

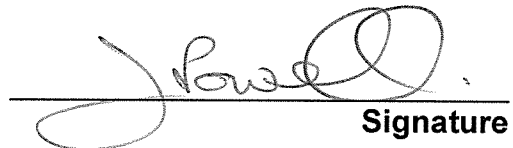


MINUTES

CERTIFICATION OF CONFIRMATION OF COMMITTEE MEETING MINUTES

6 SEPTEMBER 2012

I, Cr Janet Powell, hereby certify that the following minutes [pages 1 to 111] of the Meeting of **AUDIT COMMITTEE** held on held on 6 September 2012 were confirmed at a meeting of the Committee held on 7 March 2013.



Signature

Cr Janet Powell

Person presiding at the Committee Meeting held on 7 March 2013

AUDIT COMMITTEE

MINUTES

6 September 2012

(REF: COMMITTEES-14468)

A meeting of the Audit Committee was held at the EMRC Administration Office, 1st Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 6 September 2012**. The meeting commenced at **5:01pm**.

TABLE OF CONTENTS

1	DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS	1
2	ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED	1
3	DISCLOSURE OF INTERESTS	1
4	ANNOUNCEMENT BY THE CHAIRMAN OR PERSON PRESIDING WITHOUT DISCUSSION	1
5	APPLICATION FOR LEAVE OF ABSENCE	1
6	PRESENTATIONS	1
7	CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS	2
	7.1 <i>MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 5 JULY 2012</i> <i>(Ref: Committees-14322)</i>	
8	QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN	2
9	QUESTIONS WITHOUT NOTICE	2
10	ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC	2
11	BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING	2
12	REPORTS OF OFFICERS/AUDITORS	3
	12.1 <i>INTERNAL AUDIT REPORT PROGRAMME 2011/2012</i> <i>(Ref: Committees-14342)</i>	3
	12.2 <i>ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2012</i> <i>(Ref: Committees-14515)</i>	55
13	REPORTS OF DELEGATES	111
14	CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC	111
15	GENERAL BUSINESS	111
16	FUTURE MEETINGS OF THE AUDIT COMMITTEE	111
17	DECLARATION OF CLOSURE OF MEETING	111



1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Acting Chairman, Cr Färdig, opened the meeting at 5:01pm.

2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

Councillor Attendance

Cr Janet Powell (Chairman) <i>(from 5:03pm)</i>	EMRC Member	City of Belmont
Cr David Färdig (Deputy Chairman)	EMRC Member	City of Swan
Cr Gerry Pule	EMRC Member	Town of Bassendean
Cr Graham Pittaway OAM	EMRC Member	City of Bayswater
Cr Frank Lindsey	EMRC Member	Shire of Kalamunda
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
Ms Mary-Ann Winnett	Personal Assistant to Director Corporate Services (Minutes)

Visitors

Mr Tony Macri	Macri Partners
Mr Terry Tan	Macri Partners
Mr James Cottrill	Stantons International
Mr Levy Mpofo	Stantons International

3 DISCLOSURE OF INTERESTS

Nil

4 ANNOUNCEMENT BY THE CHAIRMAN OR PERSON PRESIDING WITHOUT DISCUSSION

Nil

5 APPLICATION FOR LEAVE OF ABSENCE

Nil

6 PRESENTATIONS

Nil



12 REPORTS OF OFFICERS/AUDITORS

12.1 INTERNAL AUDIT REPORT PROGRAMME 2011/2012

REFERENCE: COMMITTEES-14342

PURPOSE OF REPORT

The purpose of this report is to present the Audit Committee (AC) with the internal audit report of the 2011/2012 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.
- The internal audit programme commenced in May 2012 for the Procurement and Contract Management, IT, and Payroll audit areas.
- The internal audit reports for each of the above areas are attached and have been assessed with overall satisfactory ratings and no major issues identified.

Recommendation(s)

That Council notes the internal audit reports forming attachments one to three of this report.

SOURCE OF REPORT

Director Corporate Services

BACKGROUND

At the Audit Committee (AC) meeting held on 22 September 2011 (Ref: Committees-13108), 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	ü			
IT General Controls	ü			
Payroll	ü			
Procurement	ü			
Accounts Payable		ü		
Corporate Governance		ü		
Grants Management		ü		
Risk Management		ü		
Human Resource Management			ü	



Item 12.1 continued

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

REPORT

The internal audit programme commenced in May 2012 for the following audit areas, specifically:

- Payroll;
- Information Systems General Controls; and
- Procurement and Contract Management.

The overall assessments of the quality of management controls were satisfactory, with no major issues identified. The internal audit has been beneficial in assisting management to continuously improve its systems of internal control. It has been suggested that to improve the financial framework the EMRC should consider adopting formal procedures in its financial manuals where it is feasible.

The reports for the 2011/2012 internal audit programme are attached.

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

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 4 – Good Governance

- 4.1 To improve member Council and EMRC financial viability
- 4.7 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

The annual budget provides for the internal audit function.



Item 12.1 continued

SUSTAINABILITY IMPLICATIONS

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

MEMBER COUNCIL IMPLICATIONS

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

ATTACHMENT(S)

1. Internal Audit Report – Information Systems General Controls (Ref: Committees-14374)
2. Internal Audit Report – Payroll (Ref: Committees-14373)
3. Internal Audit Report – Procurement & Contract Management (Ref: Committees-14372)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That Council notes the internal audit reports forming attachments one to three of this report.

AUDIT COMMITTEE RECOMMENDATION(S)

MOVED CR PILGRIM SECONDED CR FÄRDIG

That Council notes the internal audit reports forming attachments one to three of this report.

CARRIED UNANIMOUSLY

COUNCIL RESOLUTION(S)

MOVED CR FÄRDIG SECONDED CR PITTAWAY

THAT COUNCIL NOTES THE INTERNAL AUDIT REPORTS FORMING ATTACHMENTS ONE TO THREE OF THIS REPORT.

CARRIED UNANIMOUSLY

EASTERN METROPOLITAN REGIONAL COUNCIL
Information Systems General Controls Audit

May 2012

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TABLE OF CONTENTS

1.0 MANAGEMENT SUMMARY 1
 1.1 RISK RATINGS AND INTERPRETATION 2

2.0 BACKGROUND 3

3.0 FINDINGS AND RECOMMENDATIONS 3
 3.1 IT General Controls..... 5
 3.1.1 Backup – Firewall Rulesets5
 3.1.2 Policy Awareness6
 3.1.3 Server Room – Water Risk Controls..... 7

4.0 PREVIOUS AUDIT OBSERVATIONS..... 8

1.0 MANAGEMENT SUMMARY

Audit Objective(s):

The objectives of this review were to determine if there are reasonable assurances in respect to:

- The security framework in place supports the reliability and integrity of information within the EMRC
- Alignment against a recognised baseline security standard being AS/NZS 27002:2006 Information Security Management
- Physical and information assets are safeguarded against malicious and accidental damage
- Effectiveness of security processes.

Audit Scope:

- The scope of this review was to focus on EMRC’s Information Services IT General Controls environment.

Summary of findings and recommendations:

There were no findings with a critical, major or Moderate risk rating. There were also no issues brought forward from the prior years in relation to this audit.

#	<u>Finding / Recommendation</u>	<u>Risk Rating</u>
3.1.1	<p>Firewall Backups <u>Finding:</u> The current firewall ruleset is not backed up through a mechanism such as exporting to a separate location. The firewall configuration is only maintained on the Threat Management Server. <u>Recommendation:</u> EMRC should perform periodic backups of the firewall ruleset such as exporting to a secure directory for the purpose of history and backup.</p>	Minor
3.1.2	<p>Policy Awareness <u>Finding:</u> There is not currently an ongoing policy awareness process which includes acceptance of applicable IT policies. <u>Recommendation:</u> Consider implementing a process for ongoing awareness process in relation to IT policies.</p>	Minor
3.1.2	<p>Server Room – Water Risk Controls <u>Finding:</u> It was noted that water pipes run down the wall on the main server room location / power points are close to carpet level and there is no drainage. Additionally water pipes for the air conditioning unit in the secondary server room are within 15cm of the mains power board and almost directly above. <u>Recommendation:</u> EMRC should investigate if additional drainage is available for the upstairs server room for the event of burst water pipes. Also investigate if the water pipe for the secondary server room can be moved further away from the main power board.</p>	Minor

1.1 RISK RATINGS AND INTERPRETATION

Risk Rating	Rating Interpretation	Suggested timing of implementing recommendations
CRITICAL	<i>The finding poses a severe risk to the organisation if not appropriately and timely addressed</i>	<i>Commence remedial action immediately</i>
MAJOR	<i>The finding poses significant risk to the organisation if not appropriately and timely addressed.</i>	<i>Commence remedial action within 3 months</i>
MODERATE	<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>
MINOR	<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>

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.

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2.0 BACKGROUND

When the Eastern Metropolitan Regional Council (EMRC) was constituted in November 1983, its function was to provide waste management and disposal services. Since then EMRC has grown significantly and now, in partnership with the member Councils, provides a varied yet interrelated range of services designed to enhance the region, maximise its numerous natural features, and provide the highest possible quality of life for the people who live in or visit it.

The Council works alongside a workforce of approximately 100 skilled and dedicated employees who work across three divisions, delivering a number of services:

- Waste Management
- Environmental Services
- Regional Development
- Risk Management
- Resource Recovery
- Corporate Services/Governance.

The baseline standard we employed for review of EMRC's IT General Controls Environment was the information security standard: AS/NZS ISO/IEC 27002 Information Security Management:

- This International Standard establishes guidelines and general principles for initiating, implementing, maintaining, and improving information security management in an organisation. The objectives represent the basis for our audit processes and provide general guidance on the commonly accepted goals of information security management.

The standard is rationalised against the size and scope of operations within the organisation.

3.0 FINDINGS AND RECOMMENDATIONS

The following are conclusions based on the objectives of the review:

- With consideration for the size and scope of operations within the organisation we consider that there is a low risk in relation to the IT general control environment.

The following pages provide the overview of the assessment in relation to the IT General Controls Environment within EMRC.

The following table is a summary for the status and consideration of key controls against key areas of our testing processes which are based on AS/NZS ISO/IEC 27002. This table considers the size and scope of operations and if adequate consideration of control is applied:

Scope:		The scope of this review was to focus on EMRC's Information Services Branch's information technology general controls environment.		Level of risk against key principles					
		Objectives:		The indicative level of risk associated with key elements of the referenced information security standard to the organisation based on testing of the policy / processes and controls with due consideration of the size and scope of operations.					
Standard:		AS/NZS ISO/IEC 27002 Information Security Management and AS2834 Computer Accommodation		Not Applicable	Low	Medium	High	Observation*	
AS/NZS ISO/IEC 27002	#	Area and Section:	Description:						
	A.5	IT Security Policy	Information Security Policy Document		●				-
	A.6	Security Organisation	Information Security Infrastructure		●				-
			Security of Third Party Access		●				-
			Outsourcing		●				-
	A.7	IT Asset Classification and Control	Accountability for Assets		●				-
			Information Classification		●				-
	A.8	Human Resources Security	Security in Job Definition, Resourcing and ongoing Employment		●				-
			Security for Termination and Change of Employment		●				-
	A.9	Physical and Environmental Security	Secure Areas		●				-
			IT Equipment Security		●	●			3.1.3
	A.10	Communications and Operations Management	Operational Procedures and Responsibilities		●				-
			Third Party Service Delivery Management		●				-
			System Planning and Acceptance		●				-
			Protection against Malicious Software		●				-
			Backup Processes		●				3.1.1
			Network Management		●				-
			Information Handling and Security		●				-
	A.11	Access Control	Logging and Monitoring Processes		●				-
			Network Access Controls		●				-
Operating System Access Controls				●				--	
Application Access Controls				●				3.1.2	
A.12	Systems Acquisition, Development and Maintenance	Mobile computing and Teleworking		●				-	
		Security Requirements of Systems		●				-	
		Security in Application Systems		●				-	
		Security of System Files		●				-	
A.13	Incident Management	Security in Development and Support Processes		●				-	
		Reporting over Security Information Security Incidents and Weaknesses		●				-	
A.14	Business Continuity Management	Business Continuity Management Processes		●				-	
		IT Disaster Recovery Processes		●	●			PY4.1	
A.15	Compliance	Compliance with Legal Requirements		●				-	
		Reviews of Security Policy and Technical Compliance		●				-	
		System Audit Controls		●				-	
Overall Risk Rating:		Low	Except for the findings/recommendations raised, we believe that there is a low risk in relation to the key areas reviewed.						

*PY: See Section 4 in relation to the Previous Year (PY) Audit Observations || ● = Current Level of Risk || ◀ or ▶ = Previous Level of Risk (where change was noted in controls)

3.1 IT GENERAL CONTROLS

The following sections are the specific findings of the audit:

3.1.1 Backup – Firewall Rulesets

Backup of critical data should be undertaken to maintain the integrity and availability of information and information processing facilities.

During a walkthrough of the implementation of the current perimeter security controls and subsequent backup the current firewall ruleset, it was identified that whilst the device which housing the rules is backed up, the actual firewall ruleset is not.

FINDINGS:

1. The current firewall ruleset is not backed up through a mechanism such as exporting to a separate location. The firewall configuration is only maintained on the Threat Management Server.

RISK:

Risk Rating: MINOR

1. There is a risk that where a firewall device needs to be rebuilt or reviewed that it will not be able to be recovered in a timely manner.

RECOMMENDATIONS

EMRC should perform the following:

1. Periodic backups of the firewall ruleset be undertaken such as exporting to a secure directory for the purpose of history and backup.

Management Comments:

EMRC does quarterly tape backups at the end of March, June, September and December. These backups are retained for 12 months. Information Services will adjust the backup routine to backup the following items to the Network Documentation directory which is kept offsite independently from the backup tapes. The items to be backed up are:

- TMG Firewall Ruleset
- Fortinet Router Ruleset

Responsible Officer:

Information Services Officer

Target completion date:

30 June 2012

3.1.2 Policy Awareness

There are three key documents developed within IT for the purposes reinforcing and setting policy / guidelines for IT and information security standards, these include:

- Management Guidelines – Data Security Policy
- Management Guidelines – Email Policy
- IT Induction Notes.

Acceptance of these documents is at the commencement of employment and there is no process to reinforce requirements of using EMRC IT services and resources.

