

NOTICE OF MEETING



AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

An Audit, Risk and Improvement Committee Meeting of Byron Shire Council will be held as follows:

Venue	Meeting Room 1, Station Street, Mullumbimby
Date	Thursday, 14 November 2019
Time	11:30am

A handwritten signature in black ink, appearing to read 'V Adams', is located below the meeting details table.

Vanessa Adams
Director Corporate and Community Services

I2019/1879
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CONFLICT OF INTERESTS

What is a “Conflict of Interests” - A conflict of interests can be of two types:

Pecuniary - an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person or another person with whom the person is associated.

Non-pecuniary – a private or personal interest that a Council official has that does not amount to a pecuniary interest as defined in the Code of Conduct for Councillors (eg. A friendship, membership of an association, society or trade union or involvement or interest in an activity and may include an interest of a financial nature).

Remoteness – a person does not have a pecuniary interest in a matter if the interest is so remote or insignificant that it could not reasonably be regarded as likely to influence any decision the person might make in relation to a matter or if the interest is of a kind specified in the Code of Conduct for Councillors.

Who has a Pecuniary Interest? - a person has a pecuniary interest in a matter if the pecuniary interest is the interest of the person, or another person with whom the person is associated (see below).

Relatives, Partners - a person is taken to have a pecuniary interest in a matter if:

- The person's spouse or de facto partner or a relative of the person has a pecuniary interest in the matter, or
- The person, or a nominee, partners or employer of the person, is a member of a company or other body that has a pecuniary interest in the matter.

N.B. “Relative”, in relation to a person means any of the following:

- (a) the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descends or adopted child of the person or of the person's spouse;
- (b) the spouse or de facto partners of the person or of a person referred to in paragraph (a)

No Interest in the Matter - however, a person is not taken to have a pecuniary interest in a matter:

- If the person is unaware of the relevant pecuniary interest of the spouse, de facto partner, relative or company or other body, or
- Just because the person is a member of, or is employed by, the Council.
- Just because the person is a member of, or a delegate of the Council to, a company or other body that has a pecuniary interest in the matter provided that the person has no beneficial interest in any shares of the company or body.

Disclosure and participation in meetings

- A Councillor or a member of a Council Committee who has a pecuniary interest in any matter with which the Council is concerned and who is present at a meeting of the Council or Committee at which the matter is being considered must disclose the nature of the interest to the meeting as soon as practicable.
- The Councillor or member must not be present at, or in sight of, the meeting of the Council or Committee:
 - (a) at any time during which the matter is being considered or discussed by the Council or Committee, or
 - (b) at any time during which the Council or Committee is voting on any question in relation to the matter.

No Knowledge - a person does not breach this Clause if the person did not know and could not reasonably be expected to have known that the matter under consideration at the meeting was a matter in which he or she had a pecuniary interest.

Non-pecuniary Interests - Must be disclosed in meetings.

There are a broad range of options available for managing conflicts & the option chosen will depend on an assessment of the circumstances of the matter, the nature of the interest and the significance of the issue being dealt with. Non-pecuniary conflicts of interests must be dealt with in at least one of the following ways:

- It may be appropriate that no action be taken where the potential for conflict is minimal. However, Councillors should consider providing an explanation of why they consider a conflict does not exist.
- Limit involvement if practical (eg. Participate in discussion but not in decision making or vice-versa). Care needs to be taken when exercising this option.
- Remove the source of the conflict (eg. Relinquishing or divesting the personal interest that creates the conflict)
- Have no involvement by absenting yourself from and not taking part in any debate or voting on the issue as of the provisions in the Code of Conduct (particularly if you have a significant non-pecuniary interest)

RECORDING OF VOTING ON PLANNING MATTERS

Clause 375A of the Local Government Act 1993 – Recording of voting on planning matters

- (1) In this section, **planning decision** means a decision made in the exercise of a function of a council under the Environmental Planning and Assessment Act 1979:
 - (a) including a decision relating to a development application, an environmental planning instrument, a development control plan or a development contribution plan under that Act, but
 - (b) not including the making of an order under that Act.
- (2) The general manager is required to keep a register containing, for each planning decision made at a meeting of the council or a council committee, the names of the councillors who supported the decision and the names of any councillors who opposed (or are taken to have opposed) the decision.
- (3) For the purpose of maintaining the register, a division is required to be called whenever a motion for a planning decision is put at a meeting of the council or a council committee.
- (4) Each decision recorded in the register is to be described in the register or identified in a manner that enables the description to be obtained from another publicly available document, and is to include the information required by the regulations.
- (5) This section extends to a meeting that is closed to the public.

