



MINUTES

AUDIT COMMITTEE MEETING

4 August 2016

TIME: 7.30AM

CITY OF STIRLING

Winning Back Waste
Constituent Members: Cities of Perth, Joondalup, Stirling, Vincent and Wanneroo
Towns of Cambridge and Victoria Park



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1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chair opened the meeting at 7.30am.

2 ATTENDANCE / APOLOGIES

MEMBERS

Cr Russ Fishwick (Chairman)	City of Joondalup
Cr David Boothman	City of Stirling

IN ATTENDANCE

Mr Brian Callander	CEO MRC
Mr Gunther Hoppe	Director Corporate Services MRC
Ms Andrea Slater-Cartwright	Finance Manager MRC

APOLOGIES

Cr Stephanie Proud (Deputy Chairman)	City of Stirling
Ms Gayle Rogers	External member

3 TERMS OF REFERENCE

At an Ordinary Council Meeting held on 7 July 2005 the Audit Committee was established by Council under s7.1A of the Local Government Act 1995 and at an Ordinary Council Meeting held on 27 October 2005 Council adopted the Terms of Reference for the operation of the Audit Committee. These terms of reference were subsequently revised by Council at an Ordinary Council Meeting held on 24 April 2014.

At an Ordinary Council Meeting held on 27 October 2005 under s7.1B of the Local Government Act 1995, Council approved the Audit Committee, under s.7.12A(2) of the Act, to meet with Council's auditor.

The primary objective of the Audit Committee is to accept responsibility for the annual external audit and liaise with the Council's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

The Committee is to facilitate:

- The enhancement of the credibility and objectivity of external financial reporting;
- Effective management of financial and other risks and the protection of Council assets;
- Compliance with laws and regulations as well as use of best practice guidelines relative to auditing;
- The provision of an effective means of communication between the external auditor, the CEO and the Council.

The full Terms of Reference can be found on the MRC's website at:

<http://mrc.wa.gov.au/Documents/Agenda---2014/20140424---Members-Information-Bulletin-No-16.aspx>

4 DECLARATION OF INTERESTS

Nil

5 CONFIRMATION OF MINUTES OF PREVIOUS MEETING – 11 FEBRUARY 2016

RESOLVED

Cr Boothman moved, Cr Fishwick seconded

That the Minutes of the Audit Committee Meeting held on 11 February 2016 be taken as read, confirmed and the Chairman invited to sign same as a true record of the proceedings.

(Carried: 2/0)

6 REPORTS

ITEM 6.1 EXTERNAL AUDIT PLAN

SUMMARY

The Mindarie Regional Council's (MRC) external auditors, Macri Partners, have prepared an audit plan in respect of the 2015/16 year end audit for review by the Audit Committee.

The audit plan has been prepared by Marci Partners taking into account their prior experience of the MRC's operations, as well as discussions with the MRC's officers, and their experience with other regional councils and local governments.

The focus areas identified in the plan are considered appropriate in relation to the MRC's operations.

Under the Audit Committee's terms of reference, the Committee is required to:

"6(j) Review the scope of the audit plan and program and its effectiveness."

The 2015/16 Audit Plan is at **Attachment 1**.

RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee note its review of the scope and effectiveness of the 2015/16 Audit Plan.

RESOLVED

Cr Boothman moved, Cr Fishwick seconded

That the Audit Committee note its review of the scope and effectiveness of the 2015/16 Audit Plan.

(Carried: 2/0)

ITEM 6.2 RISK REGISTER SUMMARY

SUMMARY

The MRC's Risk Register summary was first tabled at the Audit Committee meeting held on 24 November 2014.

At the meeting it was agreed that a summarised risk register would be tabled with the Audit Committee every six months for discussion. The summarised risk register was last presented to the Audit Committee at its meeting of 11 February 2016.

Under the Audit Committee's terms of reference, the Committee is required to:

"6(w) Perform a biannual review of the material risks identified in the Council's Risk Register."

A summarised risk register which outlines those risks rated as 'High' or 'Extreme' is included as **Attachment 2** to this agenda.

Management have prepared management plans for each of the risks included in the summary.

Management conducted a full risk register review in July 2016 and there have no changes to the risk reported in February 2016.

RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee note the Risk Register Summary presented.

RESOLVED

Cr Boothman moved, Cr Fishwick seconded

That the Audit Committee note the Risk Register Summary presented.

(Carried: 2/0)

ITEM 6.3 CEO REVIEW OF RISK MANAGEMENT, INTERNAL CONTROL AND LEGISLATIVE COMPLIANCE

SUMMARY

Under the Local Government (Audit) Regulations 1996 – Regulation 17, the Chief Executive Officer (CEO) is required to review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control, and legislative compliance at least every two years and is to report his findings to the audit committee.

The CEO has conducted his review and is presenting his findings to the audit committee for consideration.

Under the Audit Committee’s terms of reference, the Committee is required to:

“6(t) Consider the CEO’s biennial reviews of the appropriateness and effectiveness of the Council’s systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the Committee, and report to the Council the results of those reviews.”

The CEO’s Review of Risk Management, Internal Control and Legislative Compliance is at **Attachment 3**.

RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee note the CEO’s Review of Risk Management, Internal Control and Legislative Compliance.

RESOLVED

Cr Boothman moved, Cr Fishwick seconded

That the Audit Committee note the CEO’s Review of Risk Management, Internal Control and Legislative Compliance.

(Carried: 2/0)

7 NEW BUSINESS

Nil

8 NEXT MEETING

The next Audit Committee meeting is scheduled for November 2016.

9 CLOSURE

The Chairman closed the meeting at 7.55am.

These Minutes were confirmed by the Audit Committee as a true and accurate record of the Audit Committee Meeting held on

Signed

Chairman

Dated this day of

2016

ATTACHMENT 1

TO ITEM 6.1

AUDIT COMMITTEE MEETING

4 AUGUST 2016

EXTERNAL AUDIT PLAN



Certified Practising Accountants



Mindarie Regional Council

External Audit Plan
For the Year Ending 30 June 2016

10 February 2016

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1. Purpose of the Audit

The purpose of this audit plan is to summarise our external audit approach in relation to the statutory audit of the Mindarie Regional Council for the financial year ending 30 June 2016.