FINDINGS:

1. There is not currently an ongoing policy awareness process which includes acceptance of applicable IT policies.

RISK:

Risk Rating: MINOR

1. There is a risk that there is reduced awareness of staff to changes in key IT documentation
2. Changes to the IT policy environment have less visibility and that log ins for the network are less accountable in general.

RECOMMENDATIONS

EMRC should perform the following:

1. Consider implementing a process for ongoing awareness process in relation to IT policies.

Management Comments:

1. Current practice is that all policies and guidelines that have been reviewed are communicated to staff via email once they have been adopted. This practice will continue and includes IT policies and guidelines.
2. Information Services will promote the IT policies on an annual basis. The promotion will be either via the EMRC Intranet, e-mail or at one of the annual staff information sessions.

Responsible Officer:

Manager, Information Services

Target completion date:

30 June 2013

3.1.3 Server Room – Water Risk Controls

Through a physical walkthrough of the server locations within the EMRC location there were two instances where water may pose a risk to the availability of IT services. Where possible physical risks to power should be minimised or avoided.

FINDINGS:

1. Water pipes run down the wall on the main server room location / power points are close to carpet level and there is no drainage
2. Water pipes for the air conditioning unit in the secondary server room are within 15cm of the mains power board and almost directly above.

RISK:

Risk Rating: MINOR

1. If either of the water pipes were to leak or burst there is an increased risk of water adversely impacting availability of IT services and equipment.

RECOMMENDATIONS

EMRC should perform the following:

1. Investigate if additional drainage is available for the upstairs server room for the event of burst water
2. Investigate if the water pipe for the secondary server room can be moved further away from the main power board.

Management Comments:

EMRC will engage our air conditioning contractors (HVAC) to conduct a risk analysis in conjunction with the Manager, Information Services to determine the extent of the risk, and what remedial action might be taken. Recommendations determined from the analysis will be adopted as appropriate to mitigate the risks identified.

Responsible Officer:

Manager Administration & Compliance, Manager Information Services

Target completion date:

30 December 2012

4.0 PREVIOUS AUDIT OBSERVATIONS

REC No	ISSUE	RISK RANK	TARGET DATE	RESPONSIBLE OFFICER	STATUS	ACTION TAKEN / MANAGEMENT COMMENT
Audit: AS/NZS 27002 INFORMATION SECURITY MANAGEMENT REVIEW				Audit Completion Date: March 2008		
4.1	Business Continuity Plan Testing and Review	Moderate	2008/09	David Schmidt/ Rob Medbury	ONGOING / Processes are to change and require update	<u>Action Taken:</u> <ul style="list-style-type: none"> • There has been approval to establish a warm disaster recovery site • No overall plan has been developed to date as processes will need to be finalised in the first instance • There has been a component test restoration of the Domain Controller • Intention is to schedule one component tested each year <u>Audit Comment 2012:</u> Budget available for a warm disaster recovery site solution. Formally documented processes should be developed once this is finalised.
4.2	Security responsibilities not formally allocated	Minor	2008/09	David Schmidt	COMPLETED	<u>Action Taken:</u> <ul style="list-style-type: none"> • Security inductions are undertaken upon commencement of employment. • IT Security policy provides general security guidelines to staff. <u>Audit Comment 2012:</u> Adequate action undertaken based on the size and scope of operations.
4.3	Access to Information	Minor	July	Nadine Salvigny	COMPLETED	<u>Action Taken:</u>

REC No	ISSUE	RISK RANK	TARGET DATE	RESPONSIBLE OFFICER	STATUS	ACTION TAKEN / MANAGEMENT COMMENT
Audit: AS/NZS 27002 INFORMATION SECURITY MANAGEMENT REVIEW				Audit Completion Date: March 2008		
	System Facilities		2008		Adequately considered	<ul style="list-style-type: none"> This is an email based process. <u>Audit Comment 2011:</u> Process is adequate given the size of the organisation.
4.4	Communications Risers Not Locked	Minor	July 2008	Enad Zraid	COMPLETED	<u>Action Taken:</u> Communication risers are now locked <u>Audit Comment 2011:</u> Physical walkthrough of the server room on 07 May 2012 confirmed the above action.
4.5	UPS Room has no Fire Protection	Minor	August 2008	Enad Zraid	COMPLETED	<u>Action Taken:</u> Smoke detectors are now fitted to UPS room. <u>Audit Comment 2011:</u> Adequately implemented.
4.6	Automatic Screen Saver Lock	Minor	July 2008	David Schmidt	COMPLETED	<u>Action Taken:</u> Automatic screen saver lock has been implemented. <u>Audit Comment 2011:</u> Adequately addressed and timeframe based on staff feedback / consultation.
4.7	Review of Access Rights	Minor	August 2008	Nadine Salvigny	COMPLETED	<u>Action Taken:</u> HR have enhanced notification process for new and changes to roles of staff. <u>Audit Comment 2011:</u> Enhanced email alerting from HR considered adequate for the size and scope of operations.

Stantons International

Chartered Accountants and Consultants

EASTERN METROPOLITAN REGIONAL COUNCIL
Payroll

May 2012

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TABLE OF CONTENTS

1.0 MANAGEMENT SUMMARY	3
2.0 RISK RATINGS AND INTERPRETATION	4
3.0 DETAILS OF OBSERVATIONS.....	5
3.1 Accuracy and timeliness of payments	5
3.2 Compliance with applicable awards and legislation.....	5
3.3 Existence of adequate security over payroll records	6
3.4 Effectiveness of controls over fortnight/monthly payments	6
4.0 CONCLUSION	6
5.0 ACKNOWLEDGEMENT	7
6.0 APPENDIX A – SUMMARY OF MANAGEMENT ISSUES 2008.....	8

1.0 MANAGEMENT SUMMARY**OVERVIEW****Audit Objective(s)**

The objectives of the audit covered the key aspects below:

Reliability and Integrity of Information

- Identify controls over the accuracy and timeliness of payments.

Compliance

- Determine whether employees are paid in accordance with applicable awards and legislation.

Safeguarding of Assets

- Determine whether adequate security exists over payroll records
- Determine the effectiveness of controls over fortnightly/monthly payments.

Audit Scope

The scope of this review was to focus on the reliability and integrity of information, compliance and safeguarding of assets in relation to the payroll.

Findings and recommendations

There were no findings in the audit of payroll. All the issues brought forward from the prior years in relation to this audit have been rectified (see Appendix A).

Trend in Quality of Management control

Area	Quality Rating				
	Unsatisfactory	Needs Improvement	Satisfactory	Very Good	Excellent
Payroll					
2008 Audit		<input checked="" type="checkbox"/>			
2012 Audit					<input checked="" type="checkbox"/>

Overall Risk Exposure

Area	Risk Exposure		
	Low	Medium	High
Payroll			
2008 Audit		<input checked="" type="checkbox"/>	
2012 Audit	<input checked="" type="checkbox"/>		

2.0 RISK RATINGS AND INTERPRETATION

Risks Rating	Rating Interpretation	Suggested timing of implementing recommendations
CRITICAL	<i>The finding poses a severe risk to the organisation if not appropriately and timely addressed</i>	<i>Commence remedial action immediately</i>
MAJOR	<i>The finding poses significant risk to the organisation if not appropriately and timely addressed.</i>	<i>Commence remedial action within 3 months</i>
MODERATE	<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>
MINOR	<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>

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.

3.0 DETAILS OF OBSERVATIONS

We audited the payroll function of the Eastern Metropolitan Regional Council (the "EMRC") in accordance with the Internal Audit Strategic Plan. Through interviewing relevant staff, we performed a detailed walkthrough of the overall payroll system. We obtained and reviewed relevant documentation selected as part of our sample based testing to determine the appropriateness of controls design and operating effectiveness. The sections below detail our risk based areas of focus.

3.1 Accuracy and timeliness of payments

We obtained a number of employee personnel files on a sample basis and performed audit procedures aimed at determining the accuracy and timeliness of payments. Our detailed tests were aimed at the following:

- Determining if employees were paid using the rate specified in their agreement
- Determining if payroll disbursements were made on time
- Determining if only legitimate employees were paid
- Determining if employees were paid for the actual time spent on the job
- Determining if pay components (superannuation, allowances, overtime and tax) were accurately broken down.

We vouched selected samples of employees and verified their pay rates to supporting documentation. Also, based on a sample of pay runs, we assessed the dates of pay disbursements to ensure employees were paid on a timely basis. Timeliness was assessed against EMRC established pay dates. Our focus on the legitimacy of employees was directed towards both new and existing employees to determine their existence. We recalculated the amounts (comprising of the base pay, superannuation, allowances and deductions, higher duties, total taxable income and tax) paid to the sampled employees over four pay periods to determine the accuracy of payments and if adequate controls were in place to ensure accuracy of payments.

We were pleased to note that a payroll manual has been developed and followed which details every step of the payroll process. We assessed the input and output documents from SynergySoft system and noted that the Payroll Officer and Manager, Financial Services check the documents with evidence of review by the Manager, Financial Services on the reports.

A sample of four pay periods was selected for testing for the timeliness of disbursement of funds from the end of the pay period. We noted that the EMRC only takes one day to disburse funds after the end of the four pay periods we sampled. Adequate documentation is retained on the pay file as evidence that a pay has been disbursed.

There were no issues noted in relation to controls over the accuracy and timeliness of payments.

3.2 Compliance with applicable awards and legislation

The Local Government Officers' (Western Australia) Interim Award 2011 (the "LGIA") contains provisions with which the EMRC is required to comply. In particular we tested for compliance with section 13.5 which stipulates the minimum wage to be paid to Local Government officers based on the level of classification. On a sample basis, we assessed

the payments made to a sample of 12 employees to determine if minimum wage provisions were met.

Further to the above, we audited EMRC to determine the adequacy of records supporting payments made through payroll. We noted that adequate records are kept to support all the processes conducted during the payroll process. In addition, we assessed the adequacy of controls to ensure the accuracy and validity of pay runs. The input and output documentation to and from the system are verified for accuracy and approved. We identified and tested controls for each stage of the payroll process. We were pleased to note that the EMRC has established a reasonableness test in which a comparison is made between the current period's pay to the prior period and variances are investigated.

As a result of the work done, we did not find any issues in regards to compliance with the awards and section 13.5 of the Local Government Act.

3.3 Existence of adequate security over payroll records

We performed a physical inspection to determine the adequacy of security over payroll records. On inspection, we noted that records were kept and secured in a locked cabinet accessible only by the Payroll Officer. Email approvals of timesheets are sent to the Payroll Officer and are kept within an archive of the officer's email which requires unique access to log in. Based on the work performed, we have assessed that security over payroll records is adequate.

3.4 Effectiveness of controls over fortnight/monthly payments

In relation to this objective, we assessed whether adequate segregation of duties exist in relation to all processes of the payroll function. We have already assessed the effectiveness of controls over the accuracy of payments in 3.1 above and therefore we will not consider this aspect again in this section. We confirmed the existence of proper segregation of duties in relation to the following payroll functions:

- Processing and verification of payroll
- Processing and disbursement of pay
- Maintenance of master file and disbursement of pay
- Super user access, processing and disbursement of pay.

We observed that adequate controls exist with regards to segregation of duties as the preparation of timesheets are performed by the managers of each area and approved. Payroll processing and initial checks are performed by the Payroll Officer; each document prepared by the Payroll Officer is verified by Manager, Financial Services. Three signatories are required for disbursement of funds. From our testing of payments made to staff and verification of review of each process, we identified controls over fortnightly payments to be effective.

4.0 CONCLUSION

It is pleasing to report that adequate actions have been taken to meet regulatory requirements and excellent management controls exist over the review and accuracy of payroll. Previously a number of findings were noted in the 2008 audit of payroll and management have since rectified these issues, Refer to Appendix A for more details. Management controls in relation to payroll within EMRC has improved greatly since the last audit.

5.0 ACKNOWLEDGEMENT

We would like to acknowledge and thank the EMRC staff that have assisted us in this audit in particular the Manager Financial Services, Payroll Officer and Human Resource Advisor.

6.0 APPENDIX A – SUMMARY OF MANAGEMENT ISSUES 2008

Audit: Payroll				Audit Completion Date: 2008			
REC No.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
2.4/2008	1	<p>2.4 Security over Payroll Information</p> <p>Payroll records stored in the network are protected by IT security protocols to prevent unauthorized access to confidential personnel pay details. For example, these protocols require login and password authentication that can be accessed securely on the officer's workstation. In addition, the processing area should also be physically secure to prevent unauthorized access to confidential information.</p> <p>The Payroll/Finance Officer advises that on occasions elements of pay runs are processed remotely at her home residence when she is on personal leave. This creates a situation whereby there is a lack of assurance</p>	Major	Completed Manager, Financial Services	<p>Recommendation Cease the remote processing of payroll</p> <p>Proposed Action This action was sometimes required due to Red Hill not being able to run their timesheets electronically as a result of I.T communications issues. This problem has since been resolved therefore remote access will not be required in the future. The Payroll Officer's remote access privileges have since been revoked.</p>	Complete	All payroll processing is conducted from the Ascot Place office by the Payroll Officer. The Payroll Officer confirmed no remote processing is done.