BYRON SHIRE COUNCIL
AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

BUSINESS OF MEETING

1. APOLOGIES

2. DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY

3. ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

- 3.1 Audit, Risk and Improvement Committee Meeting held on 10 October 2019

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Corporate and Community Services

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

Report No. 4.1 A New Risk Management and Internal Audit Framework - Discussion Paper

Directorate: Corporate and Community Services
Report Author: Heather Sills, Corporate Governance Officer
 Emma Fountain, Strategic Risk & Business Continuity Coordinator
File No: I2019/1636

Summary:

The *Local Government Act 1993* was amended in August 2016 to require each council and joint organisation in NSW to appoint an audit, risk and improvement committee (ARIC).

The Office of Local Government (OLG) has developed a draft internal audit and risk management framework to support and inform the operations of ARICs. The proposed framework is based on international standards and the experience of Australian and NSW Government public sector agencies who have already implemented risk management and internal audit and has been adapted to reflect the unique needs and structure of NSW councils and joint organisations.

OLG has issued a discussion paper, "*A New Risk Management and Internal Audit Framework for Local Councils in NSW*" which sets out the proposed framework in detail and a "snapshot" guide that summarises its key elements. The OLG are seeking submissions on the framework by 31 December 2019.

RECOMMENDATION:

That the Audit Risk and Improvement Committee:

- 1. Considers the discussion paper, "A New Risk Management and Internal Audit Framework for Local Councils in NSW"**
- 2. Makes a submission to the Office of Local Government during the submission period covering the considerations outlined in this report**

Attachments:

- 1 A new risk management and internal audit framework for local councils in NSW - discussion paper, E2019/76198 , page 10 [↓](#)
- 2 A new risk management and internal audit framework for local councils in NSW - snapshot guide, E2019/76197 , page 116 [↓](#)

REPORT

The Local Government Regulation will provide for a Model Internal Audit Charter and Model Terms of Reference for Audit, Risk and Improvement Committees which all councils must adopt and comply with. The discussion paper describes the key requirements that will ultimately be prescribed by the *Local Government (General) Regulation 2005*.

The NSW Government's objective is to ensure that councils have:

- an independent ARIC that adds value to the council
- a robust risk management framework
- an effective internal audit function

Councils will have until March 2021 to establish their Audit, Risk and Improvement Committees in line with the regulatory requirements proposed in the discussion paper. It is proposed that councils will then have a further 18 months, until December 2022, to establish and resource their internal audit function and risk management framework (guided by the Audit, Risk and Improvement Committee).

It is expected that over time, as resources allow, the role of each Council's Audit, Risk & Improvement Committee will be expanded to include compliance, fraud control, financial management, governance, integrated planning and reporting, service reviews and performance management, with full compliance achieved by 2026.

Implementation timeline

By March 2021

- Audit, Risk and Improvement Committee established and appointed (core requirement 1 or 9 for shared arrangements)

By December 2022

- Risk management framework developed, including appointment of Risk Management Coordinator (core requirement 2)
- Internal audit function established, including employment of Chief Audit Executive and personnel (core requirements 3-4 or 9 for shared arrangements)

By 2024

- Risk management framework fully implemented throughout council and operating in compliance with regulatory requirements (core requirement 2)
- Internal audit function fully implemented by council and operating in compliance with regulatory requirements (core requirements 5-8)

By 2026

- Audit, Risk and Improvement Committee's role expanded to include compliance, fraud control, financial management, governance, integrated planning and reporting, service reviews, performance measurement data and performance improvement in compliance with s 428A of the Local Government Act.

Core Requirements

5 The discussion paper outlines nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committee, risk management framework and internal audit function.