Our Audit Plan has been prepared to inform the officers and the Audit Committee of Mindarie Regional Council about our responsibilities as your external auditors and how we plan to discharge them.

The plan focuses on:

- Documenting our audit approach, including:
 - audit process;
 - materiality;
 - approach to auditing key financial statement risk issues; and
 - completion;
- Presenting our audit engagement team;
- Highlighting relevant independence and governance matters;
- Providing a preliminary assessment of timing;

Our audit approach is focused on assessing and responding to the risk of misstatement in the financial statements.

We are committed to audit quality and the requirements of independence based on Macri Partners' and the accounting profession's strict rules and policies. We have made our initial assessment of potential threats to independence and have adopted appropriately robust safeguards to address those risks and protect independence.

2. Scope of the Audit

We will conduct an independent audit of the financial statements in order to express an opinion on it to the members of the Mindarie Regional Council.

Our audit will be conducted in accordance with Australian Auditing Standards with the objective of reducing the level of material misstatement in the financial statements to an acceptably low level. These standards have been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2015/16 accounts.

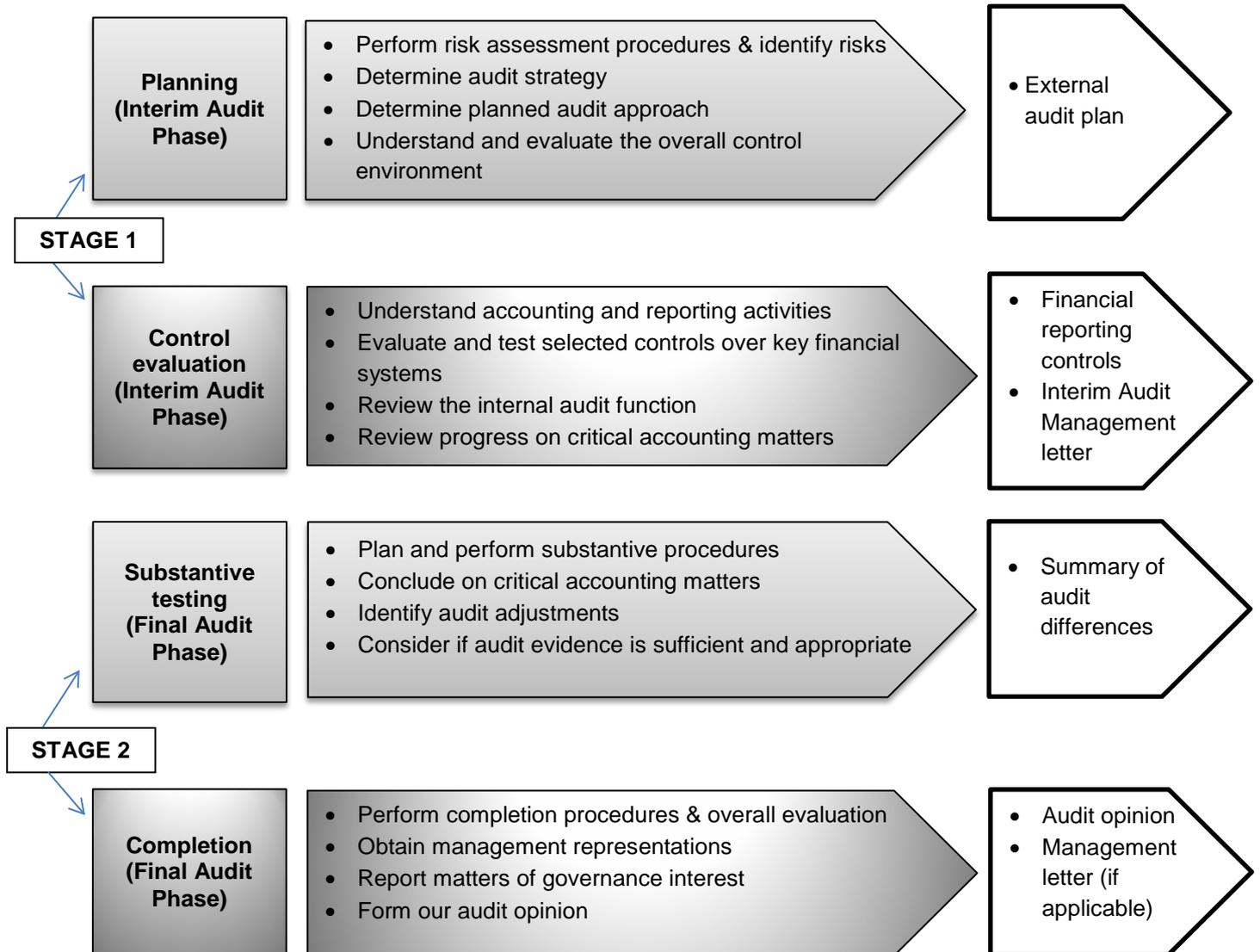
We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

3. Financial Reporting Responsibilities

Management	External Audit	Audit Committee
<ul style="list-style-type: none"> • Prepare financial statements and notes in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Design, implement and maintain effective internal control over financial reporting processes • Risk management • Exercise sound judgement in selecting and applying critical accounting policies • Safeguard assets • Prevent, detect and correct errors • Prevent and detect fraud • Provide representations to external auditors • Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements • Confirm the effective operations of financial reporting controls and disclosures in the annual financial statements 	<ul style="list-style-type: none"> • Conduct audit in accordance with professional standards and applicable financial reporting framework (i.e. Auditing Standards and Australian Accounting Standards) • Express an opinion on whether the financial statements present a true and fair view in accordance with Australian Accounting Standards, Local Government Act 1995 (as amended) and Regulations under the Act • Plan and perform the audit to obtain reasonable assurance (not absolute assurance) as to whether the accounts are free of material misstatements, whether caused by error or fraud • Maintain audit independence 	<ul style="list-style-type: none"> • Create a culture of honesty and ethical behaviour; set the proper tone and emphasise fraud prevention • Oversee management, including ensuring that management establishes and maintains internal control to provide reasonable assurance regarding integrity and reliability of financial reporting • Oversee management activities which ensure appropriate risk management and controls are in place for monitoring risk and compliance with policies, procedures and laws • Review the Council's performance • Liaise with the external auditors to facilitate external audit • Review annual financial statements and recommend approval to the Council

4. Audit Approach

Our objective is to provide an independent auditor's opinion on the financial report of the Mindarie Regional Council for the year ending 30 June 2016. Our audit methodology is split into two stages and is applied uniquely to your circumstances. It involves the following activities.