Audit: Payroll				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
		<p>that the confidential information being processed is physically secure from unauthorized people. For example, if a visitor arrives at the house unexpectedly, how would the information be secured?</p> <p>It was thought that the logical controls in place were adequate to protect the information being processed.</p> <p>Risk There is an increased risk of unauthorized access to confidential information.</p>					
2.2/2008	2	<p>2.2 Security Over Hard Copy Payroll Records</p> <p>Hard copy payroll records should be stored to prevent breaches to confidential personnel pay details. For example, they may be stored in a lockable cabinet and / or a room that is locked when vacant.</p> <p>Payroll files are kept on an open bookcase in an</p>	Major	<p>Responsible Officer</p> <ol style="list-style-type: none"> 1. Payroll Officer 2. N/A 3. Manger, Financial Services <p>Target Date</p> <ol style="list-style-type: none"> 1. Completed 2. Completed 3. 31 August 2008 	<p>Recommendation</p> <ol style="list-style-type: none"> 1. As an interim measure, current period files should be moved into the lockable, metal cabinet and a new door lock should be installed. 2. Sufficient lockable storage facilities should be acquired. 3. Management to consider secure archiving facilities to store prior period payroll files. <p>Proposed Action</p>	Complete	<p>Audit verified the current security and access over hard copy payroll files.</p> <p>Audit observed the use of locked cabinets for payroll records.</p>

Audit: Payroll				Audit Completion Date: 2008			
REC No.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
		<p>unlocked office. A lockable metal cabinet is located in the room and contains other confidential records but it was not fully utilised.</p> <p>The files contained confidential pay run records including pay rates; while current period payroll files were on the open bookcase, previous period files were kept in a sliding door cupboard, which is also not lockable.</p> <p>Currently there are insufficient secure cabinets available to store all payroll files. The Payroll/Finance Officer is aware that physical security over records is inadequate and had attempted to find a key to lock the door.</p> <p>Risk There is an increased risk of unauthorised access to confidential information.</p>			<p>1. A new door lock has been installed on the cupboard in the payroll office. All files and appropriate documentation is now contained within lockable storage units.</p> <p>Sufficient lockable storage now exists within the payroll office.</p> <p>3. Investigations are currently underway to establish what archiving storage facilities are required to be established.</p>		
2.3/2008	3	2.3 Higher Duties Approval	Moderate	<p>Responsible Officer 1. Manager, HR 2. Site Manager, Red Hill</p>	<p>Recommendations 1. Approval from the CEO or Executive Manager of Waste</p>	Complete	All HDAs are now approved by the Manager, Financial Services.

Audit: Payroll				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
		<p>A staff member assigned to a position for which the remuneration prescribed is higher than that applicable to the staff member's current position is entitled to be paid a higher duties allowance.</p> <p>Once a staff member has been identified to act in the position, a memo should be completed for the CEO's approval, in accordance with the Management Guideline – Staff Succession Plan for Extended Absence.</p> <p>Higher duties were approved by the Red Hill Site Manager for a staff member performing higher duties, but no documented approval from the CEO or Executive Manager of Waste Management was evident.</p> <p>The Red Hill Site Manager may not be familiar with applicable policies dealing with higher duties.</p> <p>Risk</p>		<p>Target Date</p> <ol style="list-style-type: none"> 1. Completed 2. Completed 	<p>Management be sought before payment of higher duties</p> <ol style="list-style-type: none"> 2. The Red Hill facility follow the documented process. <p>Proposed Action</p> <ol style="list-style-type: none"> 1. Appropriate documentation and processes exist for Ascot Place staff and documentation has since been put in place for Red Hill staff. This will require authorisation by the Executive Manager Waste Management Services or the CEO. 2. Appropriate instructions have since been issued to Red Hill staff. 		

Audit: Payroll				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
		There is an increased risk that staff will be paid a higher duties rate that is unauthorised.					
2.1/2008	4	<p>2.1 Documentation of payroll procedures</p> <p>Documentation of guidelines and procedures should provide enough information to enable new staff members to be able to conduct the requirements of a process or procedure with minimal training. Documentation should be reviewed and updated where necessary on a regular basis to ensure its currency.</p> <p>Whilst the procedures for processing pay runs appear to be well understood by the Payroll/Finance Officer, the documentation of processing pay run procedures needs to be updated.</p> <p>The Payroll/Finance Officer advised us that there is a backup Payroll Officer; however she lacks the</p>	Moderate	<p>Responsible Officer</p> <p>1. Payroll Officer 2. Manager Financial Services</p> <p>Target Date</p> <p>1. 31 December 2008 2. Ongoing</p>	<p>Recommendation</p> <p>1. Priority is given to updating payroll procedures.</p> <p>2. That back up officers process a pay run at least annually.</p> <p>Proposed Action</p> <p>1. The Payroll Officer is currently in the process of updating the payroll manual.</p> <p>2. The backup Payroll Officer sits with the Payroll officer to assist with a pay run and then actually processes a pay run, prior to the Payroll Officer taking leave. This would normally happen at least annually. In the event that this does not occur within a 12 month period as a result of the Payroll Officer taking leave, steps will be taken to arrange for the backup officer to process a payroll. The HR Administration officer has since undertaken payroll system training in addition to the backup</p>	Complete	Verified the recommendations are addressed in the procedures manual and confirmed currency through a walkthrough of the payroll process against the manual.

Audit: Payroll				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
		<p>experience in processing a fortnightly pay run as she does not perform this role on a regular basis.</p> <p>Management advised that documentation will be updated once the Acting Payroll/Finance Officer is familiar with all aspects of payroll.</p> <p>Risk In the event of the Payroll/Finance Officer being unable to perform her duties, there is a high risk of disruption to fortnightly pays.</p>			payroll officer.		

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May 2012

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TABLE OF CONTENTS

1.0 MANAGEMENT SUMMARY – PROCUREMENT	1
2.0 RISK RATINGS AND INTERPRETATION	4
3.0 SUMMARY OF OBSERVATIONS	5
4.0 PROCUREMENT	5
4.1 Compliance with the Local Government Act and Regulations	5
4.2 Compliance with Policy and Guidelines and Accepted Practice	6
5.0 CONTRACT MANAGEMENT	7
5.1 Compliance with Local Government Act and Regulations	7
5.2 Compliance with Contract Management Plan and Policies	8
5.3 Effectiveness of Contract Performance Management Measures	9
5.4 Management of Contract Variations Including Contract Extensions	10
5.5 Training and Contract Management Awareness	11
5.6 Contracts Record Keeping	11
6.0 CONCLUSION	12
7.0 ACKNOWLEDGEMENT	12
8.0 APPENDIX A – SUMMARY OF MANAGEMENT ISSUES 2008	13

1.0 MANAGEMENT SUMMARY – PROCUREMENT

OVERVIEW

Audit Objective(s)

Procurement

The objectives of the audit were to determine the following:

1. Compliance with Local Government Act and Regulations
2. Compliance with the Council's Procurement plans (if any) and policies
3. The Council is achieving best value for money outcomes
4. Procurement activities are aligned with Council policies, objectives and strategies and other applicable guidelines
5. Adequate records are kept to support purchasing decisions
6. Adequate authorisation is in place for all Council purchases
7. Open and effective competition to ensure delivery of quality products and services
8. Sustainable procurement considerations (taking into account the environment).

Contract Management

The objectives of the audit were to determine the following:

1. Compliance with Local Government Act and Regulations
2. Compliance with Contract Management Plans (if any) and policies
3. Effectiveness of contract performance management measures
4. Effectiveness of controls in place for managing contract variations
5. Effectiveness of controls in place for managing contract extensions
6. Training and contract management awareness
7. Contracts Record keeping.

Audit Scope

The scope of the audit focussed on the effectiveness of controls around procurement and contract management within the Council.

Executive summary of Findings and recommendations

There were no findings with a critical rating. There were issues brought forward from 2008 that have not been addressed, refer to appendix A for current status.

4.0 PROCUREMENT

4.1 Compliance with the Local Government Act and Regulations

There were no issues noted in relation to compliance with Local Government Act and Regulations.

4.2 Compliance with Policy and Guidelines and Accepted Practice

Risk Rating: Moderate

We identified that there are no proper segregation of duties in relation to purchasing. Staff members who have the financial delegation to approve purchase orders, are also able to raise purchase requisitions, receive the goods and/or services and approve the payment within their authorised transaction limits.

We, however, acknowledge the fact that EMRC has relied on its risk management process through the use of delegation of authority limits.

5.0 CONTRACT MANAGEMENT

5.1 Compliance With Local Government Act and Regulations

There were no issues noted in relation to compliance with Local Government Act and Regulations.

5.2 Compliance With Contract Management Plan and Policies

Risk Rating: Minor

We found that Eastern Metropolitan Regional Council (EMRC) has no overarching contract management guidelines.

We recommend that EMRC develop a comprehensive contract management guideline document.

5.3 Effectiveness of Contract Performance Management Measures

Risk Rating: Moderate

We found that invoices relating to the contract under tender document number EMRC-93046 did not agree with specified rates.

There is no existing process for measuring performance to ensure set deliverables are achieved as required by EMRC.

We recommend that all invoices continue to be reconciled to the contract and any variances reported.

A contract performance process should be developed, included in the contracted management guidelines and adhered to.

5.4 Management of Contract Variations Including Contract Extensions

There were no issues noted in relation to the management of contract variations including contract extensions.

5.5 Training and Contract Management Awareness

There were no issues noted in relation to training and contract management and awareness.

5.6 Contracts Record Keeping

Risk Rating: Moderate

We found that some contractors did not have evidence of insurance certificates of currency. Some contractors had insurance certificate of currency which did not state the value and nature of the indemnity.

We recommend that EMRC seek certificates of currency for all contractors prior to engaging in any activities with the entity. In addition EMRC may need to verify the legitimacy of certificates of currency and also ensure that coverage meets all assessed risks related to the nature of services provided.

Trend in Quality of Management control

Area	Quality Rating				
	Unsatisfactory	Needs Improvement	Satisfactory	Very Good	Excellent
Procurement					
2008 Audit		<input checked="" type="checkbox"/>			
2012 Audit			<input checked="" type="checkbox"/>		
Contract Management					
2008 Audit		<input checked="" type="checkbox"/>			
2012 Audit		<input checked="" type="checkbox"/>			

Overall Risk Exposure

Area	Risk Exposure		
	Low	Medium	High
Procurement			
2008 Audit		<input checked="" type="checkbox"/>	
2012 Audit	<input checked="" type="checkbox"/>		
Contract Management			
2008 Audit		<input checked="" type="checkbox"/>	
2012 Audit		<input checked="" type="checkbox"/>	

2.0 RISK RATINGS AND INTERPRETATION

Risks Rating	Rating Interpretation	Suggested timing of implementing recommendations
CRITICAL	<i>The finding poses a severe risk to the organisation if not appropriately and timely addressed</i>	<i>Commence remedial action immediately</i>
MAJOR	<i>The finding poses significant risk to the organisation if not appropriately and timely addressed.</i>	<i>Commence remedial action within 3 months</i>
MODERATE	<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>
MINOR	<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>

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.

3.0 SUMMARY OF OBSERVATIONS

We audited EMRC's procurement and contract management processes to determine appropriateness and effectiveness of controls. Our audit of procurement and contract management processes involved a review of existing policies and procedures that ensured all requirements stated in the Local Government Act 1995 and the Local Government (Functions and General) Regulations (the "Regulations") are adhered to.

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

4.0 PROCUREMENT

4.1 *Compliance with the Local Government Act and Regulations*

We assessed the procurement process for compliance with the Regulations. We selected key regulations and performed audit procedures to determine EMRC'S level of compliance with the Regulations. Below are the key regulations against which compliance was determined:

- Regulation 11A – Purchasing Policies
- Regulation 11 – Tenders For Providing Goods and Service
- Regulation 12 – Anti-Avoidance Provision
- Regulation 14 – Requirements for Publicly Inviting Tenders
- Regulation 15 – Minimum time to be allowed for submitting tenders
- Regulation 16 – Receiving and Opening tenders
- Regulation 17 – Tenders Register
- Regulation 18 – Choice of Tender
- Regulation 19 – Tenderers to be notified of outcome
- Regulation 20 – Variation of requirements before entry into contract.

Our audit did not find issues with EMRC complying with most of the above selected regulations.

4.2 Compliance with Policy and Guidelines and Accepted Practice

Following our determination of the level of compliance with relevant regulations above, our audit also focussed on determining the level of EMRC's compliance with its own purchasing policies. The purchasing policy is required under regulation 11A to which EMRC has demonstrated compliance with under section 4.1 of this report. Our audit also performed audit procedures to determine compliance with the Management Guideline - Authorisation of Expenditure. Below were the audit key areas of focus:

- Determining if purchasing thresholds requirements stated in the purchasing policy were observed
- Determining if authority Limits set in the Management Guideline – Authorisation of Expenditure were observed
- Determining if adequate records supporting purchasing activities were maintained
- Maintenance of proper segregation of duties on purchasing activities
- Existence of sustainable purchasing considerations.

On a sample basis, our audit selected items of expenditure and verified for compliance with the Purchasing policy and Management Guidelines – Authority of Expenditure. Throughout our testing, we did not note any instances of non-compliance with both the policy and the Management Guideline.

As part of the audit on this section, we also assessed for the existence of sustainable purchasing considerations. Our audit was pleased to note that EMRC has an environmental purchasing policy. Our further assessment showed that the policy is current and adequate. Further audit procedures to determine the applicability of sustainable purchasing considerations showed that the environmental purchasing policy has been included in the Request for Tenders templates.

We also assessed for the adequacy of segregation of duties regarding purchasing activities. We made some inquiries and performed walkthroughs on the Synergysoft system to test the adequacy of segregation of duties. We assessed to determine if any single purchaser had the authority to perform the following:

- Raise and approve a purchase requisition
- Raise and approve a purchase order
- Authorise a payment and receive the goods or services.
- All of the above.

Our review of the Synergysoft system and inquiries with those involved with purchasing of goods and services showed that there is no proper segregation of duties regarding purchasing activities within EMRC. Refer to the Findings section below for more details.

Findings

The issue below has been outstanding since our last audit in 2008. Refer to Appendix A Summary of Management Issues 2008 on item number 2. Our audit has re raised the issue in this section to reflect the result of the work performed under this section.

1. We identified that there are no proper segregation of duties in relation to purchasing. Staff members, who have the financial delegation to approve purchase orders, are also able to raise purchase requisitions, receive the goods and/or services and approve the payment within their authorised transaction limits. We, however, acknowledge the fact that EMRC has relied on its risk management process through the use of delegation of authority limits.

Risks**Risk Rating: Moderate**

Where proper segregation of duties are not implemented in relation to purchasing functions, the following risks may be encountered:

1. Goods and services that do not meet the minimum EMRC requirements may be purchased
2. Accurate quantities of goods and services may not be delivered to EMRC.

Recommendations

We recommend that EMRC segregate the following roles to ensure they are not performed by the same person:

1. Raising of purchase requisition/purchase order and authorisation of purchase requisition/purchase order
2. Authorising payment and receipt of goods and or services.

Management Comments

The EMRC has in place a comprehensive authority limits to manage the size of the purchases for the various authority levels. This is linked to the Synergysoft system to manage the risk exposure to the accepted levels. The EMRC also has in place several reports that is produced and reported to the Executive Management Team on a regular basis for its review. This includes the Purchase Order reports and Creditor Reports which details creditor spend above \$50,000,

Additionally, reviews and checks are also undertaken by the Manager Financial Services and Director Corporate Services on the payments. This area is also subject to external audits.

