



MINUTES

AUDIT COMMITTEE MEETING

30 JULY 2015

TIME: 7.30AM

CITY OF STIRLING

Managing waste and recovering resources responsibly
Constituent Members: Cities of Perth, Joondalup, Stirling, Vincent and Wanneroo
Towns of Cambridge and Victoria Park



TABLE OF CONTENTS

1	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS.....	3
2	ATTENDANCE / APOLOGIES.....	3
3	TERMS OF REFERENCE.....	3
4	DECLARATION OF INTERESTS.....	3
5	CONFIRMATION OF MINUTES OF PREVIOUS MEETING – 5 February 2015	4
6	REPORTS	4
	6.1 EXTERNAL AUDIT PLAN	4
	6.2 RISK REGISTER SUMMARY	5
	6.3 CONSIDERATION OF FRAUD RISK (FOR DISCUSSION)	6
7	NEW BUSINESS	7
8	NEXT MEETING	7
9	CLOSURE	8
	ATTACHMENT 1	9
	ATTACHMENT 2	24
	ATTACHMENT 3	29
	ATTACHMENT 4	34

1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The meeting was declared open at 7.30am.

2 ATTENDANCE / APOLOGIES**MEMBERS**

Cr Russ Fishwick (Chair)	City of Joondalup
Cr David Boothman	City of Stirling
Cr Stephanie Proud	City of Stirling
Ms Gayle Rogers	External member

IN ATTENDANCE

Mr Brian Callander	Chief Executive Officer MRC
Mr Gunther Hoppe	Director Corporate Services MRC

VISITORS

Nil

APOLOGIES

Cr Bill Stewart	City of Stirling
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3 TERMS OF REFERENCE

The Audit Committee was established by Council under s7.1A of the Local Government Act 1995 and the Terms of Reference for the operation of the Audit Committee were adopted by Council at an Ordinary Council Meeting held on 24 April 2014.

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>

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.

4 DECLARATION OF INTERESTS

Nil

5 CONFIRMATION OF MINUTES OF PREVIOUS MEETING – 5 FEBRUARY 2015

RESOLVED**Cr Boothman moved, Cr Proud seconded**

That the Minutes of the Audit Committee Meeting held on 5 February 2015 be confirmed as a true record of the proceedings.

(Carried: 4/0)

6 REPORTS

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 2014/15 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 2014/15 Audit Plan is at Attachment 1.

RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee note its review of the scope and effectiveness of the 2014/15 Audit Plan.

RESOLVED**Ms Rogers moved, Cr Proud seconded**

That the Audit Committee note its review of the scope and effectiveness of the 2014/15 Audit Plan.

(Carried: 4/0)

6.2 RISK REGISTER SUMMARY

SUMMARY

The MRC's Risk Register summary was 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 5 February 2015.

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 June 2015 and the following risks have been amended or removed from or added to the summary register of those risks with a high or extreme risk rating:

Amended

- OPS 02 - Inability to contain leachate from groundwater within landfill boundaries
Amended - Downgraded to a rating of 15 as a result of redefinition of the risk and the creation of a new risk OPS 34
- OPS 06 - Inability to contain odours within site boundaries
Amended - Risk downgraded to a risk rating of 10 based on the lack of customer complaints regarding odour received in the last 2 years
- OPS 21 - Inability to keep recyclable material out of landfill
Amended - Risk downgraded to a risk rating of 10 based on the market conditions experienced in the last 6 months

New

- OPS 33 - Inability to contain landfill gas within the leased site boundaries
New - Risk was redefined to take into account the risk of landfill gas escaping the site rather than the landfill.
- OPS 34 - Inability to contain leachate from groundwater within leased site boundaries
New – Risk OPS 02 split to deal with leachate within the landfill and leachate that escapes the landfill

Removed

- OPS 17 - Failure to deliver consistent and quality levels of customer service
Removed – Risk downgraded from a risk rating of 10 to a rating of 5 based on the lack of negative customer feedback and the controls in place.
 - CEO 04 - Fail to define and communicate vision, mission and strategies to guide and influence organisational culture
Removed – Risk downgraded from a risk rating of 10 to a rating of 5 based on the introduction of the cultural change program and KPI reporting.
-

STRAT 14 - Inability to maintain viable markets for recyclable/reusable materials
Removed – Risk downgraded from a risk rating of 12 to a rating of 9 based on a reassessment of the revenue likely to be lost as a result of this risk occurring to less than \$500,000.

RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee note the Risk Register Summary presented.

A discussion ensued about the risks tabled, in particular those that had been added to or removed from the list or had had their risk rating altered.

RESOLVED

Cr Boothman moved, Cr Proud seconded

That the Audit Committee note the Risk Register Summary presented.

(Carried: 4/0)

6.3 CONSIDERATION OF FRAUD RISK (FOR DISCUSSION)

SUMMARY

As part of their assessment of the risk of fraud and error in relation to the year-end audit, the MRC's external auditors, Macri Partners, have requested the completion of the questionnaire included as **Attachment 3** by the Audit Committee.

Under Australian Auditing Standards, external auditors are required to assess the risk of fraud or error occurring within the organisation. This includes specific enquiries made from 'management and those charged with governance' within the MRC.

At this point in time, the requirement to consider the risk of fraud is not specifically identified in the Audit Committee's Terms of Reference (ToR), however it is considered that the ToR is broad enough for the Committee to address the issue of fraud if required.

It is proposed to address the request from the Auditor by seeking consideration from the Audit Committee to amend its current ToR by adding a part (x) to the Duties and Responsibilities as follows:

- “(x) Assist the Auditor in meeting its obligations of the Australian Auditing Standards by completing a Fraud and Error Assessment questionnaire. The CEO is required to provide any information required by the committee members to allow them to provide informed responses to the questionnaire.”

A copy of the ToR, including the suggested amendment is provided (refer **Attachment 4**).

RESPONSIBLE OFFICER RECOMMENDATION

That the Audit Committee:

1. endorse the change to the Duties and Responsibilities as contained in its Terms of Reference by adding a part (x) as follows:
 - (x) Assist the Auditor in meeting its obligations of the Australian Auditing Standards by completing a Fraud and Error Assessment questionnaire. The CEO is required to provide any information required by the committee members to allow them to provide informed responses to the questionnaire.
2. seek the council of the MRC's endorsement of the changes to the Terms of Reference as detailed in 1. above.

A fulsome discussion of the merits of the Officer's recommendation followed and the Audit Committee members were of the view that this matter should be discussed further between the Administration and the external auditors, and be brought back to the November Audit Committee meeting should this be required.

RESOLVED

Cr Fishwick moved, Ms Rogers seconded

That the matter of the Audit Committee being required to respond to the Fraud and Error Assessment Questionnaire be referred back to Macri Partners for further consideration and be brought back to the November Audit Committee meeting.

(Carried: 4/0)

7	NEW BUSINESS
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Mr Callander spoke to new draft guidelines with respect to composting that had been recently issued by the Department of Environment Regulation (DER) for comment. Mr Callander noted that the guidelines as drafted had the potential to negatively impact of the Resource Recovery Facility and that further consultation with the DER and the Minister for the Environment would be undertaken on this matter in the weeks following the Audit Committee meeting.

8	NEXT MEETING
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The next Audit Committee meeting is scheduled to be held on 19 November 2015.

9 CLOSURE

The Chairman closed the meeting at 8.20am.

These Minutes were confirmed by the Audit Committee as a true and accurate record of the Audit Committee Meeting held on 30 July 2015.

