	<b>\$</b>
<u>Structures</u>	21,098,497	20,947,591
Less Accumulated depreciation	(11,945,622)	(10,845,252)
	<u><b>9,152,875</b></u>	<u><b>10,102,339</b></u>

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

Balance as at the beginning of the year	10,102,339	10,580,016
Additions	151,746	133,816
Depreciation Expense	(1,101,210)	(611,493)
<b>Carrying amount at the end of the year</b>	<u><b>9,152,875</b></u>	<u><b>10,102,339</b></u>

Work in Progress

The work in progress value is represented by:

Class III Farm Stage 1 and 2 construction	4,052,549	200
Red Hill Leachate Project	519,701	0
Hazelmere fire fighting system/equipment	318,782	4,935
Other	128,366	407,727
<b>Total WIP as the end of the year</b>	<u><b>5,019,398</b></u>	<u><b>412,862</b></u>

**14. REVALUATION SURPLUS**

A revaluation surplus has arisen on the revaluation of the following class of non-current assets:

**Plant and Equipment**

Opening balance	0	0
Revaluation Increment	1,319,340	0
Revaluation Decrement	(178,991)	0
	<u><b>1,140,349</b></u>	<u><b>0</b></u>

**15. TRADE AND OTHER PAYABLES**

**Current**

Payroll Accruals	192,787	205,641
GST Liability	357,955	484,735
Sundry Creditors	4,858,311	3,561,605
	<u><b>5,409,053</b></u>	<u><b>4,251,981</b></u>



**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

<b>16. PROVISIONS</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>Current</b>		
Employees Annual Leave	766,609	754,453
Employees Long Service Leave	412,034	436,059
Carbon Pricing	51,083	0
	<u><u>1,229,726</u></u>	<u><u>1,190,512</u></u>
<b>Non-current</b>		
Employees Long Service Leave	122,808	97,778
Red Hill Landfill Site Post Closure Rehabilitation	1,664,322	1,415,464
Red Hill Landfill Environmental Monitoring	550,617	141,544
Carbon Pricing	2,503,416	0
	<u><u>4,841,163</u></u>	<u><u>1,654,786</u></u>
<b>Analysis of total provisions:</b>		
Current	1,229,726	1,190,512
Non-current	4,841,163	1,654,786
	<u><u>6,070,889</u></u>	<u><u>2,845,298</u></u>

	<b>Provision for Annual Leave \$</b>	<b>Provision for Long Service Leave \$</b>	<b>Provision for Carbon Pricing \$</b>	<b>Provision for Site Rehabilitation \$</b>	<b>Provision for Environmental Monitoring \$</b>	<b>Total \$</b>
Opening balance as at 1 July 2012	754,453	533,837	0	1,415,464	141,544	<b>2,845,298</b>
Net Movement in Provisions	12,156	1,005	2,554,499	248,858	409,073	<b>3,225,591</b>
<b>Balance as 30 June 2013</b>	<u><u>766,609</u></u>	<u><u>534,842</u></u>	<u><u>2,554,499</u></u>	<u><u>1,664,322</u></u>	<u><u>550,617</u></u>	<u><u>6,070,889</u></u>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