It is acknowledged that to address the risks, segregation of the duties would be ideal. A review will be undertaken to investigate the impact of implementing this operationally, both from a resourcing perspective as well as from a system perspective.

Responsible Officer

Manager Administration & Compliance

Target completion date

31 December 2012

5.0 CONTRACT MANAGEMENT**5.1 Compliance with Local Government Act and Regulations**

The Local Government Act and Regulations do not have applicable clauses that directly deal with contract management. Our audit has however examined both the Local Government Act and the Regulations in section 4.1 of this report related to procurement. As a result no further audit assessment was made in this regard.

5.2 Compliance with Contract Management Plan and Policies

We designed our audit procedures to identify the existence of contract management plans, policies and guidelines. Through inquiry from key senior staff charged with contract management and review of available documentation, we identified that the EMRC adopted the Australian Standard AS4000 – ‘General Conditions of Contract’ for assisting in its contract management. AS4000 contains a provision for variations, insurance and works in relation to contracts. It is essential tool for the initial processes of contract document development. Our audit noted that there is no overarching contract management guideline. Refer to the findings section below for more details.

Findings

The issues below have been outstanding since our last audit in 2008. Refer to Appendix A Summary of Management Issues 2008 on item number 6. Our audit has re raised the issue in this section to reflect the result of the work performed under this section.

1. There are no overarching contract management guidelines that exist within the EMRC to provide clear guidance on contract management processes (who does what, when, where and how)

Risks

Risk Rating: Minor

Where there is no clear contract management guidelines in place, there is a risk that the following may occur:

1. EMRC may not obtain a maximum benefit from a contract
2. Uncertainties related to a contracts may not be detected on time
3. Substandard contract performance may not be detected on time.

Recommendations

We recommend that EMRC develop a contract management guideline that includes the following:

1. Financial considerations including saving strategies
2. Risk assessment of contracts
3. Measuring Key Performance Indicators
4. Completeness of contractor details including adequate insurance
5. Reporting requirements against set deliverables
6. Monitoring of all insurance certificates and expiry on a central document located on the Document Management System.

Management Comments

We agree that a management guideline and/or a business management system (BMS) are to be developed and implemented.

The objective will be to establish a guideline for the design of the tender process through to the management of the contracts as well as the reporting and monitoring of the requirements against the set deliverables.

The EMRC intends to implement the contract management module within the Synergysoft financial system to support the contract management process within the next 12 months.

Responsible Officer

Manager Administration & Compliance

Target completion date

30 June 2013

5.3 Effectiveness of Contract Performance Management Measures

We audited the existing contract management to determine if adequate and effective performance measures exist. Our audit sought to determine the following key elements with respect to the provision of goods and services.

- Whether goods and services supplies are clearly based on contract values
- Whether contract reporting against set deliverables is achieved.

Through a sample based testing of selected contracts, we performed audit procedures aimed at determining if all amounts paid in relation to a contract match agreed amounts. Our procedure involved vouching invoices to set prices. We noted instances where invoiced amounts did not match agreed amounts stated on the contract.

Through corroborative inquiry, we sought evidence of the existence of any performance management including reporting on set deliverables. We noted that EMRC monitors performance through its dedicated officers on every contracted project. Payment is not released where provision of services do not meet expectations. Given the nature of operational services provided, audit considered this measure appropriate.

Findings

1. We found that invoices relating to the contract under tender document number EMRC-93046 did not agree with specified rates. The following invoices were noted:
 - a. Invoice number 90 valued at \$16,800 dated 26/03/12
 - b. Invoice number 87 valued at \$16,800 dated 13/03/12
 - c. Invoice number 52 valued at \$29,400 dated 30/11/11
 - d. Invoice number 53 valued at \$16,800 dated 13/12/11
 - e. Invoice number 58 valued at \$18,425 dated 19/12/11

Risks**Risk Rating: Moderate**

1. Where invoiced amounts are not consistent with agreed amounts, there is a risk that EMRC may incur marginal increases in the cost of contracts.

Recommendations

We recommend the following:

1. That all invoices continue to be reconciled to the contract and any variances reported

Management Comments

The invoices identified above relate to the All Day Contracting where the contractor was asked to provide a square metre rate for the revegetation programme and the units used on machine hours are a proxy for covering the different types of work that may be undertaken under the contract due to the different the topography and contours of the land. However, in some instances as in the ones identified above with the revegetation project, different units were placed.

The EMRC will undertake a review of the various contracts awarded under a tender. One of the key outcomes is that the various types of work may better placed to be done under a panel of contractors where the panels are requested to provide quotes for the various projects are to be undertaken.

The quotations of each project will tend to be utilised to reconcile against any variances where possible but quite often the nature of the work cannot be properly specified – for example, All Day Contracting could be asked to clear blocked drains, repair washouts, fix stone pitching and concrete drums of Class V waste all in one day.

Responsible Officer

Manager Administration & Compliance

Target completion date

30 June 2013

5.4 Management of Contract Variations Including Contract Extensions

Our audit focus of the management of contract variations including contract extensions was aimed at determining the existence of documented procedures and practices. Through interviews of key staff, we sought to obtain written representation in the form of guidelines that detail processes for contract variations including contract extensions. We were informed that there was no written documentation which provided guidance on the subject. Each contract was treated differently and on its own merit. Management demonstrated that in practice controls are in place to ensure that no variations can be signed off without the CEO's approval. From corroborative inquiry with management and sighting of the variations, we note that a 10% variation sum is provided for works that are not fixed price contracts; for any variation above the 10% threshold.

We noted that contract extensions are documented in the terms of each contract and may be exercised as and when EMRC consider appropriate.

Notwithstanding the above, we believe that variation procedures should be encompassed within the contract management guidelines suggested in the sections above.

As a result of the work done above, we did not find any issues in relation to this subject.

5.5 Training and Contract Management Awareness

We interviewed key staff members to determine if those involved with contract management had received some training on contract management. We were informed managers recently took part of an AS4000 training course. We were informed in-house training is on an ad-hoc basis and is provided to relevant staff. As the AS4000 standard provides a good foundation to contract management including documentation, we deem training on contract management to be adequate at this stage.

5.6 Contracts Record Keeping

Contracts are required to be kept in accordance to the Standard 2 of the State Records Commission. We assessed contract record keeping within EMRC and noted the entity has a well maintained document management system. As part of record keeping, our audit also assessed to determine if all key contractual information and documentation is also maintained in a consistent manner. We noted some findings listed in the findings section below.

Findings

The issues below have been outstanding since our last audit in 2008. Refer to Appendix A Summary of Management Issues 2008 on item number 8. Our audit has re raised the issue in this section to reflect the result of the work performed under this section.

1. We found that the following contractor did not have evidence of insurance certificates of currency:
 - Industrial Roadpavers.
2. One insurance certificate of currency relating to All Day Contracting did not state what the contractor was insured against and the value of such indemnity.

Risks

Risk Rating: Moderate

1. Where contractors do not provide evidence of insurance coverage, and or where the insurance certificate of currency does not disclose the nature and value of the indemnity, there is a risk that EMRC may be liable for claims that may arise.

Recommendations

We recommend the following:

1. That EMRC seek insurance certificate of currency for all contractors prior to engaging in any activities within the entity
2. The insurance certificate of currency needs to be verified to ensure that its coverage meets all the assessed risks based on the nature of the services provided.”

Management Comments

Waste Services (Operations) at Red Hill have been responsible for ensuring that certificates of currency are evidenced. As decisions to undertake any of the contracts is driven by the Waste Services (Ascot Place), the team at Ascot Place along with the Administration & Procurement team will be responsible for ensuring the certificates of currency are sighted and stored centrally in the document management system to ensure follow ups are made before the expiry date

It is agreed that for all contracts undertaken under the tender process, selection panel process or where there are identified risks, a current insurance certificate of currency is to be evidenced. In addition to the certificate of currently disclosing the nature and value of the indemnity, the EMRC is also to ensure that it meets all the assessed risks related to the nature of the services provided. All insurance certificates of currency would be verified by our brokers to confirm their nature and their value are consistent with the requirements of the EMRC.

Responsible Officer

Manager Administration & Compliance

Target completion date

30 June 2013

6.0 CONCLUSION

It is pleasing to report that actions have been taken to address a significant amount of procurement findings raised in the 2008 audit. The Segregation of duties issue has not been addressed since it was first identified by audit since 2008. While this is the case, EMRC has continued to rely on its risk management process which includes a robust review process of purchases and delegated monitory limits. We identified in this audit that there is an absence of a comprehensively documented contract management guideline. This issue was raised in the 2008 audit and has been re raised again in the current audit. While we noted that policies and procedures exist in relation to purchasing, we are of the opinion that the development of a "one stop shop" guideline that includes both procurement and contract management information will significantly help improve understanding and effective implementation of requirements. The lack of provision of evidence relating to up-to-date insurance cover by some contractors such as contracted sole-traders can potentially expose EMRC to financial liability in the event of a successful claim.

7.0 ACKNOWLEDGEMENT

We would like to acknowledge and thank the EMRC staff that have assisted us in this audit in particular the Managers, Administration & Compliance, Financial Services, Waste Services, Site Manager – Red Hill and the Procurement Officer.

8.0 APPENDIX A – SUMMARY OF MANAGEMENT ISSUES 2008

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
2.1 Procurement 2008	1	<p>2.1 Obtaining Quotations</p> <p>EMRC's Management Guidelines – Purchasing, require staff to obtain three verbal quotations when purchasing an item with a value between \$500 and \$5,000. For transparency and accountability in the procurement process, documentation of verbal quotations should be retained.</p> <p>From a stratified sample, seven purchases from \$500 to \$5,000 were tested, with a total value of \$18,366.50. Our testing identified that six of the purchases tested had no evidence that quotations were obtained. For the remaining purchase, one quotation was obtained. From our testing of purchases between \$5,001 and \$99,999, it was noted that written quotes are obtained.</p> <p>Staff advised that quotations are not obtained when a supplier has been used in the past. One of the purchases tested related to monthly gardening services which were not provided under a contract. Staff advised the services are provided by the same supplier every month and they did not see the point of obtaining quotations from other suppliers. Another purchase related to bus charter services for the Red Hill Open</p>	Moderate	<p>Responsible Officer</p> <p>1. Enad Zraid 2. Enad Zraid</p> <p>Target Date</p> <p>November 2008</p>	<p>Recommendations</p> <p>1. Provide training on the importance of obtaining quotations.</p> <p>2. Services such as gardening and maintenance that are used regularly should be market tested periodically to ensure value for money is achieved.</p> <p>Proposed Action</p> <p>1. Schedule of EMRC training for all staff (both new & old) in purchasing quotes and how to go about this process. Develop ongoing training schedule.</p> <p>2. Report on companies that EMRC are using within Synergysoft, this will then be used for identifying contractors that could benefit from being placed on a common use agreement.</p>	Complete	<p><u>2012 Comment:</u></p> <p>From this year's testing of procurement of goods and services over \$100,000 we found supporting evidence of all quotations we sampled.</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		<p>Day. We were advised quotations were not obtained as the supplier used was prepared to go off road and were aware of the road condition at Red Hill. Whilst this could be true, the EMRC was unable to document that other bus charters were unable to provide a similar service. Staff advised they were not obtaining quotations from other suppliers because they felt comfortable dealing with certain preferred suppliers. There was no documentation to show that preferred suppliers were best value for money when quotations had been sought on a prior occasion or that enquiries had been made indicating that other suppliers could not provide the service requested.</p> <p>Risk There is an increased risk of bias and that the best value for money is not always achieved.</p>					
2.2 Procurement 2008	2	<p>2.2 Segregation of duties</p> <p>Segregation of duties reduces the likelihood of errors and irregularities in purchasing. An individual should not have responsibility for more than three components of a process such as, raising requisition, authorising transactions, receiving the good or service and making payment for the good or service. Adequate segregation of duties also protect staff from unwarranted suspicion of fraud or wrongdoing in the case of erroneous transactions.</p>	Moderate	<p>Responsible Officer Enad Zraid</p>	<p>Recommendation Adjust the procurement process so that there is an effective segregation of duties from one step in the procurement process to the next.</p> <p>Proposed Action Supply checklist on a monthly basis be produced</p>	<p>Outstanding. Issue re raised in the body of the report.</p>	<p><u>2012 Comment:</u> No action taken since last audit. Through our testing we have identified one officer still has the ability to, raise requisition, approve purchase orders and receive goods.</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		<p>Senior staff members are able to raise purchase requisitions, approve the purchase order, receive the good or service and approve the payment within their authorised transaction limits. For example, the Manager of Information Systems is able to raise a purchase requisition of up to \$10,000, approve the purchase order, receive the good or services and authorise payment.</p> <p>There is no specific documentation in regards to segregation of duties. As advised by the Finance Manager, due to the size of the EMRC, there is a lack of resource in implementing segregation of duties. It is also felt that senior staff are able to responsibly purchase goods and services in a fair and unbiased manner.</p> <p>Risk There is an increased risk of error and fraud.</p>					
2.3 Procurement 2008	3	<p>2.3 Requirement to give notice</p> <p>In accordance with section 1.7 of the Local Government Act 1995, EMRC is required to give public notice of matters such as tenders, by displaying the notice in a newspaper, on the EMRC notice board and on a notice board in every local government library in the district.</p> <p>Thirteen contracts were obtained and EMRC</p>	Minor	<p>Responsible Officer Enad Zraid</p> <p>Target Date Each time a tender is advertised</p>	<p>Recommendation That staff are reminded of the requirement to record evidence of notices being sent to the libraries.</p> <p>Proposed Action This tasks is to always be completed by Procurement Officer</p>	Complete	<p><u>2012 Comment:</u> From this year's testing of procurement of goods and services over \$100,000 we found supporting evidence of all notices for each tender. We further note that it has been included as part of the tender process.</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		<p>placed advertisements through the West Australian newspaper for all the contracts. Two out of five tenders for the year 2007 did not have supporting documentation of EMRC placing notice at the local public libraries noticeboards on the 80/20 Document Manager system. At the time of audit we observed that notice of tenders was displayed on the EMRC noticeboard.</p> <p>Management advised that they were unsure as to why the notices had not been recorded as being sent to the libraries.</p> <p>Risk If notices are not displayed on local public library noticeboards, there is an increased risk of financial loss or reputation damage if suppliers do not submit a tender.</p>					
2.4 Procurement 2008	4	<p>2.4 Assessment of tenders</p> <p>The Local Government (Functions and General) Regulations 1996 regulation 18(4) requires all complying tenders to be evaluated against a written evaluation. Adherence to the evaluation method stated in the request for tender is essential to ensure probity is maintained and EMRC achieves value for money.</p> <p>The evaluation of one of the tenders we tested did not adhere to the request for tender's assessment methodology. The formula used in</p>	Moderate	<p>Responsible Officer Enad Zraid</p> <p>Target Date Each and every time a tender is evaluated</p>	<p>Recommendations</p> <ol style="list-style-type: none"> Staff should follow the formula stated in the tender documents and understand the variables within the formula. Provide training to staff in the use of the applicable formula <p>Proposed Action This is all part of the documents and this will be</p>	Complete	<p><u>2012 Comment:</u> From this year's testing of procurement of goods and services over \$100,000 we noted that the assessment methodology is stated within the RFT and repeated again in the recommendation report. All items within the sample had written criteria's and their weighting.</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		<p>the tender assessment was not followed correctly. The formula used was $P = 2.5 + 5(\\$M - \\$T) / \\$M$ Where:</p> <p>$\\$T$ = tendered price; and $\\$M$ = the median price for three or more tenders, or the mean price if two are being considered.</p> <p>There were more than three tenders, but EMRC used a median calculated using the difference between the highest tender price and the lowest tender price, divisible by two. However, when there is an even number of numbers, the median is the mean of the two middle numbers.</p> <p>We recalculated the pricing score and the difference did not change the preferred tenderer.</p> <p>Discussion with staff advised that they used a median method used by the engineers.</p> <p>Risk There is an increased risk of financial loss and reputation damage if evaluation methods are not strictly adhered to.</p>			covered in the training		