Signed



Chairman

Dated this

3

day of

December

2015

ATTACHMENT 1
TO ITEM 6.1
AUDIT COMMITTEE MEETING
30 JULY 2015
MACRI PARTNERS – 2014/15 AUDIT PLAN



Certified Practising Accountants



Mindarie Regional Council

External Audit Plan For the Year Ending 30 June 2015

31 March 2015

Table of Contents

1. Purpose of the Audit	1
2. Scope of the Audit.....	1
3. Financial Reporting Responsibilities	2
4. Audit Approach	3
(a) Interim Audit Coverage.....	4
(b) Final Audit Coverage	5
5. Significant Risks Identified	6
6. Other Risks	6
7. Impact of Fraud on the Financial Report	8
8. Highlights – 2014/15 Financial Year.....	9
9. Materiality.....	10
10. Audit Engagement Team.....	11
11. Communications Plan and Timetable	11
12. Independence	12
13. Disclaimer.....	12

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 2015.

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 2014/15 accounts.

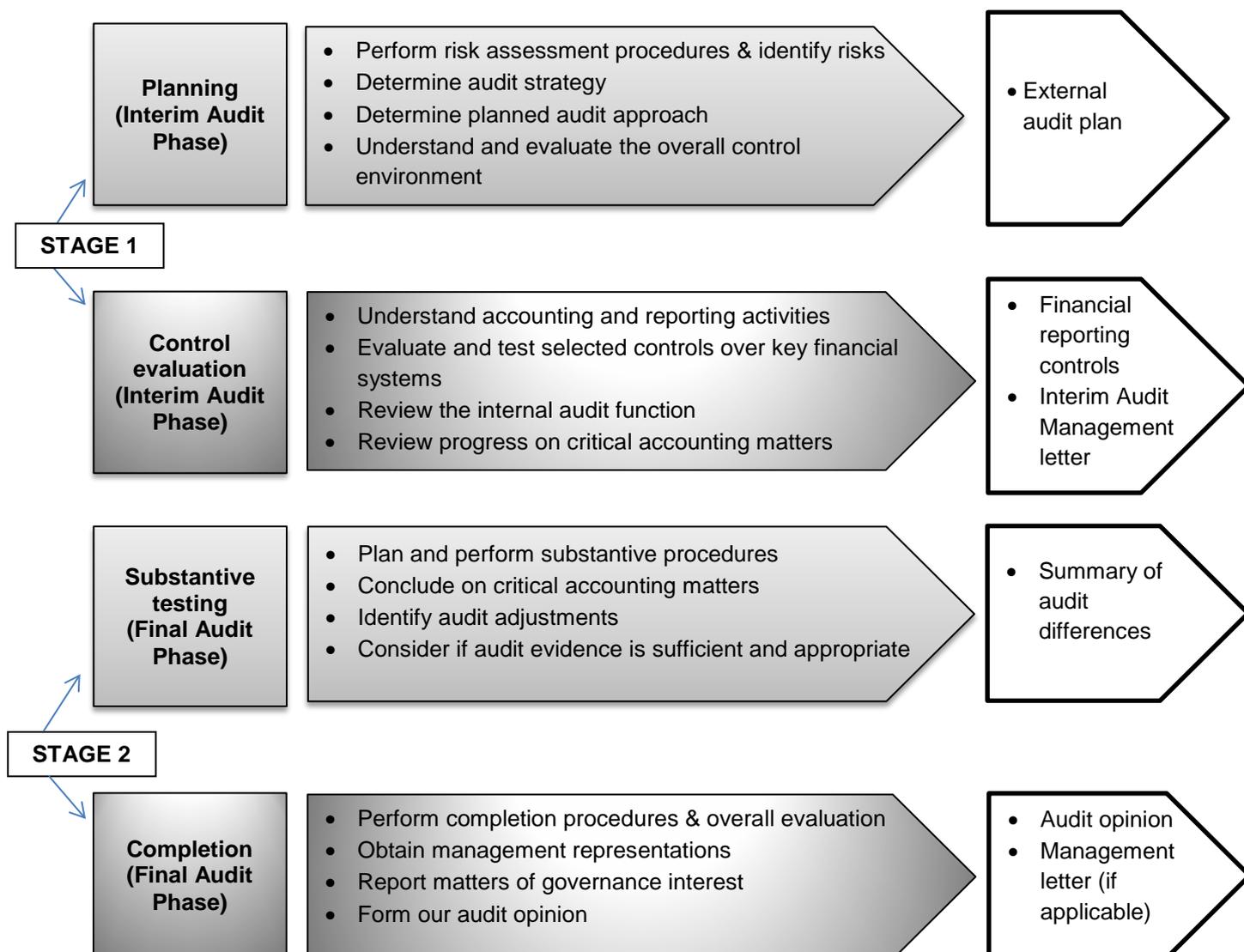
We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