Our audit approach is also based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Our audit procedures will focus on those areas of the Mindarie Regional Council's activities that are considered to represent the key audit risks identified in our planning memorandum and through discussions with management and the Audit Committee during the course of our audit.

(a) Interim Audit Coverage

Our examination of internal controls during interim audit for the year ending 30 June 2016 will be carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the Mindarie Regional Council.

During our interim audit visit, we will focus on updating our understanding of the Council's internal controls. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. Following on from this, we will use the results of this assessment to determine how much we can rely on the information produced from the Council's systems during our final audit visit.

The interim audit is not intended to cover all aspects of the Council's internal controls and accounting systems and is limited to those matters that arise from our normal audit procedures. To this end, we have designed audit programs to carry out our interim audit and we summarise below the areas which we normally cover:

- Bank Reconciliations
- Investment of Surplus Funds
- Purchase of Goods and Services and Payments
- Creditors
- Receipting
- Sundry Debtors
- Payroll
- Fixed Assets (Property, Plant and Equipment and Infrastructure)
- General Accounting (Journals, General Ledger, etc.)
- IT Controls
- Registers (Tender, etc.)
- Minutes Review
- Other financial matters/issues requested by the management/audit committee
- Discuss progress on audit findings and recommendations reported by the Auditor in the previous:
 - interim audit management letter
 - final Audit Completion Report to the Audit Committee to check what action has been taken and audit implications.

Any significant issues arising during the course of the audit will be discussed and management report will be issued.

(b) Final Audit Coverage

During our final audit visit, we will focus on auditing the balances, disclosures and other information included in the Council's financial statements.

- Current Assets
 - Bank and investments
 - Receivables and prepayments
 - Inventories
 - Other assets
- Non-Current Assets
 - Property, plant and equipment
 - Infrastructure and depreciation
 - Resource recovery facility
 - Excavation work
 - Rehabilitation assets
- Liabilities (Current and non-current)
 - Creditors and accruals
 - Loan borrowings including new loans raised
 - Provision for employee entitlements
 - Rehabilitation provision
- Equity
- Analytical Review of Budget vs Actual (Statement of Comprehensive Income)
- Statement of Cash Flows
- Statement of Changes in Equity
- Accounting Policies and Notes to the Financial Statements
- Reserve Funds
- Contingent Liabilities
- Capital Commitments
- Financial Ratios
- Any other statutory obligations

5. Significant Risks Identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty".

In this section, we outline the significant risks of material misstatement which we have identified.

Focus Area	Financial Statement Impact	Planned Audit Approach
Plant and Equipment	Valuation and accuracy of Plant and Equipment.	<ul style="list-style-type: none"> ➤ Review the basis of any asset valuations (at fair value) undertaken and in doing so consider: <ul style="list-style-type: none"> • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the expertise and appropriateness of valuations undertaken by your external valuer. ➤ Substantiate the adjustments after valuation in the general ledger and asset register ➤ Review of the reconciliation between asset register and general ledger ➤ Sample testing of acquisitions, disposals and write-offs ➤ Review of depreciation/amortisation charge for reasonableness
Rehabilitation Provisions	Completeness, Accuracy and Valuation of Rehabilitation Provisions	<ul style="list-style-type: none"> ➤ Review of the estimates and assumptions in the model developed by management for estimating total future rehabilitation expenditures over the landfill discounted to net present value

6. Other Risks

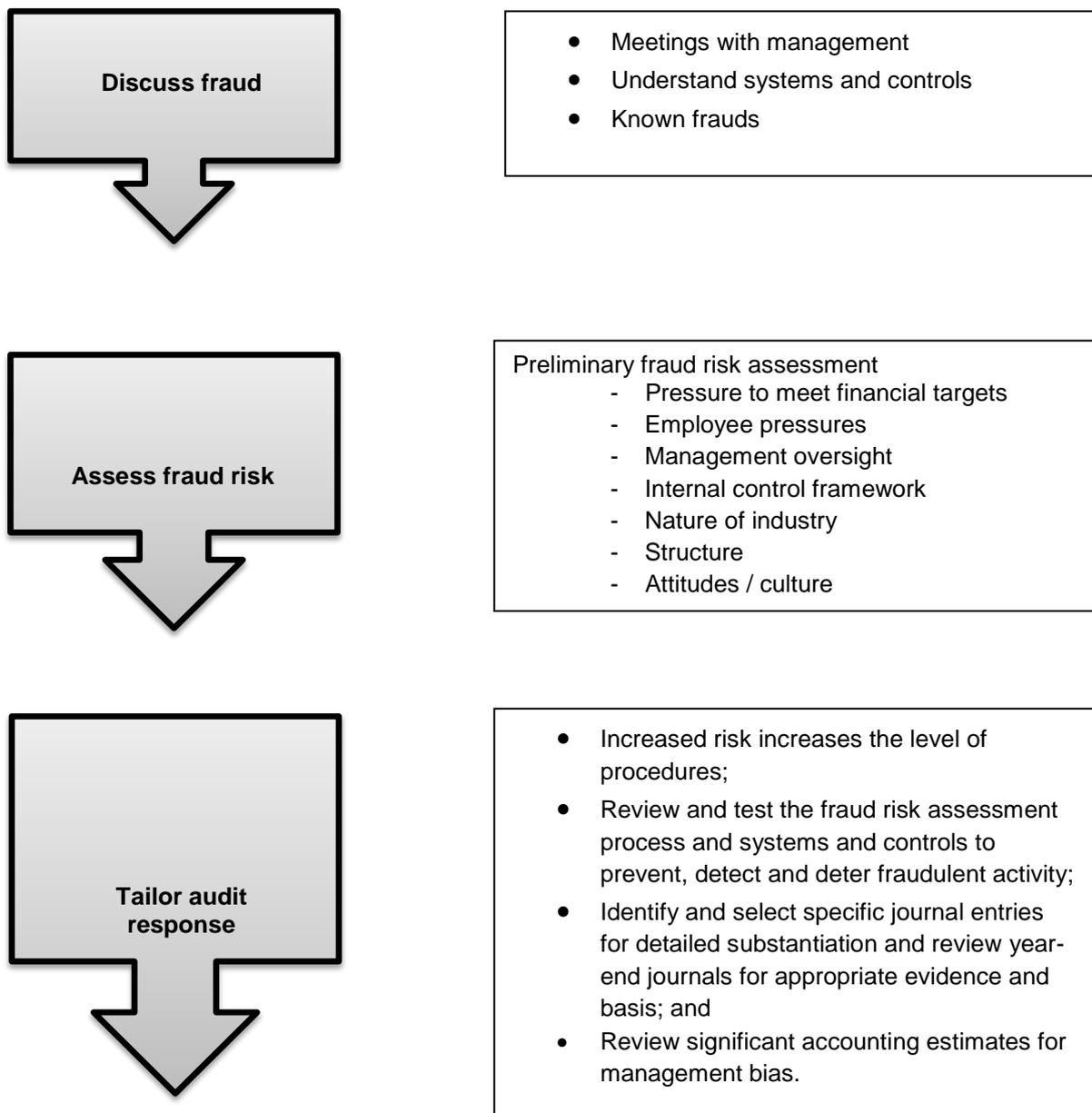
Focus Area	Financial Statement Impact	Planned Audit Approach
Revenue	Completeness and accuracy of Fees and charges, Grant income and Other revenue	<ul style="list-style-type: none"> ➤ Control testing on fees and charges and selected other revenue ➤ Test a sample of revenue transactions to supporting documentation ➤ Substantive analytical procedures