<b>17. RESERVES</b>	<b>ACTUAL 2012/2013 \$</b>	<b>BUDGET 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>(a) Plant and Equipment Reserve</b>			
Opening balance as at 1 July	1,211,123	1,211,096	38,811
Transfer from retained surplus	2,629,585	2,629,585	4,289,340
Transfer to retained surplus	(2,865,962)	(3,790,965)	(3,119,055)
Interest	55,026	57,395	2,027
<b>Closing Balance as at 30 June</b>	<b>1,029,772</b>	<b>107,111</b>	<b>1,211,123</b>
<b>(b) Site Rehabilitation Reserve - Post Closure</b>			
Opening balance as at 1 July	1,697,942	1,700,612	3,023,037
Transfer from retained surplus	0	111,394	111,362
Transfer to retained surplus	(111,362)	0	(1,594,372)
Interest	77,742	80,641	157,915
<b>Closing Balance as at 30 June</b>	<b>1,664,322</b>	<b>1,892,647</b>	<b>1,697,942</b>
<b>(c) Future Development Reserve</b>			
Opening balance as at 1 July	2,913,350	2,941,374	1,505,552
Transfer from retained surplus	1,000,000	0	2,039,152
Transfer to retained surplus	(3,752,015)	(2,853,015)	(710,000)
Interest	73,360	139,477	78,646
<b>Closing Balance as at 30 June</b>	<b>234,695</b>	<b>227,836</b>	<b>2,913,350</b>
<b>(d) Environmental Monitoring Reserve</b>			
Opening balance as at 1 July	526,688	529,750	306,803
Transfer from retained surplus	0	0	203,858
Transfer to retained surplus	0	0	0
Interest	23,929	25,120	16,027
<b>Closing Balance as at 30 June</b>	<b>550,617</b>	<b>554,870</b>	<b>526,688</b>
<b>(e) Environmental Insurance Reserve</b>			
Opening balance as at 1 July	195,912	198,047	211,327
Transfer from retained surplus	0	0	0
Transfer to retained surplus	(36,533)	(36,533)	(26,455)
Interest	8,901	9,391	11,039
<b>Closing Balance as at 30 June</b>	<b>168,280</b>	<b>170,905</b>	<b>195,912</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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<b>17. RESERVES (Continued)</b>	<b>ACTUAL 2012/2013 \$</b>	<b>BUDGET 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>(f) Risk Management Reserve</b>			
Opening balance as at 1 July	12,071	12,185	11,472
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	548	578	599
<b>Closing Balance as at 30 June</b>	<b>12,619</b>	<b>12,763</b>	<b>12,071</b>
<b>(g) Class IV Reserve</b>			
Opening balance as at 1 July	362,862	365,695	289,265
Transfer from retained surplus	59,901	58,487	58,487
Transfer to retained surplus	0	0	0
Interest	16,486	17,341	15,110
<b>Closing Balance as at 30 June</b>	<b>439,249</b>	<b>441,523</b>	<b>362,862</b>
<b>(h) Regional Development Reserve</b>			
Opening balance as at 1 July	17,913	17,920	23,806
Transfer from retained surplus	855,000	855,000	770,000
Transfer to retained surplus	(853,534)	(663,166)	(777,137)
Interest	814	817	1,244
<b>Closing Balance as at 30 June</b>	<b>20,193</b>	<b>210,571</b>	<b>17,913</b>
<b>(i) Secondary Waste Reserve</b>			
Opening balance as at 1 July	33,522,665	33,749,744	23,083,322
Transfer from retained surplus	5,322,672	5,590,416	12,552,176
Transfer to retained surplus	(4,342,099)	(5,916,410)	(3,318,644)
Interest	1,461,016	1,600,382	1,205,811
<b>Closing Balance as at 30 June</b>	<b>35,964,254</b>	<b>35,024,132</b>	<b>33,522,665</b>
<b>(j) Class III Reserve</b>			
Opening balance as at 1 July	3,517,865	3,535,822	1,898,829
Transfer from retained surplus	2,210,852	2,201,903	1,659,846
Transfer to retained surplus	(4,414,800)	(4,275,000)	(140,000)
Interest	159,830	167,665	99,190
<b>Closing Balance as at 30 June</b>	<b>1,473,747</b>	<b>1,630,390</b>	<b>3,517,865</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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<b>17. RESERVES (Continued)</b>	<b>ACTUAL 2012/2013 \$</b>	<b>BUDGET 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>(k) Building Refurbishment Reserve</b>			
Opening balance as at 1 July	60,945	61,524	57,920
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	2,769	2,917	3,025
<b>Closing Balance as at 30 June</b>	<b>63,714</b>	<b>64,441</b>	<b>60,945</b>
<b>(l) Site Rehabilitation Reserve - Ongoing</b>			
Opening balance as at 1 July	0	0	0
Transfer from retained surplus	224,412	0	0
Transfer to retained surplus	(224,412)	0	0
Interest	0	0	0
<b>Closing Balance as at 30 June</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>(m) Long Service Leave Reserve</b>			
Opening balance as at 1 July	661,162	667,166	603,573
Transfer from retained surplus	7,060	7,060	26,060
Transfer to retained surplus	0	0	0
Interest	30,039	31,636	31,529
<b>Closing Balance as at 30 June</b>	<b>698,261</b>	<b>705,862</b>	<b>661,162</b>
<b>TOTAL RESERVES</b>	<b>42,319,723</b>	<b>41,043,051</b>	<b>44,700,498</b>

Fair Value of investments at balance date has resulted in an unrealised loss of \$601,485 (refer Note 7(c) ). This had the effect of Reserves falling short of being cash backed by the unrealised loss.