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 2015. 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 2015 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
Property Plant and Equipment Infrastructure Resource Recovery Facility	Valuation and accuracy of Property Plant and Equipment and infrastructure asset classes	<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

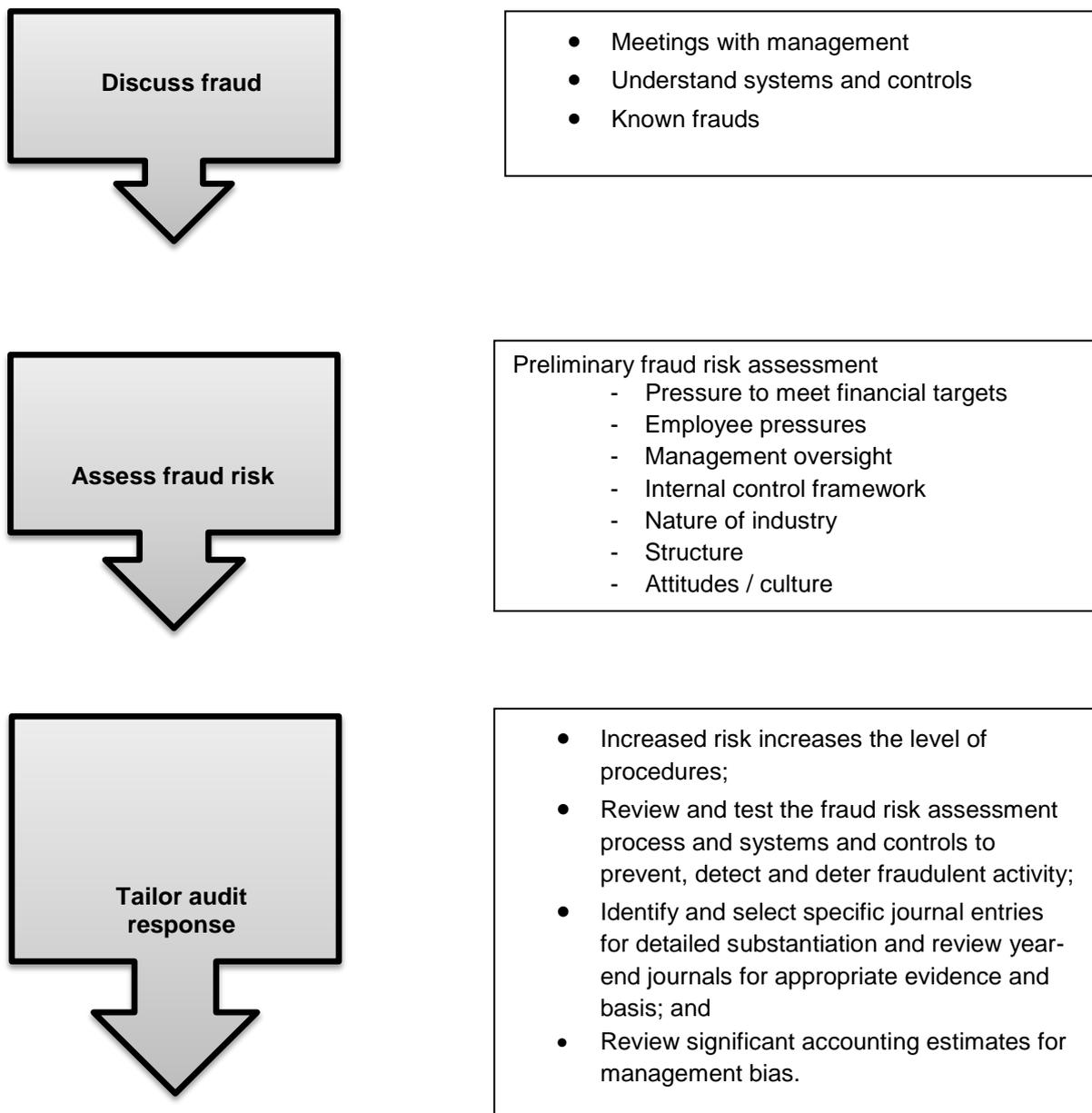
Focus Area	Financial Statement Impact	Planned Audit Approach
Revenue	Completeness and accuracy of Fees and charges, Grant income and Other revenue	<ul style="list-style-type: none"> ➤ Control testing on fees and charges and selected other revenue ➤ Test a sample of revenue transactions to supporting 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
Provisions for Carbon Pricing	Completeness, Accuracy and Valuation of Carbon Pricing provisions	<ul style="list-style-type: none"> ➤ Review of the model and methodology used by management for estimating future carbon emissions from the landfill discounted to net present value ➤ Review calculation of the carbon pricing provisions
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 – 2014/15 Financial Year