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
2.5 Procurement 2008	5	<p>2.5 Notification of outcome to tenderers</p> <p>The Local Government (Functions and General) Regulations 1996, regulation 9 requires the CEO of EMRC to notify tenderers of the outcome of the tender. This is an integral step in an open and transparent process; it also gives tenderers the opportunity to raise any concern or obtain feedback on their quotation / proposal.</p> <p>Advice to tenderers was not on file for seven of the 13 contracts reviewed.</p> <p>Discussion with EMRC management advised that notification is always sent out to tenderers, but is unsure as to why there is no documentation on the 80/20 Documents Manager System for the seven contracts tested.</p> <p>Risk If outcome advices are not sent to tenderers, there is an increased risk of financial loss or reputation damage if unsuccessful tenderers challenge the tender outcome.</p>	Minor	<p>Responsible Officer Enad Zraid</p> <p>Target Date Each time a tender is awarded, letters is to be sent to both successful and unsuccessful</p>	<p>Recommendation Steps are taken to ensure all tenderers are notified of the tender outcome.</p> <p>Proposed Action Procurement Officer to make sure that the process from start to finish has been completed and copies in both hard and electronic copy.</p>	Complete	<p><u>2012 Comment:</u> From this year's testing of procurement of goods and services over \$100,000 we noted that within the tender files located on the 80-20 document management system and the physical file in the custody of the Procurement Officer, all notifications of outcome have been provided to tenderers.</p>
CONTRACT MANAGEMENT							
2.1 Contract Management 2008	6	<p>2.1 Contract Management Guidelines and Procedures</p> <p>Contract Management Guidelines and Procedures provide a suitable framework for managing contracts. They facilitate contract</p>	Moderate	<p>Responsible Officer Terri-Ann Ashton Enad Zraid</p>	<p>Recommendation That contract management guidelines and procedures are developed, authorised and distributed to appropriate staff.</p>	Outstanding Issue re raised in the body of the report.	<p><u>2012 Comment:</u> Through our testing, interview and confirmation it is noted that no action has been taken.</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		<p>activities achieving best value for money while at the same time providing probity and accountability for outcomes in supporting the delivery of the contract.</p> <p>The EMRC has developed a guideline to be used by EMRC staff for the purchase of goods or services. However, contract management guidelines and procedures have not been developed. We note there is no legislative requirement for EMRC to establish contracts management guidelines and procedures.</p> <p>Discussions with management indicate that due to the lack of resources, contract management guidelines and procedures have not been established. At the time of audit, a new contracts management staff member had been recruited</p> <p>Risk There is an increased risk of financial loss if efficient and effective processes are not established.</p>		<p>Target Date December 2008</p>	<p>Proposed Action Develop guideline and procedure for Contract Management</p>		
2.2 Contract Management 2008	7	<p>2.2 Contracts Register</p> <p>In accordance with Local Government (Functions and General) Regulations 1996 s.3.57, the CEO is required to keep a tenders register. Whilst there is no legislative requirement to maintain a contracts register, a</p>	Major	<p>Responsible Officer Enad Zraid</p> <p>Target Date October 2008</p>	<p>Recommendation EMRC should establish a contracts register that includes relevant details such as contract values, extension details where applicable, insurance policy expiry</p>	Complete	<p>2012 Comment: EMRC have developed a physical register which they use to maintain all the requirements stated in the Regulations.</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
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PROCUREMENT							
		<p>contracts register is essential to efficient and effective contract management as a management and reporting tool. It should also facilitate ensuring that EMRC contracts are still delivering the best possible value for money available in the market.</p> <p>We noted that tender details are being recorded in a tenders file. The file includes sufficient documentation to meet the requirements of section 3.57 of the Local Government (Functions and General) Regulations 1996. However, it does not include a listing of contracts resulting from the tender process with relevant details for decision making and reporting purposes. A 'Contracts and Agreements' register is maintained but it is not sufficiently detailed. This register lists legal documents such as sponsorship and grant agreements, leases and bank guarantees.</p> <p>Management is aware that a contracts register including contracts resulting from the tender process has not been established. The Manager, Administration & Compliance advised us that the development of a suitable register was listed as a 'Personal Commitment Plan' (PCP), however it had not been completed due to a lack of resources. At the time of audit, an additional staff member had been recruited and would, among other things, be responsible for</p>			<p>dates, contact person, and any other information useful to EMRC management.</p> <p>Proposed Action Contracts Register – both hard and electronic (need to have contracts on one register and agreements and lease on a second register)</p>		

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		establishing a contracts register. Risk There is an increased risk of financial loss from ineffective contract management as relevant contract information for decision making is not available in a timely manner.					
2.3 Contract Management 2008	8	2.3 Insurance Coverage Under the EMRC's general terms and conditions, suppliers are required have insurance coverage and be able to supply the EMRC evidence of insurance coverage when required. Requests for tender templates require suppliers to maintain insurance coverage throughout the contract duration. Specific contracts or high value contracts have additional standards to uphold, such as the inclusion of Australia Standard AS 4000, where tenderers are to supply evidence of their insurance coverage and a copy of their Insurance Certificate of Currency is to be provided to EMRC within 14 days of the acceptance of the contract. Five contracts requested insurance coverage details in the acceptance letter. Of these five, only one contract had an insurance certificate of currency on file. Of the remaining four evidence of coverage was not provided. There are no policies or procedures stating the requirement	Major	Responsible Officer Enad Zraid Target Date December 2008	Recommendations 1. EMRC to develop a contract management guidelines and procedures that requires the supplier to provide appropriate insurance details prior to commencement of contract. 2. Staff to follow up on evidence of current insurance details. Proposed Action The development of the guideline / procedure will help with the checking of all documents received for contracts.	Outstanding; Issue has been re raised in the main body of the report	2012 Comment: We noted that no insurance certificate of currency is maintained for all contractors. Issue has been raised in the body of this report. A suggestion to include this aspect in the guidelines has been recommended.

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
REC NO.	ITEM NO.	ISSUE	PRIORITY	TARGET DATE/ RESPONSIBLE OFFICER	ACTION TAKEN/ MANAGEMENT RESPONSE	STATUS	SI FOLLOW UP COMMENTS
PROCUREMENT							
		<p>to:</p> <ul style="list-style-type: none"> - supply evidence of insurance coverage details prior to contract acceptance - supply new evidence when the current insurance policy expires. <p>In Tender 2006-8 Provision for Landfill and Leachate Pond Construction, Ertech was required to supply EMRC evidence of insurance coverage and a copy of an Insurance Certificate of Currency within 14 day under clauses 16-18 of the General Conditions of Contract AS 4000-1997. We did not find a copy of an insurance certificate of currency at the time of audit.</p> <p>EMRC do not have contract management guidelines and procedures that require suppliers to provide evidence of insurance coverage. The general terms and conditions require suppliers to provide evidence "on request" only.</p> <p>Risk There is an increased risk of financial loss if contractors are not adequately insured.</p>					
2.4 Contract Management 2008	9	<p>2.4 Variations to contract</p> <p>Variations are a common occurrence in commercial contracts. There may be a difference as to what is the agreed term and condition requirement under the original contract. Therefore, it is essential that approvals</p>	Moderate	<p>Responsible Officer Enad Zraid</p> <p>Target Date December 2008</p>	<p>Recommendation That guidelines and procedures are developed and documented for the handling of contract variations.</p> <p>Proposed Action</p>	Complete	<p>2012 Comment: The Development of a guideline has been recommended elsewhere and will not be raised in this area. EMRC has adopted the</p>

Audit: Procurement, Contract Management				Audit Completion Date: 2008			
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PROCUREMENT							
		<p>for variations to contracts follow an approved process.</p> <p>The EMRC does not have any guidelines or procedures for handling contract variations.</p> <p>The EMRC has not seen a need to document this process as they have used AS 4000 contracts and have experienced staff involved in the process; however, they acknowledge the benefit in documenting the process.</p> <p>Risk There is an increased risk of financial loss to the EMRC due to variations being approved unnecessarily.</p>			The development of the guideline / procedure will have the area of contract variations and how to handle these if you are not using AS 4000		use of the AS4000 We noted that has a built-in variation clause allowing up to 10% and there is need to seek the Council's approval for anything above the threshold.



12.2 ANNUAL FINANCIAL REPORT AND AUDIT REPORT FOR YEAR ENDED 30 JUNE 2012

REFERENCE: COMMITTEES-14515

PURPOSE OF REPORT

To review and adopt Council's draft Annual Financial Report for the year ended 30 June 2012.

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.

Recommendation(s)

That:

1. The audited Annual Financial Report for the year ended 30 June 2012 and the Independent Auditor's Report on that Annual Financial Report be adopted.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response.
3. In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, a copy of the 2011/2012 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, 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 2012.

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 12.2 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 2012.

Attached is a copy of the audited Annual Financial Report for the year ended 30 June 2012 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 2011/2012:

Statement of Comprehensive Income (pg 6 - 7 of 46)

Total Revenue of \$40,951,321 as at 30 June 2012 is \$6,896,694 greater than the 2010/2011 actual revenue and \$1,265,162 above budget for 2011/2012.

Total Expenses of \$27,529,062 is \$2,115,948 greater than the 2010/2011 expenses and \$3,423,138 below budget for 2011/2012.

An actual profit of \$800,083 has resulted from the Disposal of Assets as at 30 June 2012 and is \$763,009 higher than the 2010/2011 actual profit of \$37,074 and \$388,876 above the budget for 2011/2012 of \$411,207.

The total change in Fair Value of Investments for the period ending 30 June 2012 is a realised gain of \$336,965 compared to a gain of \$1,035,940 as at 30 June 2011. The Realised Gains from the change in fair value of investments represents the profit above book value from the sale or maturity of ADI's and 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 Actual Net Result of \$14,559,307 as at 30 June 2012 is \$4,844,779 above the level of 2010/2011 and \$5,414,141 above the 2011/2012 budget.

Statement of Financial Position (pg 8 - 9 of 46)

Current assets as at 30 June 2012 have increased \$10,866,333 in comparison to the level stated as at 30 June 2011. This is due to the increase in the level of cash and cash equivalents as well as an increase in Trade and Other Receivables offset by the decrease in investments.

The overall impact on cash and investments at the close of the financial year is an increase of \$10,348,589 to \$47,154,955 compared to the level of cash and investments the previous year.

Current liabilities as at 30 June 2012 have decreased by \$573,971 compared to 30 June 2011.

The value of Reserves has increased by \$13,646,781 in comparison to the level stated as at 30 June 2011.

Overall equity has increased during the 2011/2012 financial year by \$14,559,307 to \$77,143,313.



Item 12.2 continued

Cash Flow Statement (pg 10 of 46)

Net Cash provided by Operating Activities of \$15,446,095 reflects an increase of \$4,041,010 from the 2010/2011 value of \$11,405,085.

The overall impact on the cash position at the close of the financial year is an increase of \$12,886,356 to \$47,125,607 from the 2010/2011 value of \$34,239,251.

The cash flows used in investing activities for 2011/2012 reflects capital expenditure totalling \$7,101,569 compared to capital expenditure totalling \$4,156,856 during 2010/2011.

Significant items of capital expenditure during the year included:

- Upgrade administration building - Ascot Place (\$272,755);
- Purchase/replace vehicles - Ascot Place and Red Hill (\$329,167);
- Information Technology purchases (\$156,001);
- Purchase Land - Resource Recovery Park, Hazelmere (\$2,254,096);
- Construct facility building - Red Hill Landfill Facility (\$257,895); and
- Purchase/replace plant/minor plant and equipment - Red Hill (\$3,011,065).

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):

- Information technology purchases - Ascot Place (\$269,000);
- Purchase Waste Management land - Red Hill Landfill facility (\$194,594);
- Construct siltation pond - Red Hill Landfill facility (\$120,000);
- Construction of roads/carparks - Red Hill Landfill Facility (\$140,000);
- Construct water storage dam - Red Hill Landfill Facility (\$957,000);
- Construct perimeter bunds - Red Hill Landfill Facility (\$120,000);
- Purchase/replace plant/minor plant and equipment - Red Hill Landfill facility (\$447,935);
- Purchase/replace plant - Hazelmere facility (\$439,129);
- Purchase fire fighting system/equipment - Hazelmere facility (\$196,000); and
- Purchase/replace security system - Red Hill Landfill facility (\$110,000).

Funding for the majority of the capital items listed above has been carried forward into the 2012/2013 financial year.

Reserves (pg 32 - 35 of 46)

During the 2011/2012 financial year the amount held in Reserves (page 34 of 46, Note 15) increased by \$13,646,781 to a balance of \$44,700,498. This is \$2,047,085 more than the budgeted 2011/2012 closing balance of \$42,653,413.