The crystallisation of the unrealised losses may occur at such time as the individual investments are sold, redeemed, matured or defaulted and may be at an amount different from that disclosed above.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17. RESERVES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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**18. NOTES TO THE STATEMENT OF CASH FLOWS**

**(i) Reconciliation of Cash**

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

	<b>ACTUAL</b>	<b>BUDGET</b>	<b>ACTUAL</b>
	<b>2012/2013</b>	<b>2012/2013</b>	<b>2011/2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and Cash Equivalents - Unrestricted	12,301,653	3,727,914	5,061,846
Cash and Cash Equivalents - Restricted	41,720,817	36,825,867	42,063,761
<b>Total Cash</b>	<b>54,022,470</b>	<b>40,553,781</b>	<b>47,125,607</b>

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

Net Result	15,452,907	12,197,217	14,559,307
Depreciation	4,089,554	6,073,823	2,976,362
(Profit)/Loss on sale of assets	(39,598)	(165,088)	(800,083)
Increase/(Decrease) in provisions - Other	657,931	122,526	122,530
Increase/(Decrease) in accrued interest on Loans	0	0	0
Increase/(Decrease) in provisions - Employee	13,162	15,583	160,929
Increase/(Decrease) in provisions - Carbon price	2,554,499	0	0
Increase/(Decrease) in Sundry Creditors	1,283,853	0	(724,682)
Increase/(Decrease) in GST	(126,780)	0	6,440
(Increase)/Decrease in accrued interest earnings	(156,043)	0	(184,497)
(Increase)/Decrease in Receivables	(622,293)	0	(331,522)
(Increase)/Decrease in Inventory	(41,549)	0	1,577
(Increase)/Decrease in Prepayments	43,488	0	(3,301)
(Increase)/Decrease in unrealised gain/loss from change in fair value of investments	(919,052)	0	(336,965)
(Increase)/Decrease in Revaluation on non-current assets	(1,140,349)	0	0
Increase/(Decrease) in Impairment Loss	32,354	0	0
<b>Net cash from operating activities</b>	<b>21,082,084</b>	<b>18,244,061</b>	<b>15,446,095</b>

**(iii) Undrawn Borrowing Facilities**

**Credit Standby Arrangements**

There were no bank overdraft facilities in place for the Eastern Metropolitan Regional Council at balance date.

Credit Card Limits	43,000	43,000
Credit Utilised at Balance Date	(3,167)	(5,962)
<b>Net cash from operating activities</b>	<b>39,833</b>	<b>37,038</b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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**19. EMPLOYEE ENTITLEMENTS**

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

<b>Provision for Employee Entitlements</b> (Refer to Note 16)	<b>ACTUAL</b> <b>2012/2013</b> <b>\$</b>	<b>ACTUAL</b> <b>2011/2012</b> <b>\$</b>
- Current	1,178,643	1,190,512
- Non-current	122,808	97,778
<b>Total Employee Entitlements</b>	<b><u>1,301,451</u></b>	<b><u>1,288,290</u></b>
	<b>ACTUAL</b> <b>FTE's</b> <b>2012/2013</b>	<b>ACTUAL</b> <b>FTE's</b> <b>2011/2012</b>
<b>Total number of (FTE) employees at end of financial year</b>	<b><u>91</u></b>	<b><u>100</u></b>

**20. COUNCILLORS FEES AND ALLOWANCES**

<b>ACTUAL</b> <b>2012/2013</b> <b>\$</b>	<b>BUDGET</b> <b>2012/2013</b> <b>\$</b>	<b>ACTUAL</b> <b>2011/2012</b> <b>\$</b>
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The following fees, expenses and allowances were paid to council members and/or the Chairman