Core requirement 1: Appoint an independent Audit, Risk and Improvement Committee (must be independent members from prequalified panel (i.e. no Councillors))

10 **Core requirement 2:** Establish a risk management framework consistent with current Australian risk management standards

Core requirement 3: Establish an internal audit function mandated by an Internal Audit Charter

Core requirement 4: Appoint internal audit personnel and establish reporting lines

Core requirement 5: Develop an agreed internal audit work program

15 **Core requirement 6:** How to perform and report internal audits

Core requirement 7: Undertake ongoing monitoring and reporting

Core requirement 8: Establish a quality assurance and improvement program

Core requirement 9: Councils can establish shared internal audit arrangements

20 **Key considerations from the discussion paper**

Implications for Joint Organisation

25 The framework will apply to councils, county councils, and joint organisations, therefore there will be a requirement for the Northern Rivers Joint Organisation to have an ARIC. There are potential opportunities to establish a shared ARIC with the joint organisation and its member councils.

Implications for Membership

30 The ARIC is to comprise of three to five independent members who are prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*.

35 ARIC members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years

All ARIC members must be independent. To be classified as 'independent', a member must be:

1. Free of any relationships that could be perceived to result in bias or a conflict of interest or interfere with their ability to act independently
- 40 2. Selected from the panel of prequalified audit and risk committee independent chairs and members administered by the NSW Government.

45 Further details on specific exclusions and requirements are provided on page 36-37 of attachment 1, but notably, under the new regulations, Councillors would not be members of the Audit, Risk, and Improvement Committee.

50 The discussion paper outlines recommended fees to be paid to Audit, Risk, and Improvement Committee members, while noting that members will be able to serve on Audit, Risk, and Improvement Committees on a voluntary basis. The suggested member fee for a council the size of Byron Shire is \$1,621 per meeting date including preparation time and \$16,213 per annum for the Chair.

Reporting Lines

ARIC is to have direct and unrestricted access to the General Manager, senior management and staff and contractors of the council in order to perform its role. ARIC is also to have direct and unrestricted access to the council resources and information it needs to perform its role.

- 5 The General Manager is to appoint a Chief Audit Executive to oversee internal audit activities. CAE is to report functionally to ARIC and administratively to the GM.

An Annual Assurance Report to the governing body of the council is to be prepared and be assessed by an external party at least once each council term.

10

Implications for Risk Management

- 15 Council is required to establish a risk management framework that is consistent with current Australian standards for risk management which includes the implementation of a risk management policy, risk management plan and risk management process.

- 20 Council is to fully integrate risk management into its decision making, operational and integrated planning and reporting processes and formally assign risk management responsibilities to the GM, senior managers and other council staff and ensure accountability.

- 25 The General Manager is to appoint a Risk Management Coordinator who will be responsible for the operational activities required to implement the risk management framework and provide specialist risk management skills and knowledge. The Risk Management Coordinator will report directly to the GM or other member of senior management of Council in relation to Council's risk management function.

The risk management framework is to be regularly monitored and reviewed, with ARIC providing independent assurance of risk management activities.

- 30 The GM is to attest to Council's compliance with the risk management requirements in the Annual Report.

Next steps

- 35 Submissions to the Office of Local Government (OLG) are to be made in writing by 31 December 2019. OLG has suggested consideration of the following questions to inform submissions:
- Will the proposed framework achieve the outcomes sought?
 - What challenges do you see for your council when implementing the proposed framework?
 - Does the proposed framework include all important elements of an effective internal audit and risk framework?
 - Is there anything you don't like about the proposed framework?
 - Can you suggest improvements to the proposed framework?
- 40

- 45 Subject to comments from the Committee, the following draft feedback is proposed:

Will the proposed framework achieve the outcomes sought?	<ul style="list-style-type: none"> The proposed framework will assist Council in developing an effective internal audit and risk management framework, noting that Byron already has a number of the measures in place
What challenges do you see for your council when implementing the proposed framework?	<ul style="list-style-type: none"> Councillors have a valuable role on ARIC which provides them with opportunities to understand the audit and risk process and monitor outcomes. Council believes that to lose this opportunity would be detrimental