Regulatory Environment

The second phase of fair value implementation was undertaken in the 2014 financial year with respect to Property, Plant and Equipment.

Following the timetable set in the Regulation 17A of the Local Government (Financial Management) Regulations 1996 and our discussions with management, the next class of assets to be revalued by the Council are as follows:

Financial Year	Asset Group - Resources
2014/15	<ul style="list-style-type: none"> ➤ Property, Plant and Equipment ➤ Infrastructure (landfill cells etc.) ➤ Resource Recovery Facility

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.	\$1,000,000 Approximately 2% of Total Budgeted Expenditure (2015 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.	\$750,000 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.	\$50,000 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	14 May 2015 – 15 May 2015 (Confirmed with Management)
Provide Interim Management Letter	On completion of interim audit and management responses received
Final Audit Field Work	September 2015 – November 2015 (Management to confirm)
Present the Audit Findings Report to the Audit Committee	September 2015 – November 2015 (Management to confirm)
Provide Audit Opinion on Financial Statements	September 2015 – November 2015 (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 as of March 2015 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
30 JULY 2015
RISK REGISTER SUMMARY

Mindarie Regional Council
Summary Risk Register
January 2015 to - Revised 25 June 2015

Risk Ref.	Risk description	Causal factors	Consequence	Existing Controls	Consequence	Likelihood	Risk	Previous rating	
OPS-02	Inability to contain leachate from groundwater within site 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 Rediverting leachate BEMP CSM Leachate level testing DER Contaminated Site Branch	3	5	15	20 (4/5)	Risk downgraded due to new risk developed OPS-034
OPS-01	Inability to contain landfill gas within site boundaries 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		
STRAT 06	State Government implements changes to Regional Councils existence	Robson Report Proposed legislative change WARR Act Review	State Government takes over service LG takes over service Commercial entities enter market WARR Act Review (discussion paper)	Lobbying with peak bodies Industry networking and consultation Submission to the WARR Act Review	5	3	15		
COR-09	Failure to effectively manage existing MRC contracts	Lack of assigned internal contract owners Lack of contract management skills Lack of data input within system Differing expectations of performance Poor management of processes Unclear contracts and agreements Lack of communication	Contracts being mis-managed Non compliance with contract terms Inability to achieve best economic outcome Reduced efficiencies Loss of storage space Staff frustration	Key dates logged in IN Control System Assigned Contract Manager Tendering process WALGA preferred suppliers Point of contact	4	3	12		
COR-14	Failure of Resource Recovery Facility (RRF)	Major mechanical failure Force majeure	Additional tonnes to landfill Contract dispute	RRF Contract PAG meetings Insurance	3	4	12		
OPS-06	Inability to contain odours within site boundaries from causing social impact	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	12 (4/3)	Reduced risk based on lack of customer complaints
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 Multiple locations Education program Recover Recycled material from landfill Recover Recycled material from transfer Manage Hazardous Waste	2	5	10	12 (3/4)	Reassessed risk based on past 6 months' experience on site.
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		
OPS-22	Major Fire or Explosions (methane gas leak)	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		