Councillors' meeting fees	75,833	77,000	77,000
Chairman's meeting fees	14,000	14,000	14,000
Deputy Councillors' meeting fees	700	3,500	980
Chairman's Local Government fee	6,000	6,000	6,000
Deputy Chairman's Local Government fee	1,500	1,500	1,500
	<b><u>98,033</u></b>	<b><u>102,000</u></b>	<b><u>99,480</u></b>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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<b>21. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM</b>	<b>ACTUAL 2012/2013 \$</b>	<b>ACTUAL 2011/2012 \$</b>
<b>CURRENT ASSETS</b>		
General Purpose Funding	17,795,139	9,960,286
Governance	777,173	734,178
Community Amenities	39,893,679	40,129,895
Economic Services	20,193	17,913
<b>NON-CURRENT ASSETS</b>		
<b>Land</b>		
Governance	2,531,274	2,531,274
Community Amenities	13,830,182	6,724,237
<b>Buildings</b>		
Governance	3,669,736	3,795,068
Community Amenities	1,113,431	1,075,157
<b>Structures</b>		
Community Amenities	9,152,875	10,102,339
<b>Plant</b>		
Governance	525,000	482,519
Community Amenities	9,300,700	7,588,274
<b>Equipment</b>		
Governance	176,100	308,749
Community Amenities	114,950	229,678
<b>Furniture and Fittings</b>		
Governance	156,333	148,164
<b>Work In Progress</b>		
Unclassified	5,019,398	412,861
	<b><u>104,076,163</u></b>	<b><u>84,240,592</u></b>

<b>22. DISPOSAL OF ASSETS</b>	<b>ACTUAL 2012/2013 \$</b>			<b>BUDGET 2012/2013 \$</b>		
	<b>Net Book Value</b>	<b>Sale Price</b>	<b>Gain (Loss)</b>	<b>Net Book Value</b>	<b>Sale Price</b>	<b>Gain (Loss)</b>
Plant	298,524	346,682	48,158	525,137	690,225	165,088
Equipment	8,461	0	(8,461)	0	0	0
Furniture and Fittings	99	0	(99)	0	0	0
<b>Total Assets Disposed</b>	<b><u>307,084</u></b>	<b><u>346,682</u></b>	<b><u>39,598</u></b>	<b><u>525,137</u></b>	<b><u>690,225</u></b>	<b><u>165,088</u></b>



**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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**23. INFORMATION ON BORROWINGS**

(a) Borrowings

The EMRC currently do not have any loans or borrowings.

(b) New Borrowings

There were no new borrowings during the 2012/13 financial year.

(c) Unspent Loans

There were no unspent loans during the 2012/13 financial year.

**24. INTEREST IN THE EMRC**

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

<b>Member Council</b>	<b>2012/2013</b>		<b>2011/2012</b>	
	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>
Town of Bassendean	4.58	4,236,303	4.60	3,550,574
City of Bayswater	19.84	18,373,133	19.22	14,824,118
City of Belmont	11.43	10,581,155	11.04	8,516,406
Shire of Kalamunda	17.21	15,937,574	17.40	13,420,932
Shire of Mundaring	11.61	10,752,890	12.13	9,357,418
City of Swan	35.33	32,715,166	35.61	27,473,865
<b>Total Equity</b>	<b>100.00</b>	<b>92,596,221</b>	<b>100.00</b>	<b>77,143,313</b>

The EMRC participating Member Councils' interest distributions for 2012/2013 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 does not engage in transactions expressed in foreign currencies and is 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	
	2012/2013	2011/2012	2012/2013	2011/2012
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash and cash equivalents	54,022,470	47,125,607	54,022,470	47,125,607
Receivables	4,312,629	3,534,293	4,312,629	3,534,293
Financial Assets at fair value through profit and loss	0	29,348	0	29,348
	<u>58,335,099</u>	<u>50,689,248</u>	<u>58,335,099</u>	<u>50,689,248</u>
<b>Financial Liabilities</b>				
Payables	5,409,053	4,251,981	5,409,053	4,251,981
	<u>5,409,053</u>	<u>4,251,981</u>	<u>5,409,053</u>	<u>4,251,981</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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**25. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Cash and Cash Equivalents**