Focus Area	Financial Statement Impact	Planned Audit Approach
Expenses	Completeness of operating expenses	<ul style="list-style-type: none"> ➤ Review of expenditure incurring and approval processes ➤ Test a sample of expenditure transactions to supporting documentation ➤ Analytical review of operating expenditure
Payroll	Completeness of payroll expenses	<ul style="list-style-type: none"> ➤ Review and assess controls over the payroll process ➤ Analytical review of employee expenditure
Cash and Cash Equivalents, Investments	Existence, completeness and accuracy of cash and investment balances held with financial institutions	<ul style="list-style-type: none"> ➤ Obtain external confirmations from the relevant financial institutions
Trade and Other Receivables	Existence, completeness and accuracy of receivables	<ul style="list-style-type: none"> ➤ Obtain external confirmations for material balances ➤ Assess adequacy of provision for bad and doubtful debts
Trade and Other Payables	Existence, Completeness and accuracy of Sundry Creditors and Accrued Expenses	<ul style="list-style-type: none"> ➤ Perform search for unrecorded liabilities ➤ Review of trade payables and accrued expenses ➤ Vouching significant balances
Borrowings	Existence, completeness and accuracy of borrowings with the Western Australian Treasury Corporation (WATC)	<ul style="list-style-type: none"> ➤ Obtain external confirmations from the WATC
Provisions for Annual and Long Service Leave	Completeness, Accuracy and Valuation of Annual and Long Service Leave provisions	<ul style="list-style-type: none"> ➤ Review calculation of annual leave and long service leave provisions

7. Impact of Fraud on the Financial Report

In accordance with Auditing Standard ASA 240 “The Auditor’s responsibility to consider fraud in an Audit of a Financial Report”, we will undertake specific procedures and report findings to the Council in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.

The Council and senior management have responsibility for maintaining internal controls that prevent or detect fraud or error, and assuring regulatory compliance. The Council should be informed by management of any actual or suspected fraud or material errors. We are not responsible for preventing or detecting fraud. However, we are required to consider the risk of material misstatement due to fraud when performing our risk assessments.



8. Highlights – 2015/16 Financial Year

Regulatory Environment

Local Government (Financial Management) Regulations 1996 – regulation 17A requires revaluation to occur:

In	For
2015/16	➤ Plant and Equipment

9. Materiality

Materiality drives the scope of our audit and is determined in accordance with the auditing standard requirements. We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Type of Materiality	What is it used for?	Amount for 2015 Year
Overall materiality	Our overall materiality for the Council is calculated as a percentage of gross operating expenditure; this represents the level at which we would consider qualifying our audit opinion and is consistent with the prior year.	\$1,050,000 Approximately 2% of Total Budgeted Expenditure (2016 year) \$53m
Performance materiality	We determine performance materiality (from overall materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures. This is the level to which we plan our audit work and identify significant accounts.	\$787,500 which has been set at 75% of Overall Materiality
Trivial error threshold	Auditing Standard ASA 450 <i>Evaluation of Misstatements Identified during the Audit</i> requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are those which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We determine a trivial error threshold (from materiality) in order to accumulate misstatements identified during the audit. We will not report misstatements below the threshold level unless we believe that the nature of the misstatement should be of concern. We will include a summary of any uncorrected misstatements identified during our audit in our year-end Audit Completion Report to the Audit Committee.	\$52,500 which has been set at 5% of Overall Materiality

We will reassess materiality based on year-end results or new information to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

10. Audit Engagement Team

The audit team consists of the key members listed below:

Engagement Role	Name	Responsibilities
Audit Partner	Anthony Macri	Engagement leader responsible for the audit, including: <ul style="list-style-type: none"> liaison with the Chief Executive Officer and audit committee members agreeing the audit plan signing of external audit opinion and other relevant reports
Audit Manager	Mit Gudka	Responsible for: <ul style="list-style-type: none"> key contact for operational audit matters ensuring delivery to timetable management of targeted work overall review of audit outputs

11. Communications Plan and Timetable

Auditing Standard **ASA 260 'Communication of audit matters with those charged with governance'** requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee.

Output	Timing
Interim Audit Field Work	2 March 2016 – 4 March 2016 (Confirmed with Management)
Provide Interim Management Letter	On completion of interim audit and management responses received
Final Audit Field Work	September 2016 – November 2016 (Management to confirm)
Present the Audit Findings Report to the Audit Committee	September 2016 – November 2016 (Management to confirm)
Provide Audit Opinion on Financial Statements	September 2016 – November 2016 (Management to confirm)

12. Independence

Independence and Objectivity Confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the Audit Engagement Partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, this is the Audit Committee.