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	
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	
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	5	2	10	
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	
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	
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 Damaged reputation BEMP CSM Leachate level testing DER Contaminated sites branch	4	5	20	
OPS-17	Failure to deliver consistent and quality levels of customer service	Downgraded to a rating of 5 due to reduced risk of consequence based on historical trends						10 (2/5)
GEO-04	Fail to define and communicate vision, mission and strategies to guide and influence organisational culture	Downgraded to a rating of 5 due to a reduction in the likelihood of serious accidents as a result of the introduction of the cultural program.						10 (5/2)
STRAT 14	Inability to maintain viable markets for recyclable/usable materials	Downgraded to a rating of 9 due to reassessment of revenue loss being unlike to be over \$500,000						12 (4/3)

**MINDARIE REGIONAL COUNCIL
RISK ASSESSMENT & ACCEPTANCE CRITERIA
(As at 20th November 2013)**

EXISTING CONTROLS RATING

LEVEL	RATING	FORESEEABLE	DESCRIPTION
E	Excellent	Doing more than what is reasonable under the circumstances	Controls are fully in place, are being well addressed / complied with, are subject to ongoing maintenance and monitoring and are being continuously reviewed and tested
A	Adequate	Doing what is reasonable under the circumstances	Controls are in place, are being addressed / complied with and are subject to periodic review and testing
I	Inadequate	Not doing some or all things reasonable under the circumstances	Controls do not exist, or are not being addressed / complied with, or have not been reviewed or tested for some time

MEASURES OF CONSEQUENCE

LEVEL	RATING	HEALTH & SAFETY	FINANCIAL	NATURAL ENVIRONMENT	REPUTATION	COMPLIANCE	OPERATIONAL EFFICIENCY
1	Insignificant	Negligible injuries	Less than \$20,000	No Significant Environmental Risk, Contained, reversible impact managed by on-site response	Unsubstantiated, localised low impact on key stakeholder trust, low profile or no media item	Occasional noticeable temporary non-compliances	Occasional noticeable deviation of objectives or interruption of services
2	Minor	First aid injuries	\$20,000 - \$50,000	No Significant Environmental Risk, Contained, reversible impact managed by internal response	Substantiated, localised impact on key stakeholder trust or low media item	Regular noticeable temporary non-compliances	Short term temporary deviation of objectives or interruption of services – backlog cleared < 1 day
3	Moderate	Medical type injuries or Lost time injury < 5 days	\$50,000 - \$500,000	Contained, reversible impact managed by external agencies	Substantiated, local public embarrassment, moderate impact on key stakeholder trust or moderate media profile	Non-compliance with significant regulatory requirements imposed	Medium term temporary deviation of objectives or interruption of services – backlog cleared by additional resources < 1 week
4	Major	Lost time injury > 5 days	\$500,000 - \$2M	Uncontained, reversible impact managed by a coordinated response from external agencies	Substantiated, public embarrassment, widespread high impact on key stakeholder trust, high media profile, third party actions	Non-compliance results in termination of services or imposed penalties	Prolonged deviation of objectives or interruption of critical services – additional resources required and performance affected < 2 months
5	Catastrophic	Fatality, permanent disability	More than \$2M	Uncontained, extensive remediation required	Substantiated, public embarrassment, widespread loss of key stakeholder trust, high state widespread multiple media profile, third party actions	Non-compliance results in criminal charges or significant damages or penalties	Indeterminate prolonged deviation of core objectives or interruption of critical services – non-performance > 2 months