	<ul style="list-style-type: none"> • Sourcing ARIC members that meet the independence and prequalification requirements • Rotating ARIC members • What is the process if Council rejects recommendations from the ARIC?
Does the proposed framework include all important elements of an effective internal audit and risk framework?	<ul style="list-style-type: none"> • Council considers the proposed framework covers all important elements of an effective internal audit and risk management framework
Is there anything you don't like about the proposed framework?	<ul style="list-style-type: none"> • Council is supportive of the proposed framework and is on track to meet the requirements within the proposed timeframes
Can you suggest improvements to the proposed framework?	<ul style="list-style-type: none"> • Council submits that consideration should be given to creating a sliding scale for payment of fees to ARIC members during the transition phase, commensurate with the actual functions performed. There is an expectation that the role of the ARIC will expand over time to cover a range of functions with full compliance achieved by 2026 but there is no differentiation in the fees between an established ARIC that is or will be fully compliant ahead of the proposed timelines and an ARIC that has a limited focus whilst Council is developing its internal functions in line with its resources and capabilities.

STRATEGIC CONSIDERATIONS

5 Community Strategic Plan and Operational Plan

CSP Objective	L2	CSP Strategy	L3	DP Action	L4	OP Activity
Community Objective 5: We have community led decision making which is open and inclusive	5.6	Manage Council's resources sustainably	5.6.7	Develop and embed a proactive risk management culture	5.6.7.4	Manage Audit, Risk and Improvement program including coordinating committee recommendations

Legal/Statutory/Policy Considerations

10 The operation of sections 428A and 428B of the *Local Government Act* will be supported by new regulations in the *Local Government (General) Regulation 2005*.

Financial Considerations

15 Not applicable at this stage.

Consultation and Engagement

ET considered this report at its 30 October 2019 meeting and noted the above feedback.

A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK

for local councils in NSW

Discussion paper

September 2019



A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL COUNCILS IN NSW – DISCUSSION PAPER

2019

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**MINISTER'S
FOREWARD**



Risk is inevitable in any organisation, including local councils. If a council can identify its risks and how they are caused, a council is more likely to succeed in managing these risks and achieving its community objectives.

Internal audit is a globally accepted mechanism for ensuring that an organisation has good governance and is managing its risks successfully. There has been a steady push over recent years for internal audit to be mandated in the NSW local government sector.

As a first step, in 2008, the government released guidelines to assist councils to establish an internal audit function. These guidelines were updated in 2010. The benefits realised by councils who had introduced internal audit into their business led to calls for internal audit to be made mandatory for every council in NSW.

In 2016, the NSW Government made it a requirement under the *Local Government Act 1993* ('Local Government Act') that each council have an Audit, Risk and Improvement Committee in place. This requirement is likely to take effect from March 2021. Councils are also required to proactively manage any risks they face under the new guiding principles of the Act.

The government has since been working to develop the regulatory framework that will support the operation of these committees, and the establishment of a risk management framework and internal audit function in each council. This discussion paper details the regulatory requirements and operational framework being proposed.

There will be nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committee, risk management framework and internal audit function. These requirements are based on international standards and the experience of Australian and NSW Government public sector agencies who have implemented risk management and internal audit. Most importantly, they reflect the unique needs, structure and resources of NSW local government.

Formal risk management and internal audit is a vital part of the NSW Government's plan to ensure that councils achieve their strategic objectives in the most efficient, effective and economical manner. A strong and effective risk management and internal audit framework will result in better services for the community, reduced opportunities for fraud and corruption, increased accountability of councils to their communities and a culture of continuous improvement in councils.

I encourage you to provide your feedback and ideas on the proposed model so we can ensure NSW has in place the most robust and effective risk management and internal audit framework for local government possible.

The Hon Shelley Hancock MP
Minister for Local Government

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BACKGROUND AND PURPOSE

1. Risk

All organisations and governments, including councils, operate in uncertain and changing economic, social, political, legal, business and local environments. Risk is defined as the effect of this uncertainty on an organisation's ability to achieve its goals and objectives, where the effect is the potential for a result that is different to what was expected or planned for¹. Risks that go so far as to threaten to harm or destroy an object, event or person are known as material risks.

Risk can be positive, negative or both, and can address, create or result in opportunities and threats. Risk is often expressed in terms of an event's consequences and the likelihood of its occurrence. Negative risks can include, for example, unexpected financial loss, project failure, extreme weather events, failure of council policy, and fraud or corruption. Positive risks can include, for example, unexpected favourable publicity, changes to legislation, improved technology, new commercial relationships and business contracts.