Confirmation Statement

We confirm that in our professional judgement, Macri Partners is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Engagement Partner and audit staff is not impaired.

13. Disclaimer

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

ATTACHMENT 2

TO ITEM 6.2

AUDIT COMMITTEE MEETING

4 AUGUST 2016

RISK REGISTER SUMMARY

Mindarie Regional Council
Summary Risk Register
Updated 28 July 2016

Risk Ref.	Risk description	Causal factors	Consequence	Existing Controls	Consequence	Likelihood	Risk	Previous rating
OPS-02	Inability to contain leachate from groundwater within landfill boundaries.	Stage 1 unlined Liner failure Environmental factors Water table rise Third party influence on ground water	Water plume Contaminated sites branch status Damaged reputation Urban extraction requirements	Lined landfill Remediation extraction Recovering leachate BEIMP CSM Leachate level testing DER Contaminated Site Branch	3	5	15	Unchanged
OPS-01	Inability to contain landfill gas within Landfill boundaries	Stage 1 unlined Insufficient capture Natural migration of gas Power station failure Damage to liners Infrastructure failure	Environmental impacts Financial penalties Loss of license Poor public perception	Power station Monitoring License conditions Third party design of landfill BEPM Liners and membranes Stakeholder relationships CSM Contract arrangements with LP&G Engaged GHD consultancy services	5	3	15	Unchanged
OPS-06	Inability to contain odours within site boundaries	Type of waste received/accepted Inadequate cover Poor gas capture Extreme weather events Poor leachate management Tying in to existing landfill Urban encroachment	Complaints Non compliance with license Investigations Financial penalties Reputation damage	Gas collection Daily cover Leachate management Alternate cover SOP Odorous load management Biological odour control	2	5	10	Unchanged
OPS-21	Inability to keep recyclable materials out of landfill	Lack of recycling business Lack of education and awareness Lack of recycling options	Longevity of landfill Costs to landfill Reduces life cycle of landfill Poor public perception Increased global warming potential	Industry networking and consultation Grants for resource recovery Waste segregation Resell from shop Education program Recover Recycled material from landfill Recover Recycled material from transfer Manage Hazardous Waste Green waste contract Mattress recycling contract Timber off site	3	5	15	Unchanged
STRAT-05	Federal/State Government changes to Environmental Law and or carbon pricing	Community pressure Government agenda	Increased operational costs Stakeholder frustration with increased costs Potential closure of landfill site	Stakeholder communication Industry network and consultation Monitoring of Environmental Law	4	3	12	Unchanged

Risk Ref.	Risk description	Causal factors	Consequence	Existing Controls	Consequence	Likelihood	Risk	Previous rating
OPS-02	Inability to contain leachate from groundwater within landfill boundaries.	Stage 1 unlined Liner failure Environmental factors Water table rise Third party influence on ground water	Water plume Contaminated sites branch status Damaged reputation Urban extraction requirements	Lined landfill Remediation extraction Recovering leachate BEIMP CSM Leachate level testing DER Contaminated Site Branch	3	5	15	Unchanged
OPS-01	Inability to contain landfill gas within Landfill boundaries	Stage 1 unlined Insufficient capture Natural migration of gas Power station failure Damage to liners Infrastructure failure	Environmental impacts Financial penalties Loss of license Poor public perception	Power station Monitoring License conditions Third party design of landfill BEPM Liners and membranes Stakeholder relationships CSM Contract arrangements with LP&G Engaged GHD consultancy services	5	3	15	Unchanged
OPS-06	Inability to contain odours within site boundaries	Type of waste received/accepted Inadequate cover Poor gas capture Extreme weather events Poor leachate management Tying in to existing landfill Urban encroachment	Complaints Non compliance with license Investigations Financial penalties Reputation damage	Gas collection Daily cover Leachate management Alternate cover SOP Odorous load management Biological odour control	2	5	10	Unchanged
OPS-21	Inability to keep recyclable materials out of landfill	Lack of recycling business Lack of education and awareness Lack of recycling options	Longevity of landfill Costs to landfill Reduces life cycle of landfill Poor public perception Increased global warming potential	Industry networking and consultation Grants for resource recovery Waste segregation Resell from shop Education program Recover Recycled material from landfill Recover Recycled material from transfer Manage Hazardous Waste Green waste contract Mattress recycling contract Timber off site	3	5	15	Unchanged
STRAT-05	Federal/State Government changes to Environmental Law and or carbon pricing	Community pressure Government agenda	Increased operational costs Stakeholder frustration with increased costs Potential closure of landfill site	Stakeholder communication Industry network and consultation Monitoring of Environmental Law	4	3	12	Unchanged

Mindarie Regional Council
 Summary Risk Register
 Updated 28 July 2016

Risk Ref.	Risk description	Causal factors	Consequence	Existing Controls	Consequence	Likelihood	Risk	Previous rating
OPS-22	Major Fire or Explosions	Bush fire due to severe weather Major vehicle fire Criminal activity Methane Gas leak resulting in explosion or damage to gas bottle	Inability to deliver service Legal action Loss of revenue Personal injury Property damage Poor public perception	Business Continuity Plan Emergency Management Plan Emergency Exercises Fire Fighting Equipment Trained personnel - Wardens EMMP SOP's Emergency Equipment Review	5	2	10	Unchanged
OPS-24	Chemical Spill	Chemical delivered to site in damaged containers Staff and customer inattentive Damage by plant Unidentified loads	Inability to deliver services Legal Action Personal injury Property Damage Temporary Closure of part or all of site Loss of Revenue Health and Safety Disgruntle customers Poor public perception	Business Continuity Plan SOP's Trained personnel - Wardens EMP DER license Emergency Equipment Dangerous goods license requirements and compliance EMMP	5	2	10	Unchanged
OPS-30	Worksafe Shutdown	Fatality or reportable incident on site	Inability to deliver services Legal Action Temporary Closure of part or all of site Loss of revenue Staff Wellness Disgruntle customer Poor public perception Health & Safety	Qualified OHS Officer on site Safety Inductions / Tool box's Qualified Employees Safety culture Reportable incident procedure EMP EMMP SOP's Include OHS procedures in purchasing procedures	5	2	10	Unchanged