**MINDARIE REGIONAL COUNCIL
RISK ASSESSMENT & ACCEPTANCE CRITERIA
(As at 20th November 2013)**

MEASURES OF LIKELIHOOD

LEVEL	RATING	DESCRIPTION	FREQUENCY
5	Almost Certain	The event is expected to occur in most circumstances	More than once per year
4	Likely	The event will probably occur in most circumstances	At least once per year
3	Possible	The event should occur at some time	At least once in 3 years
2	Unlikely	The event could occur at some time	At least once in 10 years
1	Rare	The event may only occur in exceptional circumstances	Less than once in 15 years

RISK MATRIX

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	MODERATE (5)	HIGH (10)	HIGH (15)	EXTREME (20)	EXTREME (25)
Likely	4	LOW (4)	MODERATE (8)	HIGH (12)	HIGH (16)	EXTREME (20)
Possible	3	LOW (3)	MODERATE (6)	MODERATE (9)	HIGH (12)	HIGH (15)
Unlikely	2	LOW (2)	LOW (4)	MODERATE (6)	MODERATE (8)	HIGH (10)
Rare	1	LOW (1)	LOW (2)	LOW (3)	LOW (4)	MODERATE (5)

RISK ACCEPTANCE CRITERIA

RISK RANK	DESCRIPTION	CRITERIA FOR RISK ACCEPTANCE	RESPONSIBILITY
LOW	Acceptable	Risk acceptable with adequate controls, managed by routine procedures and subject to annual monitoring	Operational Manager
MODERATE	Monitor	Risk acceptable with adequate controls, managed by specific procedures and subject to semi-annual monitoring	Operational Manager
HIGH	Urgent Attention Required	Risk acceptable with excellent controls, managed by senior management / executive and subject to monthly monitoring	Director / CEO
EXTREME	Unacceptable	Risk only acceptable with excellent controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority and subject to continuous monitoring	CEO / Council

ATTACHMENT 3
TO ITEM 6.3
AUDIT COMMITTEE MEETING
30 JULY 2015
MACRI PARTNERS – FRAUD ASSESSMENT QUESTIONNAIRE

MACRI PARTNERS

2015 INTERIM AUDIT REQUIREMENTS SCHEDULE

**MINDARIE REGIONAL COUNCIL
(MRC)**

Fraud and Error Assessment – Audit Committee MRC

FOR THE YEAR ENDING 30 JUNE 2015

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We are preparing to perform our Interim Audit risk assessment of your Council in relation to the audit for the year ending 30 June 2015. We would appreciate if you could briefly answer the following questions in the spaces provided, and return this signed letter.

1. Do you believe the policies and procedures in place within the Council are adequate to minimise the risk of fraud to an appropriately low level? Please provide an explanation for the reasons for your answer.

2. Have you, during the past year, become aware of or suspected fraud within the Council? If yes, please provide details.

3. Are you aware of any instances where policies and procedures have not been adhered to which could have resulted in a fraud occurring? If yes, please provide details.