Item 12.2 continued

STRATEGIC/POLICY IMPLICATIONS

Addresses the following:

Key Result Area 4 – Good Governance

- 4.1 To improve member Council and EMRC financial viability
- 4.7 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

As outlined in the report and attachments

SUSTAINABILITY IMPLICATIONS

Nil

MEMBER COUNCIL IMPLICATIONS

Member Council

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

Implication Details

Proportional share of increase in the total equity of the EMRC from 2010/2011 to 2011/2012 as advised under separate cover.

ATTACHMENT(S)

1. Annual Financial Report for the Year Ended 30 June 2012 including Independent Auditor's Report from Macri Partners (Ref: Committees-14644)
2. Interim Audit Report for Year Ended 30 June 2012 (Ref: Committees-14645)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION(S)

That:

1. The audited Annual Financial Report for the year ended 30 June 2012 and the Independent Auditor's Report on that Annual Financial Report be adopted.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response.
3. In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, a copy of the 2011/2012 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, within 30 days of the receipt by the EMRC's CEO of the auditor's report on that financial report.



Item 12.2 continued

The CEO advised that a legal action was currently before the United States Bankruptcy Courts seeking repayment on a CDO that was paid by the trustee to the noteholders.

Mr Macri from Macri Partners (EMRC auditors) noted that even if the legal action was successful, it would be required to enforce the judgement debt in a different jurisdiction in Australia. Even though the possibility of EMRC repaying the amount was remote, Mr Macri advised that it would be prudent to disclose this in the accounts by way of a note in the contingent liability section.

The EMRC was in agreement with the auditors' advice and suggested that the recommendations remain the same with the exception of the following words being added to the end of recommendation 1:

“with Note 26 being amended subject to legal advice.”

The CEO advised that EMRC's legal representative would draft the words to be added to the Annual Financial Report.

AC RECOMMENDATION(S)

MOVED CR FÄRDIG

SECONDED CR LINDSEY

That:

1. The audited Annual Financial Report for the year ended 30 June 2012 and the Independent Auditor's Report on that Annual Financial Report be adopted with Note 26 being amended subject to legal advice.
2. Council notes the contents of the Interim Audit Report and the management comments provided in response.
3. In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, a copy of the 2011/2012 Annual Financial Report be submitted to the Departmental CEO, Department of Local Government, 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 2012**

EASTERN METROPOLITAN REGIONAL COUNCIL

2011/2012 ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

DETAILS	PAGE NO
Statement by Chief Executive Officer	4
Financial Report	
Statement of Comprehensive Income - By Program	6
Statement of Comprehensive Income - By Nature and Type	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to and forming part of the Financial Report	12-43
Independent Audit Report	45-46

STATEMENT BY CHIEF EXECUTIVE OFFICER



**For the Year Ended
30 June 2012**

**EASTERN METROPOLITAN REGIONAL COUNCIL
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012**

**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 2012 are in my opinion properly drawn up to present fairly the financial position of the Eastern Metropolitan Regional Council at 30 June 2012 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 on the 23rd day of August 2012



PETER B. SCHNEIDER
Chief Executive Officer

FINANCIAL REPORT



**For the Year Ended
30 June 2012**

EASTERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

BY PROGRAM	NOTE	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
REVENUE				
Governance		57,406	334,598	32,540
General Purpose Funding		2,575,309	2,302,976	1,982,934
Community Amenities		36,954,974	35,740,715	29,832,049
Other Property and Services		1,363,632	1,307,869	2,207,105
TOTAL REVENUE		40,951,321	39,686,159	34,054,627
EXPENSES				
Governance		40,293	1,572,021	586,492
Community Amenities		23,019,671	24,986,286	20,641,120
Other Property and Services		4,469,098	4,393,893	4,185,502
TOTAL EXPENSES		27,529,062	30,952,200	25,413,114
INCREASE / (DECREASE)		13,422,259	8,733,959	8,641,514
DISPOSAL OF ASSETS				
Profit on Sale		805,991	411,207	38,136
Loss on Sale		(5,908)	0	(1,062)
PROFIT / (LOSS) ON DISPOSALS	20	800,083	411,207	37,074
REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS				
General Purpose Funding	7(c)	336,965	0	1,035,940
GAIN / (LOSS)		336,965	0	1,035,940
Other Comprehensive Income		0	0	0
TOTAL COMPREHENSIVE INCOME		14,559,307	9,145,166	9,714,528

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 2012

BY NATURE AND TYPE	NOTE	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
REVENUE				
Fees and Charges	4	35,119,314	34,231,057	27,821,888
Contributions		1,306,068	1,204,865	1,321,313
Operating Grants	5	643,550	698,695	1,714,015
Interest Earnings	2	2,575,309	2,302,976	1,982,934
Other Revenue		1,307,080	1,248,565	1,214,476
TOTAL REVENUE		40,951,321	39,686,159	34,054,627
EXPENSES				
Employee Costs		7,759,113	8,024,620	7,034,119
Materials and Contracts		5,731,700	7,102,736	6,296,307
Utility Expenses		232,023	190,559	147,303
Insurance Expenses		226,205	219,043	195,144
Finance Fees and Interest Expenses		16,159	14,800	15,838
Other Expenditure		10,587,500	10,667,725	8,855,901
Depreciation Expenses	2	2,976,362	4,732,717	2,868,502
TOTAL EXPENSES		27,529,062	30,952,200	25,413,114
INCREASE / (DECREASE)		13,422,259	8,733,959	8,641,514
DISPOSAL OF ASSETS				
Profit on Sale		805,991	411,207	38,136
Loss on Sale		(5,908)	0	(1,062)
PROFIT / (LOSS) ON DISPOSALS	20	800,083	411,207	37,074
REALISED/UNREALISED GAIN/(LOSS) FROM CHANGE IN FAIR VALUE OF INVESTMENTS				
Realised Gain/(Loss)		336,965	0	973,550
Unrealised Gain/(Loss)		0	0	62,390
GAIN / (LOSS)	7(c)	336,965	0	1,035,940
Other Comprehensive Income		0	0	0
TOTAL COMPREHENSIVE INCOME		14,559,307	9,145,166	9,714,528

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 2012

	NOTE	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
CURRENT ASSETS			
Cash and Cash Equivalents	7(a)	47,125,607	34,239,251
Investments	7(b)	29,348	2,567,115
Trade and Other Receivables	9	3,534,293	3,018,273
Inventories	11	44,528	46,105
Other Assets	10	108,495	105,194
TOTAL CURRENT ASSETS		<u>50,842,271</u>	<u>39,975,938</u>
NON CURRENT ASSETS			
Property, Plant and Equipment	12	32,985,461	29,868,109
Work in Progress		412,861	272,020
TOTAL NON CURRENT ASSETS		<u>33,398,321</u>	<u>30,140,129</u>
TOTAL ASSETS	19	<u>84,240,592</u>	<u>70,116,067</u>
CURRENT LIABILITIES			
Trade and Other Payables	13	4,251,981	4,970,223
Provisions	14	1,190,512	1,046,241
TOTAL CURRENT LIABILITIES		<u>5,442,493</u>	<u>6,016,464</u>
NON CURRENT LIABILITIES			
Provisions	14	1,654,786	1,515,597
TOTAL NON CURRENT LIABILITIES		<u>1,654,786</u>	<u>1,515,597</u>
TOTAL LIABILITIES		<u>7,097,279</u>	<u>7,532,061</u>
NET ASSETS		<u>77,143,313</u>	<u>62,584,006</u>
EQUITY			
Retained Surplus		32,442,815	31,530,289
Reserves	15	44,700,498	31,053,717
TOTAL EQUITY		<u>77,143,313</u>	<u>62,584,006</u>

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

EASTERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	RETAINED SURPLUS \$	RESERVES \$	TOTAL EQUITY \$
Balance as at 30 June 2010		27,631,123	25,238,355	52,869,478
Net Result		9,714,528	0	9,714,528
Total Other Comprehensive Income		0	0	0
Transfer (from) / to		(5,815,362)	5,815,362	0
Balance as at 30 June 2011		31,530,289	31,053,717	62,584,006
Net Result		14,559,307	0	14,559,307
Total Other Comprehensive Income		0	0	0
Transfer (from) / to		(13,646,781)	13,646,781	0
Balance as at 30 June 2012		32,442,815	44,700,498	77,143,313

The statement of changes in equity 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 2012

	NOTE	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Flows from Normal Operating Activities				
Cash receipts in the course of normal operations		36,762,232	32,297,040	30,505,109
Cash payments in the course of normal operations		(27,912,065)	(24,847,960)	(24,223,131)
Interest receipts - Municipal Cash		768,648	391,786	589,455
Net Cash Provided by Normal Operating Activities		9,618,815	7,840,866	6,871,433
Cash Flows from Other Operating Activities				
<u>Resource Recovery</u>				
Cash receipts from secondary waste charge		5,178,928	5,086,092	4,359,912
Cash receipts from resource recovery project		581	50	197
Cash payments for resource recovery project		(974,393)	(1,222,556)	(1,077,077)
Interest receipts - secondary waste investment		1,205,811	1,432,890	944,708
<u>Other Activities</u>				
Interest receipts - other restricted investments		416,352	478,300	305,912
Net Cash Provided by Other Operating Activities		5,827,279	5,774,776	4,533,652
NET CASH PROVIDED BY OPERATING ACTIVITIES	16(ii)	15,446,095	13,615,642	11,405,085
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash receipts from sale of assets		1,667,098	912,773	354,300
Cash payments for acquisition of assets		(7,101,569)	(8,872,357)	(4,156,856)
NET CASH USED IN INVESTING ACTIVITIES		(5,434,471)	(7,959,584)	(3,802,556)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash receipts from sale of investments		2,874,732	2,523,469	5,446,229
NET CASH PROVIDED BY FINANCING ACTIVITIES		2,874,732	2,523,469	5,446,229
SUMMARY OF CASH FLOWS				
Cash and cash equivalents at the beginning of the year		34,239,251	31,608,547	21,190,493
Net Increase/(Decrease) in Cash Held		12,886,356	8,179,527	13,048,758
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16(i)	47,125,607	39,788,074	34,239,251

The Statement of Cash Flows 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 2012**

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

Basis of Preparation

The financial report is a general purpose financial statement 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.

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) 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.

(b) Property, Plant and Equipment

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 includes the cost of all materials, direct labour and variable and fixed overheads.

Revaluation

Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on a basis to reflect the already consumed or expired future economic benefits. 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 significantly from that determined using fair value at reporting date.

Land Under Roads

The roads on the land owned by the EMRC are private roads. The land under these private roads has already been recognised as part of the land cost shown in the Statement of Financial Position.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Depreciation of Non-Current Assets

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%

(d) Rates

The Eastern Metropolitan Regional Council 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.

(e) 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.

(f) 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.

(g) 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 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 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) 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.

(j) 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.

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.

(k) Events after Reporting Period

Impact of Environmental Regulations

On 8 November 2011 the Australian Parliament passed the Clean Energy Act 2011 which sets out the way that Australia will introduce a carbon price to reduce Australia's carbon pollution and move to a clean energy future.

As the emission from the EMRC's Red Hill Waste Management Facility exceeds the threshold of 25,000 tonnes of carbon dioxide equivalents (CO₂e), the EMRC is classed as being a "liable entity" when waste received post 1 July 2012 begins to decompose and generate methane.

For 2012/2013, the carbon price has been fixed at \$23 per tonne of CO₂e and increasing by 2.5% per annum for the next two years. From 1 July 2015, the carbon price will transition to a fully flexible price under an emissions trading scheme (ETS) with the price to be determined by the market.

The fixed price phase will commence from 1 July 2012 and will not be retrospective. Additionally, the EMRC does not have any intangible assets that would require any impairment that will impact on EMRC's Statement of Financial Position. Consequently, there will be no impact on the EMRC's 2011/2012 Statement of Comprehensive Income.

From 1 July 2012, a fee of \$6.90 per tonne on each tonne of waste disposed at EMRC's waste facility will be charged to cover the carbon price liability. This will be reflected in the 2012/2013 accounts.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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.

(m) Provision for Site Rehabilitation

The estimated closure and post-closure site rehabilitation cost is charged to the Statement of Comprehensive Income on a volumetric basis over the life of the landfill site.

The nature of work planned by Council includes cell capping, landform reconstruction, dismantling of site operating facilities and implementation of a revegetation plan to suit the final land use. The cost is based on estimated current costs, determined on a non-discounted basis.

The estimated remaining capacity of the site as at 30 June 2012 is 34,225,542 m³.

(n) Provision for Environmental Monitoring

The estimated closure and post-closure environmental monitoring cost is charged to the Statement of Comprehensive Income on a volumetric basis over the life of the landfill site.

The nature of work planned by Council includes monitoring of groundwater, surface water, leachate and landfill gas generation. The cost is based on estimated current costs, determined on a non-discounted basis.

The estimated remaining capacity of the site as at 30 June 2012 is 34,225,542 m³.

(o) 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.

(p) 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.

(q) Trade and Other Receivables

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 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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 balance sheet date. 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 2011/12). It also contributes to the LGSP and other choice funds for full scheme members (5% for 2011/12). Contributions to defined contribution plans are recognised as an expense as they become payable.

(s) 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.

(t) Comparative Figures

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

(u) 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.

(v) 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.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Investments and Other Financial Assets

Classification

Council classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and Derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income as gains and losses from investment securities.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Investments and Other Financial Assets (Continued)

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the Statement of Comprehensive Income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the Statement of Comprehensive Income as part of revenue from continuing operations when Council's right to receive payments is established. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Income.

(x) Estimation of Fair Value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) 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 2012.

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

Title and topic	Issued	Applicable	Impact
(i) AASB 9 - Financial Instruments	December 2009	1 January 2013	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 that the standard will have any material effect.
(ii) AASB 1053 - Application of Tiers of Australian Accounting Standards	June 2010	1 July 2013	Nil - Due to its nature and statutory requirements the Council will be deemed a Tier 1 entity and will continue to prepare general purpose financial statements.
(iii) 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 consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council (refer (i) above).
(iv) AASB 2010- 2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133,134, 136,137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]	June 2010	1 July 2013	Nil - None of these amendments will have any effect on the financial report as the standard does not apply in the case of general purpose financial statements.