Risk Ref.	Risk description	Causal factors	Consequence	Existing Controls	Consequence	Likelihood	Risk	Previous rating
STRAT 10	Fail to provide safe and suitable work environment at MRC in compliance with OSH legislation	Lack of understanding Complacency Lack of awareness of change Lack of staff training Changes to legislation Inherent nature of Regional Council operations Public interaction with staff and recycled goods Nature of recycled goods Loading and unloading of vehicles Plant and equipment operating in area People behaviours Household chemicals Third party vehicle damage Wildlife	Staff harm Public harms Non compliance Emergency/evacuation	SOP's Training OSH Committee/Reps Wardens OSH Procedure and Management system Incident reporting Emergency exercises Safety Management systems Environmental monitoring (dust, odours, air) Inspections Staff selection Inductions Pre employment medicals Waste acceptance criteria Traffic Management Plan Signage Informal alerts of dangerous materials Technical Officer Separation of operations Inspect and review Plant and Equipment Revised driver inductions	5	2	10	Unchanged
STRAT-04	Failure of commercial partners to fulfil MRC expectations	Overcommitted Company liquidation RRF Breakdowns Poor quality of service	Increased stockpiles/quantities of product MRC not operating within licence conditions Increased costs of alternative arrangements Increased labour costs	Contracts and agreements Contract management Communication Relationship management	2	5	10	Unchanged
OPS-033	Inability to contain landfill gas within leased site boundaries	Stage 1 unlined Insufficient capture Natural migration of gas Power station failure Infrastructure failure Liner failure	Environmental impacts Financial penalties Loss of license Poor public perception	Power station Monitoring DER License conditions Third party design of landfill BEPM Liners and membranes Stakeholder relationships CSM Contract arrangement with LG&P Engaged GHD consultancy services	5	3	15	Unchanged
OPS-034	Inability to contain leachate from groundwater within leased site boundaries	Stage 1 unlined Liner failure Environmental factors Water table rise Third party influence on ground water	Water plume Contaminated sites branch status Damaged reputation Urban extraction requirements	Lined landfill Remediation extraction Rediverting leachate BEMP CSM Leachate level testing DER Contaminated sites branch	4	5	20	Unchanged

ATTACHMENT 3

TO ITEM 6.3

AUDIT COMMITTEE MEETING

4 AUGUST 2016

CEO REVIEW OF RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

CEO's Review of Risk Management, Internal Control and Legislative Compliance June 2016

Risk Management		
A risk management system is a key expression of the Mindarie Regional Council's (MRC) attitude to effective controls. The MRC has a number of mechanisms for monitoring risk management. The review has considered these mechanisms and assessed whether the MRC has:		
Criteria	Business Unit	Monitoring Tool
An effective risk management system and that the MRC's material operating risks are appropriately considered	Governance Management	<p>The MRC Risk Management Framework D/14/2349 consists of:</p> <ul style="list-style-type: none"> • Risk Assessment and Acceptance Criteria • Risk Operating Model • Risk Management Procedures • Risk Register D/15/2408 <p>The MRC's operational risks are described in the Risk Register and reviewed and monitored by relevant Business Unit Managers at least biannual.</p>
A current and effective business continuity plan (including IT disaster recovery) which is tested from time to time	Governance Management	<p>The MRC's business continuity is managed through:</p> <ul style="list-style-type: none"> • Business Continuity Plan (BCP) D/15/837 • Emergency Management Procedure (EMP) D/13/822 <p>The BCP undergoes a desktop review biannual (next due May 2016). The MRC's Crisis Management Team and Emergency Management Team are involved in the reviews where a variety of emergency situations are tested. The review aims is to test the BCP action plans, including its information, timeframes and strategies and potential gaps are identified (last completed in December 2015).</p> <p>The MRC's EMP is reviewed annually by the OH&S Officer in consultation with the Management Team prior to approval of changes. The EMP conducts Emergency drills quarterly on a variety of likely emergencies related to the MRC site.</p> <p>IT disaster recovery is described in the BCP for all systems including those for the Tamala Park and Neerabup Weighbridges.</p> <p>The centralised server is housed at the MRC's administration where daily backups are performed, stored securely offsite at information storage provider Iron Mountain allowing for the restoration of key systems in the event of a disaster. The type of data stored, systems and media used is detailed in the BCP Data Security and backup strategy.</p>

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<p>Internal processes for determining and managing material operating risks in accordance with the MRC's identified tolerance for risk, particularly in respect of:</p> <ul style="list-style-type: none"> • potential non-compliance with legislation, regulations and standards and local government's policies • important accounting judgments or estimates that prove to be wrong • litigation and claims • misconduct, fraud and theft • significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government 	<p>Governance Management</p>	<p>The MRC's operational risks are assessed against the MRC's risk appetite biannual the Risk Register has been configured to generate projects for risks with a level High or Extreme. Compliance is monitored during reviews and risks assessed.</p> <p>An annual external audit confirms accounting treatments are compliant as part of finalising the annual financial statement. The budget cost estimates are subject to biannual reviews, Business Unit Managers are required to review budgets and facilitate amendments where required.</p> <p>The MRC's financial systems are supported by documented procedures which are regularly updated where required. The MRC reports any reportable irregularities to LGIS in a timely manner.</p> <p>Annual interim audit assesses adequacy of internal controls across a number of financial activities including bank reconciliations, investment of surplus funds, purchases, payments, general accounting, IT controls, property, plant and equipment infrastructure.</p> <p>The MRC has a risk monitoring database (InControl/InTuition) to record events, incidents, near misses, competencies and compliances. The MRC OH&S and Standard Operating Procedures support all operational activities. The MRC employee a full time OH&S Officer who is supported by a OH&S committee and representative which meet regularly.</p>
<p>Robust risk reporting framework which identifies, mitigates and manages new risks, while monitoring and reporting on existing risks</p>	<p>Governance Management</p>	<p>The MRC employees and management complete a comprehensive annual review the MRC's Risk Management Framework and full Risk Register, outcomes are reported annual to the Audit Committee. A biannual review of all High Risks are done through individual project management by responsible officers, outcomes are reported to the Audit Committee biannually.</p>
<p>Adequate processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance</p>	<p>Corporate Services</p>	<p>The MRC undertakes annual renewal meetings with LGIS to assess adequacy of policies held and amount of cover provided, in consideration of Local Government sector experiences. The MRC gathers insurance risk related details from Business Unit Managers prior to the renewal meeting and completes a formalised declaration process.</p>
<p>Effective reviews of internal control system involving management and internal and external auditors</p>	<p>Corporate Services</p>	<p>Aspects of the MRC's internal control system are regularly reported to Council and the Councils Audit Committee, during the 2015 calendar year, the MRC submitted the following relevant reports:</p> <ul style="list-style-type: none"> • D/15/4383 Audit Completion Report 14/15 • D/15/4652 MRC Financial Report Year Finance Year Ending 30 June 2015 • D/15/3037 External Audit Plan Finance Year Ending 30 June 2015 • D/15/530 Compliance Audit Return Regional Local Government 2015 • D/15/2601 High Risk Review July 2015 • D/15/3279 Item 9.3 Review of Council Policies and Delegations to the CEO
<p>Controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk</p>	<p>Corporate Services</p>	<p>The MRC's Electronic Accounting System (Navision) is used to monitor electronic workflows for payroll and procurement, with hierarchy based approval. Outside of norm transactions require CEO or Director Corporate Services approval as appropriate in line with policy and delegation.</p>