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

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

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

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

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

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

	<b>2012/2013</b>	<b>2011/2012</b>
	<b>\$</b>	<b>\$</b>
Impact of a 10% movement in price of investments:		
- Equity	0	2,935
- Statement of Comprehensive Income	0	2,935
Impact of a 1% movement in interest rates on cash and investments:		
- Equity	540,225	471,550
- Statement of Comprehensive Income	540,225	471,550

**(b) Receivables**

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

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

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

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

	<b>2012/2013</b>	<b>2011/2012</b>
	<b>\$</b>	<b>\$</b>
Percentage of Other Receivables		
- Current	90.0%	95.8%
- Overdue	10.0%	4.2%
	<u>100.0%</u>	<u>100.0%</u>

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
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**25. FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Payables**

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

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

	<b>Due within 1 year \$</b>	<b>Due between 1 &amp; 5 years \$</b>	<b>Due after 5 years \$</b>	<b>Total contractual cash flows \$</b>	<b>Carrying values \$</b>
<b><u>2012/2013</u></b>					
Payables	5,409,053	0	0	5,409,053	5,409,053
	<u>5,409,053</u>	<u>0</u>	<u>0</u>	<u>5,409,053</u>	<u>5,409,053</u>
<b><u>2011/2012</u></b>					
Payables	4,251,981	0	0	4,251,981	4,251,981
	<u>4,251,981</u>	<u>0</u>	<u>0</u>	<u>4,251,981</u>	<u>4,251,981</u>

**(d) Borrowings**

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

Council currently do not have any borrowings or loans.

# EASTERN METROPOLITAN REGIONAL COUNCIL

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

26. COMMITMENTS FOR CAPITAL EXPENDITURE	ACTUAL 2012/2013 \$	ACTUAL 2011/2012 \$
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities, payable:		
- Not longer than one year	129,480	1,356,606
<b>Total Capital Commitments</b>	<b>129,480</b>	<b>1,356,606</b>

27. FINANCIAL RATIOS	ACTUAL 2012/2013	ACTUAL 2011/2012	ACTUAL 2010/2011
Current Ratio	2.69 : 1.00	1.75 : 1.00	2.78 : 1.00
Asset Sustainability Ratio	0.92 : 1.00	1.58 : 1.00	2.13 : 1.00
Operating Surplus Ratio	0.29 : 1.00	0.34 : 1.00	0.27 : 1.00
Own Source Revenue Coverage Ratio	1.36 : 1.00	1.46 : 1.00	1.16 : 1.00
Debt Service Cover Ratio	Not Applicable	Not Applicable	Not Applicable

The following information relates to those ratios which only require an attestation they have been checked and are supported by verifiable information. It does not form part of the audited annual financial report.

	ACTUAL 2012/2013	ACTUAL 2011/2012	ACTUAL 2010/2011
Asset Consumption Ratio	0.59 : 1.00	N/A	N/A
Asset Renewal Funding Ratio	1.00 : 1.00	N/A	N/A
Asset Consumption Ratio	$\frac{\text{depreciated replacement cost of assets}}{\text{current replacement cost of depreciable assets}}$		
Asset Renewal Funding Ratio	$\frac{\text{NPV of planned capital renewals over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$		

**N/A - In keeping with amendments to Local Government (Financial Management) Regulation 50, comparatives for the two preceding years (being 2012 and 2011) have not been reported as financial information is not available.**

**EASTERN METROPOLITAN REGIONAL COUNCIL**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**  
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**28. CONTINGENT LIABILITIES**

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

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

On 30 Oct 2008, in common with hundreds of other investors in Federation, this investment was redeemed for \$450,000.

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 redemption amounts. This action is the subject of a stay until 20 January 2014. In the event the application is granted, it will not result in a recoverable debt unless and until it is registered in Australia. If Lehman makes that application it will then be opposed, resulting in litigation which will take years to conclude. The legal advice provided to the EMRC about this claim is, in substance, the claim is unlikely to succeed.

**29. ECONOMIC DEPENDENCY**

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

**30. EVENTS AFTER THE REPORTING PERIOD**

Following the end of the 2012/2013 financial year, the City of Stirling has ceased disposal of its tonnages at the Red Hill Waste Management Facility from the beginning of August 2013.