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued	Applicable	Impact
(v) 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).
(vi) AASB 2010 - 8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets [AASB 112]	December 2010	1 January 2012	Nil – None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
(vii) AASB 2010 - 10 Further Amendments to Australian Accounting Standards - Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]	December 2010	1 January 2013	Nil – None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
(viii) AASB 2011 - 2 Amendments to Australian Accounting Standards Arising from the Trans - Consequence Project - Reduced Disclosure Requirements [AASB 101 & AASB 1054]	May 2011	1 July 2013	Nil – None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
AASB 2011 - 3 Amendments to Australian Accounting Standards - Orderly Adoption of Changes to ABS GFS manual and related Amendments. [AASB 1049]	May 2011	1 July 2012	
AASB 2011 - 6 Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements [AASB 127, 128 & 131]	July 2011	1 July 2013	

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued	Applicable	Impact
(ix) 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, 131, 132, 133, 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 Venture, the requirements of Joint AASB 128 supersede 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.
(x) 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 or 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.
(xi) AASB 119 - Employee Benefits AASB 2010- 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 July 2013	The changes in relation to defined benefits 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 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title and topic	Issued	Applicable	Impact
<p>(xii) AASB 13 - Fair Value Measurement</p> <p>AASB 2011 - 8 Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]</p>	September 2011	1 January 2013	<p>AASB 13 defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements.</p> <p>AASB 13 requires:</p> <ul style="list-style-type: none"> - Inputs to all fair value measurements to be categorized in accordance with a fair value hierarchy; and - Enhanced disclosures regarding all assets and liabilities (including, but not limited to financial assets and financial liabilities) measured at fair value. <p>AASB 13 will have particular relevance to the process of the Council adopting fair value methodology in relation to its fixed assets as mandated from 1 July 2012. Apart from the changes in value in relation to assets to be revalued (which are mandated by legislation and not changes to the standard) it is not expected to significantly impact the Council as the framework embodied in AASB 13 does not differ significantly from that which is present in existing standards.</p> <p>The amendment to the legislation requires the phasing in of fair value in relation to fixed assets over the three years from 1 July 2012. It is not possible to estimate the likely amount of any revaluations.</p>
<p>(xiii) AASB 2011 - 11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements</p> <p>AASB 2011 - 12 Amendments to Australian Accounting Standards arising from Interpretation 20 [AASB 1]</p> <p>AASB 2011 - 13 Amendments to Australian Accounting Standards Improvements to AASB 1049]</p>	September 2013	1 July 2013	<p>Nil - None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.</p>
	November 2011	1 January 2013	
	December 2011	1 July 2012	

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) 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 124

AASB 1054

AASB 2009-12

AASB 2010-4

AASB 2010-5

AASB 2010-6

AASB 2010-9

AASB 2010-14

AASB 2011-1

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 2012

2. REVENUE AND EXPENSES

ACTUAL
2011/2012
\$

ACTUAL
2010/2011
\$

Net Result

The Net Result includes:

(i) Charging as an Expense:

Auditors Remuneration

Auditing and Financial Reporting
Other

9,360
2,400

9,360
6,400

11,760

15,760

Depreciation and Amortisation Expense

Buildings
Structures
Plant
Equipment
Furniture and Fittings

225,802
611,493
1,937,381
178,422
23,264

176,596
1,059,699
1,450,920
164,522
16,765

2,976,362

2,868,502

ACTUAL
2011/2012
\$

BUDGET
2011/2012
\$

ACTUAL
2010/2011
\$

(ii) Crediting as Revenue:

Interest Earnings

Interest on funds held in Reserves
Interest on Municipal Cash and Investments
Accrued Interest Earnings

1,622,164
768,648
184,497

1,911,190
391,786
0

1,250,620
589,455
142,859

2,575,309

2,302,976

1,982,934

ACTUAL
2011/2012
\$

ACTUAL
2010/2011
\$

Significant Revenue

General Purpose Funding

336,965

1,035,940

336,965

1,035,940

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 2012

3. COMPONENT FUNCTIONS / ACTIVITIES

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

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 Facilities - Class III cell, Class IV cell, weighbridge, transfer station 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 Risk Management Services, Environmental Service (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 2012

4. FEES AND CHARGES SUMMARY BY PROGRAM	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
Governance	604	2,000	85
Community Amenities	35,045,448	34,210,994	27,755,814
Other Property and Services	73,262	18,063	65,989
Total Statutory Fees and Charges	35,119,314	34,231,057	27,821,888

5. GRANT REVENUE BY PROGRAM	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Community Amenities	2,500	264,083
Other Property and Services	641,050	1,449,932
Total Statutory Fees and Charges	643,550	1,714,015

6. CONTROL OVER CONTRIBUTIONS	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Conditions over Contributions		

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	325	0
• Regional Active Transport Plan	25,000	0
• Perth Solar City Project	0	46,647

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:

• Perth Solar City Project	46,647	0
• Watsonia OMCF Project	0	8,760

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

7(a). CASH AND CASH EQUIVALENTS

	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Cash and Cash Equivalents - Unrestricted	5,061,846	9,947,074
Cash and Cash Equivalents - Restricted	42,063,761	24,292,177
	<u>47,125,607</u>	<u>34,239,251</u>

7(b). INVESTMENTS

Investments - Restricted	29,348	2,567,115
	<u>29,348</u>	<u>2,567,115</u>

Financial Assets at fair value through profit or loss

At the beginning of the year	2,567,115	6,977,404
Disposals	(2,874,732)	(5,446,229)
Unrealised gain/(loss) from change in fair value of investments	336,965	1,035,940
Value at the end of the year	<u>29,348</u>	<u>2,567,115</u>

Held for Trading

- Financial Instruments	29,348	2,567,115
Value at the end of the year	<u>29,348</u>	<u>2,567,115</u>

The following Cash and Investments have restrictions imposed by regulation or other externally imposed requirements:

Plant and Equipment	1,211,123	38,811
Site Rehabilitation Red Hill	1,697,942	3,023,037
Future Development	2,913,350	1,505,552
Environmental Monitoring Red Hill	526,688	306,803
Environmental Insurance Red Hill	195,912	211,328
Risk Management	12,071	11,471
Class IV Cells Red Hill	362,862	289,265
Regional Development	17,913	23,807
Secondary Waste Processing	33,522,665	23,083,322
Class III Cells	3,517,865	1,898,829
Building Refurbishment (Ascot Place)	60,945	57,920
Long Service Leave	661,162	603,573
	<u>44,700,498</u>	<u>31,053,716</u>
Less unrealised gain/(loss) from changes in fair value of Investments	<u>(2,607,389)</u>	<u>(4,194,424)</u>
	<u>42,093,109</u>	<u>26,859,292</u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

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

	ACTUAL 2011/2012	ACTUAL 2010/2011
General Purpose Funding	<u>336,965</u>	<u>1,035,940</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 2012, 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
Opening Balance as at 1 July 2011	(4,194,424)
Add: Realised gains on disposal of Investments for 2011/2012	336,965
Add: Write back of accumulated unrealised losses on disposals	1,250,070
Balance as at 30 June 2012	(2,607,389)

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 2011/2012 budget was \$5,435,643.

The actual net current asset position balance shown in the audited financial report as at 30 June 2011 and after adjustment for Restricted Assets was \$7,100,182.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

9. TRADE AND OTHER RECEIVABLES	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
General	2,888,717	2,604,774
Miscellaneous	45,851	22,623
Accrued Interest Earnings	604,100	419,603
Provision for Impairment of Receivables	(4,375)	(28,727)
	<u>3,534,293</u>	<u>3,018,273</u>

10. OTHER ASSETS	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Prepayment - General	88,620	83,659
Prepayment - Insurance	11,091	12,000
Prepayment - Miscellaneous	8,783	9,535
	<u>108,495</u>	<u>105,194</u>

11. INVENTORIES	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Distillate	32,179	38,233
Oils	3,571	2,958
Unleaded Fuel	8,779	4,914
	<u>44,528</u>	<u>46,105</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

12. NON CURRENT ASSETS MOVEMENTS - PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS	STRUCTURES	PLANT	EQUIPMENT	FURNITURE and FITTINGS	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Carrying Amount at Cost							
Balance 30 June 2011	7,639,917	6,149,856	20,813,775	13,405,094	1,737,861	461,874	50,208,377
Additions	2,254,096	721,595	133,816	3,488,052	325,164	38,004	6,960,727
Disposals	(638,502)	0	0	(2,406,011)	(271,842)	(8,672)	(3,325,027)
Balance 30 June 2012	<u>9,255,511</u>	<u>6,871,451</u>	<u>20,947,591</u>	<u>14,487,135</u>	<u>1,791,183</u>	<u>491,206</u>	<u>53,844,077</u>

Accumulated Depreciation / Amortisation

Balance 30 June 2011	0	(1,775,425)	(10,233,759)	(6,662,366)	(1,340,482)	(328,236)	(20,340,268)
Disposals	0	0	0	2,183,407	266,149	8,458	2,458,014
Depreciation Expense	0	(225,802)	(611,493)	(1,937,381)	(178,422)	(23,264)	(2,976,362)
Balance 30 June 2012	<u>0</u>	<u>(2,001,227)</u>	<u>(10,845,252)</u>	<u>(6,416,340)</u>	<u>(1,252,755)</u>	<u>(343,042)</u>	<u>(20,858,616)</u>

Net Book Value

As at 30 June 2011	<u>7,639,917</u>	<u>4,374,431</u>	<u>10,580,016</u>	<u>6,742,728</u>	<u>397,379</u>	<u>133,638</u>	<u>29,868,109</u>
As at 30 June 2012	<u>9,255,511</u>	<u>4,870,224</u>	<u>10,102,339</u>	<u>8,070,795</u>	<u>538,428</u>	<u>148,164</u>	<u>32,985,461</u>

Assets at cost are subject to an annual assessment as to whether there is any indication an asset may have been impaired in accordance with AASB 136: "Impairment of Assets".

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

13. TRADE AND OTHER PAYABLES	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Current - Creditors		
Payroll Accruals	205,641	155,326
GST Liability	484,735	478,295
Sundry Creditors	3,561,605	4,336,602
	<u>4,251,981</u>	<u>4,970,223</u>

14. PROVISIONS

Current

Employees Annual Leave	754,453	677,986
Employees Long Service Leave	436,059	368,255
	<u>1,190,512</u>	<u>1,046,241</u>

PROVISIONS

Non-current

Employees Long Service Leave	97,777	81,119
Red Hill Landfill Site Rehabilitation	1,415,464	1,304,073
Red Hill Landfill Environmental Monitoring	141,544	130,405
	<u>1,654,786</u>	<u>1,515,597</u>

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

15. RESERVES

	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
(a) Plant and Equipment Reserve			
Opening balance as at 1 July	38,811	20,888	387,395
Transfer from retained surplus	4,289,340	3,808,998	2,681,984
Transfer to retained surplus	(3,119,055)	(3,751,000)	(3,049,800)
Interest	2,027	1,277	19,232
Closing Balance as at 30 June	1,211,123	80,163	38,811
(b) Site Rehabilitation Reserve			
Opening balance as at 1 July	3,023,037	2,626,312	2,660,225
Transfer from retained surplus	111,362	0	230,747
Transfer to retained surplus	(1,594,372)	0	0
Interest	157,915	160,585	132,065
Closing Balance as at 30 June	1,697,942	2,786,897	3,023,037
(c) Future Development Reserve			
Opening balance as at 1 July	1,505,552	1,744,546	510,222
Transfer from retained surplus	2,039,152	350,000	1,470,000
Transfer to retained surplus	(710,000)	(1,770,000)	(500,000)
Interest	78,646	106,670	25,330
Closing Balance as at 30 June	2,913,350	431,216	1,505,552
(d) Environmental Monitoring Reserve			
Opening balance as at 1 July	306,803	312,193	292,292
Transfer from retained surplus	203,858	0	0
Transfer to retained surplus	0	0	0
Interest	16,027	19,089	14,511
Closing Balance as at 30 June	526,688	331,282	306,803
(e) Environmental Insurance Reserve			
Opening balance as at 1 July	211,327	215,457	224,245
Transfer from retained surplus	0	0	0
Transfer to retained surplus	(26,455)	(26,455)	(24,050)
Interest	11,039	13,174	11,132
Closing Balance as at 30 June	195,912	202,176	211,327

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

15. RESERVES (Continued)	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
(f) Risk Management Reserve			
Opening balance as at 1 July	11,472	11,673	10,929
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	599	714	543
Closing Balance as at 30 June	12,071	12,387	11,472
(g) Class IV Reserve			
Opening balance as at 1 July	289,265	293,445	225,485
Transfer from retained surplus	58,487	58,487	52,586
Transfer to retained surplus	0	0	0
Interest	15,110	17,943	11,194
Closing Balance as at 30 June	362,862	369,875	289,265
(h) Regional Development Reserve			
Opening balance as at 1 July	23,807	9,222	294,282
Transfer from retained surplus	770,000	450,000	470,000
Transfer to retained surplus	(777,137)	(442,699)	(755,084)
Interest	1,244	564	14,609
Closing Balance as at 30 June	17,913	17,087	23,807
(i) Secondary Waste Reserve			
Opening balance as at 1 July	23,083,322	23,434,417	19,029,568
Transfer from retained surplus	12,552,176	10,686,092	4,324,832
Transfer to retained surplus	(3,318,644)	(1,457,751)	(1,215,786)
Interest	1,205,811	1,432,890	944,708
Closing Balance as at 30 June	33,522,665	34,095,648	23,083,322
(j) Class III Reserve			
Opening balance as at 1 July	1,898,829	1,915,897	944,959
Transfer from retained surplus	1,659,846	1,573,659	911,958
Transfer to retained surplus	(140,000)	(20,000)	(5,000)
Interest	99,190	117,147	46,912
Closing Balance as at 30 June	3,517,865	3,586,703	1,898,829

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

15. RESERVES (Continued)	ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
(k) Building Refurbishment Reserve			
Opening balance as at 1 July	57,920	58,938	55,180
Transfer from retained surplus	0	0	0
Transfer to retained surplus	0	0	0
Interest	3,025	3,604	2,739
Closing Balance as at 30 June	60,945	62,542	57,920
(l) Long Service Leave Reserve			
Opening balance as at 1 July	603,573	613,844	556,868
Transfer from retained surplus	26,060	26,060	19,060
Transfer to retained surplus	0	0	0
Interest	31,529	37,533	27,645
Closing Balance as at 30 June	661,162	677,437	603,573
RESERVES AT END OF FINANCIAL YEAR	44,700,498	42,653,413	31,053,717

Fair Value of investments at balance date has resulted in an unrealised loss of \$2,607,389 (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 2012

15. 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

To finance the replacement of major items of plant and equipment.