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<p>A procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied</p>	<p>Corporate Services</p>	<p>The MRC's external audit scope includes procurement and accounts payable in its annual review. The MRC purchasing policy CP06 is reviewed annually and approved by Council. The MRC uses an electronic purchasing system (Navision) for purchasing with hierarchy based approval and uses an eQuotes procurement portal supported by WALGA for approved suppliers.</p>
<p>The capacity, should the need arise, to meet periodically with key management, internal and external auditors, and compliance employees, to understand and discuss any changes in the MRC's control environment</p>	<p>Corporate Services</p>	<p>The outcomes and recommendations of the annual MRC's Financial Management System and Procedures are discussed with the Corporate Services Team before being implemented. Update reports provided to each Audit Committee Meeting describing discrepancies. Finance policies and procedures are reviewed annually by Corporate Services for relevance and legal compliance, procedures approved by the management team and policies approved by Council. The outcomes of the annual Compliance Audit Returns are discussed with the Executive Management Team before reports are presented to the Audit Committee Meeting describing discrepancies.</p>
<p>Assess whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management.</p>	<p>Corporate Services</p>	<p>The MRC's external audit scope includes fraud and misconduct in its annual review, processes are analysed and evaluated for fraud and misconduct. The Audit Committee is provided with a report which includes described discrepancies and treatment plans if identified. The CEO has appointed a designated Public Disclosure Officer to assist him with providing protection from detrimental action or threat of detrimental action for any employee of the MRC who make an appropriate disclosure and preparing, communicating internal procedures. The Public Interest Disclosure Procedure HRM25 provides important information to the public on how the MRC will manage, investigate, take action and report on disclosures received. The CEO reports all allegations of serious crime and corruption to the Corruption and Crime Commission for appropriate treatment, compliance and ongoing management.</p>

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Internal Control		
Internal control is a key component of the MRC's governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. The review has considered the MRC's approach to internal control and assessed whether the MRC has:		
Criteria	Business Unit	Monitoring Tool
Integrity and ethics	Governance Management	The MRC has developed Code of Conducts for Employees, Councillors and Committee Members. Scheduling training for Employees is conducted biannual for honesty, integrity and compliance with lawful order. Councillors and Committee Members receive the MRC's Codes of Conduct as part of the induction package to the Council.
Policies and delegated authority	Governance Management	The MRC Council Policies and Register of Delegations are reviewed annually for relevance and legal compliance, a report seeking endorsement of the review is present to Council. The 2015 report was present at the 20 August 2015 meeting (D/15/3142).
Levels of responsibilities and authorities	Governance Management & Corporate Services	The MRC uses its hierarchy / organisational chart as the mechanism for defining levels of responsibility and authority. The same hierarchy has been applied across the organisation to define, for example appropriate authorities for purchasing limits, segregation of duties, report sign-offs, access to documents in the information records system (TRIM) and Human Resources practices.
Audit practices	Corporate Services	The MRC's audit practices are overseen by: <ul style="list-style-type: none"> • the Audit Committee (Terms of Reference – D/15/4158) • Documented scope of internal / external review • External Audit Tender procedures and checklist
Control of computer applications and information system standards	Corporate Services	The MRC uses a variety of mechanisms to control security including coded personal entry keys and passwords to site and buildings, MS Windows Active directory and application level security controls for all electronic computer systems. These mechanisms limit the capacity for records or systems to be edited by employees without required security access.
Management operating style and human resource management and practices	Governance Management	The MRC's management style is decentralised with regards to Human Resources. Managers are supported and guided through recruitment, performance management and ongoing employee's management. Human Resources manage internal control through an effective series of procedures to manage employees.