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

Signature: _____
Name: _____
Position: _____
Date: _____

MACRI PARTNERS

Examples of Circumstances that Indicate the Possibility of Fraud

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

Discrepancies in the accounting records, including:

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

Conflicting or missing evidence, including:

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

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

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

MACRI PARTNERS

Other

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

ATTACHMENT 4
TO ITEM 6.3
AUDIT COMMITTEE MEETING
30 JULY 2015
TERMS OF REFERENCE – AUDIT COMMITTEE
(DRAFT AMENDMENT TO INCLUDE FRAUD RISK)

AUDIT COMMITTEE TERMS OF REFERENCE

1. Objectives of Audit Committee

In accordance with Regulation 16 of the Local Government (Audit) Regulations 1996, the primary objective of the Audit Committee is to accept responsibility for the annual external audit and liaise with the Mindarie Regional Council's (Council) auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the Committee will assist Council in discharging its legislative responsibilities of controlling the Council's affairs, determining the Council's policies and overseeing the allocation of the Council's finances and resources. The Committee will ensure openness in the Council's financial reporting and will liaise with the Chief Executive Officer (CEO) to ensure the effective and efficient management of the Council's financial accounting systems and compliance with legislation.

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.

2. Powers of the Audit Committee

The Committee is a formally appointed committee of Council and is responsible to that body. The Committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The Committee does not have any management functions and cannot involve itself in management processes or procedures.

The Committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its terms of reference in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the Council that have not been delegated to the CEO.

3. Membership

The Committee will consist of three elected members. The Council may also appoint an external member. All members shall have full voting rights.

External persons appointed to the Committee will be a member of CPA Australia or the Institute of Chartered Accountants (Australia), have the requisite financial, commercial and/or business experience, and will be sufficiently conversant with governance, financial and other reporting requirements so as to allow them to fulfil the role.

Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum of two years.

Reimbursement of approved expenses will be paid to each external person who is a member of the Committee, up to an annual limit set as part of the annual budget process.

The CEO and employees are not members of the committee.

The CEO or his/her nominee is to attend all meetings to provide advice and guidance to the Committee.

The Council shall provide secretarial and administrative support to the Committee.

4. Meetings

The Committee shall meet at least once a year. Additional meetings shall be convened at the discretion of the presiding person.

A quorum of the Committee will be constituted by three members.

A decision of the Committee is to be made by simple majority.

5. Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

6. Duties and Responsibilities

The duties and responsibilities of the Committee will be –

- (a) Provide guidance and assistance to Council as to the carrying out the function of the Council in relation to audits.
- (b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the Council's auditor.
- (c) Develop and recommend to Council –
 - a list of those matters to be audited; and
 - the scope of the audit to be undertaken.
- (d) Recommend to Council the person or persons to be appointed as auditor.

- (e) Develop and recommend to Council a written agreement for the appointment of the auditor. The agreement is to include –
- the objectives of the audit
 - the scope of the audit
 - a plan of the audit
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the Council to communicate with, and supply information to, the auditor.
- (f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions.
- (g) Liaise with the CEO to ensure that the local government does everything in its power to –
- assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
 - ensure that audits are conducted successfully and expeditiously.
- (h) Examine the reports of the auditor after receiving a report from the CEO on the matters and –
- determine if any matters raised require action to be taken by the Council; and
 - ensure that appropriate action is taken in respect of those matters.
- (i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or six months after the last report prepared by the auditor is received, whichever is the latest in time.
- (j) Review the scope of the audit plan and program and its effectiveness.
- (k) Review the appropriateness of special internal audit assignments undertaken at the request of Council or CEO.
- (l) Review the level of resources allocated to internal audit and the scope of its authority.
- (m) Review reports of internal audits and by monitoring the implementation of recommendations made by the audit and reviewing the extent to which Council and management reacts to matters raised.
- (n) Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs.
- (o) 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.
- (p) Consider recommending adoption of the financial report to Council
- (q) Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's terms of reference.
- (r) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the Committee's terms of reference following authorisation from the Council.
- (s) Review the annual Compliance Audit Return and report to the Council the results of that review.
- (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.
- (v) Monitor the progress of any major lawsuits facing the Council.
- (w) Perform a biannual review of the material risks identified in the Council's Risk Register.
- (x) ***Assist the Auditor in meeting its obligations of the Australian Auditing Standards by completing a Fraud and Error Assessment questionnaire. The CEO will provide any information required by the committee members to allow them to provide informed responses to the questionnaire.***