Site Rehabilitation Reserve

To finance the rehabilitation of the completed cells at the Red Hill waste disposal site and the rehabilitation of the site at time of decommissioning.

Future Development Reserve

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

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

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.

Long Service Leave Reserve

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

16. 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:

	ACTUAL	BUDGET	ACTUAL
	2011/2012	2011/2012	2010/2011
	\$	\$	\$
Cash and Cash Equivalents - Unrestricted	5,061,846	3,046,881	9,947,074
Cash and Cash Equivalents - Restricted	42,063,761	36,741,193	24,292,177
Total Cash	47,125,607	39,788,074	34,239,251

(ii) Reconciliation of net cash used in operating activities to Net Result

Net Result	14,559,307	9,145,166	9,714,528
Depreciation	2,976,362	4,732,717	2,868,502
(Profit)/Loss on sale of assets	(800,083)	(411,207)	(37,074)
Increase/(Decease) in provisions - Redhill	122,530	114,384	100,168
Increase/(Decease) in provisions - Staff	160,929	34,582	(33,289)
Increase/(Decease) in Sundry Creditors	(724,682)	0	(112,522)
Increase/(Decease) in GST	6,440	0	252,337
(Increase)/Decease in accrued interest earnings	(184,497)	0	(142,859)
(Increase)/Decrease in Receivables	(331,523)	0	(114,389)
(Increase)/Decrease in Inventory	1,577	0	(22,697)
(Increase)/Decrease in Prepayments	(3,301)	0	(31,680)
Increase/(Decease) in unrealised gain/loss from change in fair value of investments	(336,965)	0	(1,035,940)
Net cash from operating activities	15,446,095	13,615,642	11,405,085

(iii) Financing Facilities

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

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

17. EMPLOYEE ENTITLEMENTS

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

Provision for Employee Entitlements (Refer to Note 14)	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
- Current	1,190,512	1,046,241
- Non-current	97,777	81,119
Total Employee Entitlements	<u>1,288,290</u>	<u>1,127,360</u>
	ACTUAL FTE's 2011/2012	ACTUAL FTE's 2010/2011
Total number of (FTE) employees at end of financial year	<u>100</u>	<u>89</u>

18. COUNCILLORS FEES AND ALLOWANCES

ACTUAL 2011/2012 \$	BUDGET 2011/2012 \$	ACTUAL 2010/2011 \$
--	--	--

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

Councillors' meeting fees	77,000	77,000	77,000
Chairman's meeting fees	14,000	14,000	14,000
Deputy Councillors' meeting fees	980	3,500	1,300
Chairman's Local Government fee	6,000	6,000	6,000
Deputy Chairman's Local Government fee	1,500	1,500	1,500
	<u>99,480</u>	<u>102,000</u>	<u>99,800</u>

EASTERN METROPOLITAN REGIONAL COUNCIL

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

19. ASSETS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT PROGRAM	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
CURRENT ASSETS		
General Purpose Funding	9,960,286	13,155,457
Governance	734,178	672,964
Community Amenities	40,129,895	26,123,711
Economic Services	17,913	23,806
NON-CURRENT ASSETS		
Land		
Governance	2,531,274	3,022,393
Community Amenities	6,724,237	4,617,524
Buildings		
Governance	3,795,068	3,724,690
Community Amenities	1,075,157	649,741
Structures		
Community Amenities	10,102,339	10,580,016
Plant		
Governance	482,519	566,828
Community Amenities	7,588,274	6,175,900
Equipment		
Governance	308,749	245,740
Community Amenities	229,678	151,639
Furniture and Fittings		
Governance	148,164	133,638
Work In Progress		
Unclassified	412,861	272,020
	84,240,592	70,116,067

20. DISPOSAL OF ASSETS	ACTUAL 2011/2012 \$			BUDGET 2011/2012 \$		
	Net Book Value	Sale Price	Gain (Loss)	Net Book Value	Sale Price	Gain (Loss)
Land	638,502	760,000	121,498	0	0	0
Plant	222,605	907,098	684,493	501,566	912,773	411,207
Equipment	5,694	0	(5,694)	0	0	0
Furniture and Fittings	214	0	(214)	0	0	0
Total Assets Disposed	867,015	1,667,098	800,083	501,566	912,773	411,207

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

21. 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 2011/12 financial year.

(c) Unspent Loans

There were no unspent loans during the 2011/12 financial year.

22. INTEREST IN THE EMRC

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

Member Council	2011/2012		2010/2011	
	%	\$	%	\$
Town of Bassendean	4.60	3,550,574	4.63	2,897,798
City of Bayswater	19.22	14,824,118	19.37	12,121,180
City of Belmont	11.04	8,516,406	10.98	6,873,600
Shire of Kalamunda	17.40	13,420,932	17.47	10,935,611
Shire of Mundaring	12.13	9,357,418	12.18	7,623,618
City of Swan	35.61	27,473,865	35.37	22,132,199
Total Equity	100.00	77,143,313	100.00	62,584,006

The EMRC participating Member Council's interest distribution for 2011/2012 has been calculated in accordance with clause 9.4 of the Eastern Metropolitan Regional Council Establishment Agreement.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

23. 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	
	2011/2012	2010/2011	2011/2012	2010/2011
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	47,125,607	34,239,251	47,125,607	34,239,251
Receivables	3,534,293	3,018,273	3,534,293	3,018,273
Financial Assets at fair value through profit and loss	29,348	2,567,115	29,348	2,567,115
	<u>50,689,248</u>	<u>39,824,639</u>	<u>50,689,248</u>	<u>39,824,639</u>
Financial Liabilities				
Payables	4,251,981	4,970,223	4,251,981	4,970,223
	<u>4,251,981</u>	<u>4,970,223</u>	<u>4,251,981</u>	<u>4,970,223</u>

Fair value is determined as follows:

- Cash and Cash Equivalents, Receivables, Payables - estimated to the carrying value which approximates net market value.
- Financial Assets at Fair Value through profit and loss - based on market valuations and verified by independent financial advisors.

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

23. 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.

	2011/2012	2010/2011
	\$	\$
Impact of a 10% movement in price of investments:		
- Equity	2,935	256,712
- Statement of Comprehensive Income	2,935	256,712
Impact of a 1% movement in interest rates on cash and investments:		
- Equity	471,550	368,064
- Statement of Comprehensive Income	471,550	368,064

(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:

	2011/2012	2010/2011
	\$	\$
Percentage of Other Receivables		
- Current	95.8%	84.0%
- Overdue	4.2%	16.0%
	100.0%	100.0%
	100.0%	100.0%

EASTERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

23. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

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

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

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
<u>2011/2012</u>					
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>
<u>2010/2011</u>					
Payables	4,970,223	0	0	4,970,223	4,970,223
	<u>4,970,223</u>	<u>0</u>	<u>0</u>	<u>4,970,223</u>	<u>4,970,223</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 2012

24. COMMITMENTS FOR CAPITAL EXPENDITURE	ACTUAL 2011/2012 \$	ACTUAL 2010/2011 \$
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities, payable:		
- Not longer than one year	1,356,606	1,434,428
Total Capital Commitments	1,356,606	1,434,428

25. FINANCIAL RATIOS	ACTUAL 2011/2012	ACTUAL 2010/2011	ACTUAL 2009/2010
Current Ratio	1.75 : 1.00	2.32 : 1.00	2.27 : 1.00
Debt Ratio	8.4%	10.7%	12.4%
Debt Service Ratio	Not Applicable	Not Applicable	Not Applicable
Gross Debt to Revenue Ratio	Not Applicable	Not Applicable	Not Applicable
Untied Cash to Trade Creditors Ratio	1.42 : 1.00	2.29 : 1.00	2.03 : 1.00
Gross Debts to Economically Realisable Assets Ratio	Not Applicable	Not Applicable	Not Applicable
Rate Coverage Ratio	Not Applicable	Not Applicable	Not Applicable
Outstanding Rates Ratio	Not Applicable	Not Applicable	Not Applicable

26. 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 2013. 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.

27. 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.

INDEPENDENT AUDIT REPORT



**For the Year Ended
30 June 2012**

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 2012 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 notes.

Council's Responsibility for the Financial Report

Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 entity'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 entity'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.



Auditor's Opinion

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

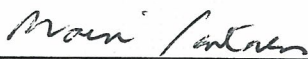
- (i) gives a true and fair view of the financial position of the Eastern Metropolitan Regional Council as at 30 June 2012 and of its financial performance for the year ended on that date; and
- (ii) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards (including the Australian Accounting Interpretations).

Statutory Compliance

We did not during the course of our audit become aware of any instances where the Council did not comply with the requirements of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Eastern Metropolitan Regional Council for the year ended 30 June 2012 included on Eastern Metropolitan Regional Council's website. The Council is responsible for the integrity of Eastern Metropolitan Regional Council's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



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



A MACRI
PARTNER

PERTH
DATED THIS 27TH DAY OF AUGUST 2012.



23 April 2012

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 2012

We carried out an interim audit of the Council for the year ending 30 June 2012.

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 matters were noted and are brought to your attention.

PURCHASES AND PAYMENTS

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

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

However, the following matters were noted as requiring attention:

- (i) During our testing, we noted 2 instances (18 samples tested) where purchase orders were raised only after the goods and services had been supplied and invoices received.

These instances relate to:

- Supply of diesel fuel for Red Hill site
- Hire of D6 Dozer for final cover Class III

As this increases the risk of unauthorised purchases being made, we suggest that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received. This will ensure that goods and services have been obtained at the most competitive prices and ensure adherence to Council's purchasing policy.

Management Comment:

Each month a Late Purchase Order report is prepared for the Executive Management Team (EMT) Strategic meeting for review, and discussions and followup. The Late Purchase Order report details any purchase order that has been raised after the invoice date.



A reminder has been issued to staff reminding them of the importance of ensuring that purchase orders are raised before the goods and services have been received and before the invoice date.

- (ii) During our testing, we noted 7 instances (18 samples tested) where tender numbers were not indicated on the purchase orders.

We recommend that the tender numbers be indicated on all purchase orders for ease of reference and to assist the authorising officer in ensuring appropriate ordering procedures have been followed.

Management Comment:

We agree with this finding and instructions will be sent out to ensure that all purchase order requisitions include tender numbers (if any) on purchase orders.

The Finance business unit has also been instructed to conduct spot checks against the list of current supplier relationship under tender conditions to ensure this is enforced.

- (iii) We noted that purchase orders are not always printed and forwarded to suppliers even though purchase orders have been raised. Details of purchases are sometimes conveyed to the suppliers over the telephone.

We recommend that purchase orders with all details should be forwarded to the suppliers to confirm the contractual obligation between the Council and suppliers to supply goods/services at the agreed quantity, quoted price, etc and to avoid future disputes due to misunderstanding of supply details provided over the telephone.

Furthermore, strict adherence to the practice of forwarding all purchase orders raised to the suppliers may assist in ensuring that purchases orders are not raised after goods/services have been received.

Management Comment:

It is best practice that purchase orders are printed and forwarded to suppliers, whether by mail, facsimile or by email. EMRC officers are reminded that this should be the norm for all supplies of goods and services.

However, there are instances when this may not be feasible or practical as in the situations of an emergency. Another example is in the case of legal expenditure. While a purchase order may be raised internally for the legal fees for a project up to the budgeted amounts, it is not necessarily appropriate to send the purchase order out to the lawyers as the amounts rendered in the end may be a self fulfilling prophecy to reach the maximum amount instead of being charged to a lower amount the project should have otherwise warranted.

Additionally, in the case of utilisation of the cab charges against a credit card, it is not practical to raise a purchase order before hand.



PAYROLL

We examined the payroll system of the Council. In general the system in place appears to be operating satisfactorily.

However, we noted a number of instances which we wish to bring to management attention.

- (i) We noted an instance where payroll was processed with a double deduction of fortnightly contribution to Council vehicle use by an employee.

We have been advised that this error only occurs for employees who have terminated and have in excess of 76 hours for payment, and the matter is being investigated with the Council's systems software support company.

Management Comment:

Upon further investigation, this has only occurred once in the past four years as there has been no employee with a fortnightly contribution for a Council vehicle who has left during the time. The fortnightly contribution is an automated process where the deduction is automated. However, with this employee, her final termination payment was processed and the automated process of deduction for vehicle contribution was also effected.

The IT support for the software Synergysoft has been contacted to see if this can be addressed. In the meantime, payroll will include as part of its checklist for termination payment process, to check for any automated deduction that should not be occurring.

- (ii) We obtained an Employee "Leave Accrual Report" as at 20 April 2012. Our review found that the report contains 10 staff with outstanding annual leave entitlements in excess of 8 weeks to a maximum of 27 weeks. This matter was highlighted in our previous management letter dated 10 August 2011.

Local Government Industry Award 2010 stipulates that an employer may require an employee to take annual leave by giving at least four weeks' notice where more than eight weeks' leave is accrued, provided that the employee retains a balance of at least eight weeks.

We recommend that management regularly review the leave entitlements report and take appropriate action.

Management Comment:

Since this was identified in last years' audit review, a monthly leave report is now provided and distributed to the CEO and Directors to monitor and action.

It is acknowledged that some EMRC staff have accumulated in excess of eight weeks leave. As a result, a concerted effort was made to reduce the amount of leave without affecting operational requirements. EMRC staff have been requested to take leave or at least have a plan for taking extended leave to reduce the accrued leave balances to be less than eight weeks.

It will however, take more than one financial year to fully address, especially for larger accrued leave entitlements.

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 AMptn Interim Audit Visit Letter 2012



13 REPORTS OF DELEGATES

Nil

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

Nil

15 GENERAL BUSINESS

Nil

16 FUTURE MEETINGS OF THE AUDIT COMMITTEE

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

“2.3 Meetings

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

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

Future Meetings 2012

Thursday 4 October (if required) at EMRC Administration Office

17 DECLARATION OF CLOSURE OF MEETING

There being no further business the meeting was closed at 5:11pm.