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Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government. Aspects of the MRC's control framework include:	
Trained and qualified employees	Governance Management The MRC's Human recruitment procedure HRM13 guides management to select candidates with the skills, qualities, abilities, experience and competencies deemed as being necessary to the job. All employees are employed against periodically reviewed job descriptions and are managed against an annual performance appraisal process. Human Resources manage the MRC's ongoing training of employees for compliance, development and succession. The Human Resources Systems (InTuition) integrates with Occupational Health and Safety to record all competencies and compliances.
System controls	Corporate Services The MRC's information systems control mechanisms linked to both employees profiles within the electronic software systems and files themselves via the MS Windows Active directory.
Procurement	Corporate Services The MRC uses an electronic purchasing system (Navision) for purchasing with hierarchy based approval and uses the eQuotes procurement portal supported by WALGA for approved suppliers. Procurement is undertaken in line with the annual budget and operational needs, periodic reports are run to ensure purchases are within budget and for data accuracy. Employees received biannual training of the purchasing policy CP06 for guidance and consistency.
Payroll	Corporate Services The MRC's external audit scope includes payroll in its annual review, departmental managers approve individual timecards for the employees in their charge to validate the existence of the employees and the number of hours worked. The Payroll Officer then conducts a series of tests at the conclusion of the pay period to check for completeness and reasonableness of the data before the Entry Validation Report (all employees and amounts paid) is reviewed in detail by the Financial Accountant for the accuracy of the payroll processed.
Regular internal audits	Governance Management & Corporate Services The MRC's audit practices are overseen by: <ul style="list-style-type: none"> • the Audit Committee (Terms of Reference – D/15/4158) • Documented scope of internal / external review • External Audit Tender procedures and checklist
Documentation of risk identification and assessment	Governance Management The MRC is committed to a culture of risk management and has implemented an approach to consider risk at three levels: strategic, operational and project. The Risk Management Framework has three lines of defence for the reporting and management of risk. The '1 st line' is Business Units, they are responsible for ensuring that risks are identified, assessed, managed, monitored and reported. The Office of the CEO is the '2 nd Line'. It owns and manages the Risk Management Framework. The Office provides the necessary tools and training to support the 1 st line process. The 3 rd line of defence is the internal review of the Framework being presented to the Audit Committee which assesses the review and reports to the Council on its findings bi-annually. This model ensures roles; responsibilities and accountabilities for decision making are structured to demonstrate effective governance and assurance. By operating within the approved risk appetite and framework, the Council, Management and Key Stakeholders will have assurance that risks are managed effectively to support the delivery of strategies and objectives.

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Regular liaison with auditor and legal advisors.	Governance Management	The MRC engages periodically with its auditors informally, as well as through the formal audit process for advice and compliance updates. Legal advisors are liaised with on a need basis to ensure all contractual and legislative compliance is met in the best interest of the MRC.
Control of approval of documents, letters and financial records	Corporate Services	The MRC uses information records system TRIM as the central recording and storing of all correspondence and documents. The control of documents procedure HRM16 ensures that controls are in place for those documents related to the business of the MRC, specifically Policies and Procedures. These documents are reviewed, approved, updated annually, protected, retained and made easily available thereby preventing the use of obsolete documents.
Comparison of internal data with other or external sources of information	Corporate Services	The MRC utilises segregation of duties, weekly and monthly cash flow checks, bank and general ledger reconciliations for comparisons and routine checklists to identify and act on any anomalies in financial processes.
Limit of direct physical access to assets and records	Corporate Services	The MRC maintains a locked (compactus) records storage system for all hard copies of documents; personnel records are stored in a locked cupboard in the securely locked HR office. Inactive and archival records (those with historical value) are stored securely offsite at information storage provider Iron Mountain. Access to records is limited by hierarchy based approval.
Control of computer applications and information system standards;	Corporate Services	The MRC uses a variety of mechanisms to control security including coded personal entry keys and passwords to site and buildings, MS Windows Active directory and application level security controls for all electronic computer systems. These mechanisms limit the capacity for records or systems to be edited by employees without required security access.
<ul style="list-style-type: none"> • Regular maintenance and review of financial control accounts and trial balances; • Comparison and analysis of financial results with budgeted amounts; • Arithmetical accuracy and content of records; • report, review and approval of financial payments and reconciliations; and • Comparison of the result of physical cash and inventory counts with accounting records 	Corporate Services	<p>The MRC utilised a number of mechanisms to ensure financial processes are efficient, effective and secure and these include:</p> <ul style="list-style-type: none"> • Daily / monthly checklists of tasks and periodic reporting • Monthly finance and budget reviews undertaken with Managers • Monthly variance and payment listing reporting to Council • Monthly financial position reporting to Council • Segregation of duties and limiting employees and user access • Daily balancing of financial system and ledgers.

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Legislative Compliance		
The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. The MRC's practices in regard to monitoring compliance programs typically include:		
Criteria	Business Units	Monitoring Tool
Monitoring compliance with legislation and regulations	All Business Units	<p>The MRC utilises a variety of mechanisms for ensuring compliance as developed by each relevant business unit and include:</p> <ul style="list-style-type: none"> • An event register on the risk information system (InControl) is utilised for: <ul style="list-style-type: none"> • Governance compliance incorporating items such as completing the Compliance Audit Returns and annual returns, Primary returns, annual review of delegations; • Internal compliance for policy and procedure reviews and legislative updates; • Investigations arising from alleged non-compliance with a variety of legislation and regulations including the <i>Health Act 1911</i>, the <i>Environmental Protection Act 1986</i>, <i>Contaminated Sites Act 2003</i> and <i>OH&S Act 1984</i>; and • Internal workflow and procedures to investigate OH&S incidents and near misses, safety inspections and emergency drill procedures. • An event register on the risk information system (InTuition) is utilised for: <ul style="list-style-type: none"> • Internal workflow and recording of employee competencies and compliances for job / task readiness; • Internal workflow and scheduling of employee and contractor inductions; and • Internal workflow and procedures to schedule all employee certificated competencies and compliance training and reviews.
Reviewing the annual Compliance Audit Return and reporting to Council the results of that review	Governance Management	The MRC's Compliance Audit Return is reported to Council annually and anomalies are referred to relevant Business Units to implement appropriate fixes.
Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints	Governance Management	<p>These procedures are addressed within the following documents;</p> <ul style="list-style-type: none"> • MRC's Enterprise Agreement 2013; • HRM27 Grievance Management; • HRM25 Public Interest Disclosure • HRM24 Customer Complaints
Reviewing management disclosures in financial reports of the effect of significant compliance issues	Corporate Services	The MRC undertakes financial audits and the results, along with management responses, are reported to the Audit Committee.

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<p>Reviewing whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee</p>	<p>Corporate Services</p>	<p>The scope of work for each financial audit addresses compliance and risk and is included within the results.</p>
<p>Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements</p>	<p>Governance Management</p>	<p>The MRC procures professional services from WALGA, lawyers and government agencies for regularly relevant external review and updates to legislative changes which include the monitoring of regulatory requirements. Thus enabling the review of the relevant policies, procedures, contracts and process for compliance.</p>
<p>Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.</p>	<p>Corporate Services</p>	<p>The MRC relies on the Audit Committee's Terms of Reference and Code of Conduct to ensure behaviour is appropriate.</p>