With reference to the proposed amalgamation of local governments effective from 1 July 2015, it is understood that with the exception of minor boundary changes the EMRC region will remain unchanged. However the membership of the EMRC will move from 6 to 3 as a result of those proposed amalgamations.

# INDEPENDENT AUDIT REPORT



**For the Year Ended  
30 June 2013**

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

We have audited the financial report of the Eastern Metropolitan Regional Council, which comprises the Statement of Financial Position as at 30 June 2013 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies and other explanatory information and Statement by Chief Executive Officer.

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

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

**Auditor's Responsibility**

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

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

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

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.





## INDEPENDENT AUDITOR'S REPORT

TO: MEMBERS OF EASTERN METROPOLITAN REGIONAL COUNCIL (Cont'd)

### Auditor's Opinion

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

- (a) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2013 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards.

### Report on Other Legal and Regulatory Requirements

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

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

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

  
A MACRI  
PARTNER

PERTH  
DATED THIS 4<sup>th</sup> DAY OF SEPTEMBER 2013.





**PARTNERS**  
 Anthony Macri FCPA  
 Domenic Macri CPA  
 Connie De Felice CA

Certified Practising Accountants

18 April 2013

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

Dear Sir

**RE: INTERIM AUDIT VISIT FOR THE YEAR ENDING 30 JUNE 2013**

We carried out an interim audit of the Council for the year ending 30 June 2013.

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

- Purchases
- Payments and Creditors
- Receipts and Sundry Debtors
- Payroll
- Bank Reconciliations
- General Accounting and IT Controls
- Investments
- Registers (Tenders Register and Register of Financial Interests)
- Minutes Review

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

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

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



become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

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

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

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

### TENDERS REGISTER

As part of our audit procedures, we reviewed the Tenders Register for compliance with the Local Government Act 1995 (as amended) and Local Government (Functions and General) Regulations 1996.

Regulation 17 of the Local Government (Functions and General) Regulations 1996 requires the tender register to include the following information in respect of each invitation to tender:-

- (a) a brief description of the goods or services required;
- (b) particulars of the making of –
  - (i) the decision to invite tenders; and
  - (ii) if applicable, decision to seek expressions of interest under regulation 21(1);
- (c) particulars of –
  - (i) any notice by which expressions of interest from prospective tenderers was sought;
  - (ii) any person who submitted an expression of interest; and
  - (iii) any list of acceptable tenderers that was prepared under regulation 23(4);
- (d) a copy of the notice of the invitation to tender;
- (e) the name of each tenderer whose tender has been opened; and
- (f) the name of any successful tenderer;
- (g) the amount of the consideration or a summary of the amount of the consideration sought in the tender accepted by the local government.

Our findings from our selection of samples indicated that whilst the tenders register complied with all the legislative requirements, the prices provided by all tenderers were also indicated in the register, which may be deemed to be of commercial confidentiality. The regulation only requires the consideration to be shown of the successful tender.

We highlight the above for management attention only.

#### **Management Comments:**

***The EMRC acknowledges the finding that the EMRC has exceeded the requirement of Regulation 17 of the Local Government (Functions and General) Regulations 1996 by providing the considerations submitted by all tenderers in the Tender Register. Accordingly, the process will be amended for future tenders to only include the prices by the successful tenderer.***



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

Yours faithfully



**MACRI PARTNERS**  
EMRC01 AMng Interim Audit Visit Letter 2013





## 12 REPORTS OF DELEGATES

Nil

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

Nil

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

Nil

## 15 FUTURE MEETINGS OF THE AUDIT COMMITTEE

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

### **“2.3 Meetings**

*The Committee meets as required at the discretion of the Chairman of the Committee at least three (3) times per year to coincide with approval of strategic and annual plans, the annual budget and the auditor’s report on the annual financial report.*

*Additional meetings shall be convened at the discretion of the Chairman or at the written request of any member of the Committee or external auditor.”*

### **Future Meetings 2013**

Thursday	10	October (if required)	at	EMRC Administration Office
Thursday	21	November (if required)	at	EMRC Administration Office

## 16 DECLARATION OF CLOSURE OF MEETING

There being no further business the meeting was closed at 6:40pm.