Internal controls

Internal controls are any action taken by an organisation to manage and minimise the impacts of negative risks or to promote and harness positive risks to increase the likelihood that the organisation's goals and objectives will be achieved. Internal controls can be:

- preventative – to deter undesirable events from occurring
- detective – to detect and correct undesirable events from happening, or
- directive – to cause or encourage a desirable event to occur.

Internal controls generally fall into two categories:

- hard/formal controls – for example, systems, processes, policies, procedures, management approvals, or
- soft controls – for example, employee capability, organisational culture, ethical behaviour of management and staff.

2. Good governance

Governance can be described as the combination and interconnection of decisions, policies, procedures, processes and structures implemented by an organisation's board/governing body to direct and control the organisation and ensure it functions effectively.

Good governance is a key component of successful organisations. It supports an organisation to ensure its goals and objectives are achieved, its operations are performed successfully, it complies with all necessary legal and other requirements, and it uses its resources responsibly with accountability. It also helps an organisation to promote confidence with stakeholders and adapt and function in changing and uncertain environments.

Good governance is directly linked to an organisation's risk management and compliance frameworks.

¹ Adapted from the definition of risk in AS ISO 31000:2018

The three lines of defence against risk

There are a number of different mechanisms organisations can use to ensure they have good governance and are managing their risks. These governance activities are often referred to as 'the three lines of defence' and are described below in the context of local government. A summary diagram is provided on page 8.

1st line of defence – operational functions implemented by a council to own and manage risk

A council's first line of defence against risk is for council staff to own and manage the risks that occur in their sphere of influence. This means they are given responsibility and held accountable for identifying risks and implementing internal controls (where appropriate).

In practice, this generally sees operational management responsible for identifying and assessing risks that occur in their work area and developing internal controls to manage these risks. This can include guiding the development of council policies and procedures and overseeing the implementation of internal controls by the council staff they supervise. Council staff are responsible for following policies and procedures, implementing other controls and notifying managers when issues arise.

Examples of first line of defence activities could include development assessment processes, operational procedures for technical equipment, maintenance of specific pieces of equipment, cash handling procedures, work health and safety requirements, following project plans etc.

2nd line of defence – management functions implemented by a council to ensure operational functions are managing risks

A council's second line of defence against risk is to ensure that the controls in the first line of defence are properly designed, implemented and operating as intended. Examples of the management frameworks that can be implemented in a council's second line of defence include:

- a risk management framework which identifies known and emerging risks the council faces and controls being implemented to manage these risks (further described in this discussion paper)
- a compliance framework which identifies and monitors council's risk of non-compliance with applicable laws, regulations, contracts and policies, and alerts council to changing compliance requirements
- a financial management framework which identifies and monitors council's financial risks, including financial reporting and external accountability²
- a fraud control framework which identifies and manages the risk of the incidence of fraud or corruption and includes prevention and monitoring strategies³
- business and performance improvement which identifies and manages any business/performance risks and helps council to improve the efficiency, effectiveness and economy of its operations, for example, information technology and work health and safety, and
- project management which is used to identify and manage project risks, for example, poor project governance, flawed scope definition and insufficient resourcing.

² Councils are required under the Local Government Act (s 413) to prepare financial reports each year to prescribed standards. These reports must be externally audited, be made available for public inspection (s 418), presented at a council meeting along with the auditor's reports (s 419) and included in council's annual report (s 428).

³ Councils are required to have a fraud and corruption control plan which includes risk management processes that examine the risk of fraud and corruption both internally and externally across the council. The plan should also include internal controls that seek to minimise fraud and corruption occurring.

Second line of defence activities are generally reported to senior and mid-level management, and can be of interest to the Audit, Risk and Improvement Committee.

3rd line of defence – functions that provide independent external assurance

Council's third line of defence against risk is to receive assurance from an independent body external to the council that its risks are being managed appropriately in the first and second lines of defence. External assurance is designed to provide a council with a level of confidence that its goals and objectives will be achieved within an acceptable level of risk.

Independent external assurance is provided by an Audit, Risk and Improvement Committee, supported by an internal audit function.

External assurance activities are reported to the governing body of the council and the general manager.

Other lines of defence

There are also other lines of defence that sit outside an organisation and provide independent assurance that an organisation has good governance and is managing its risk appropriately.

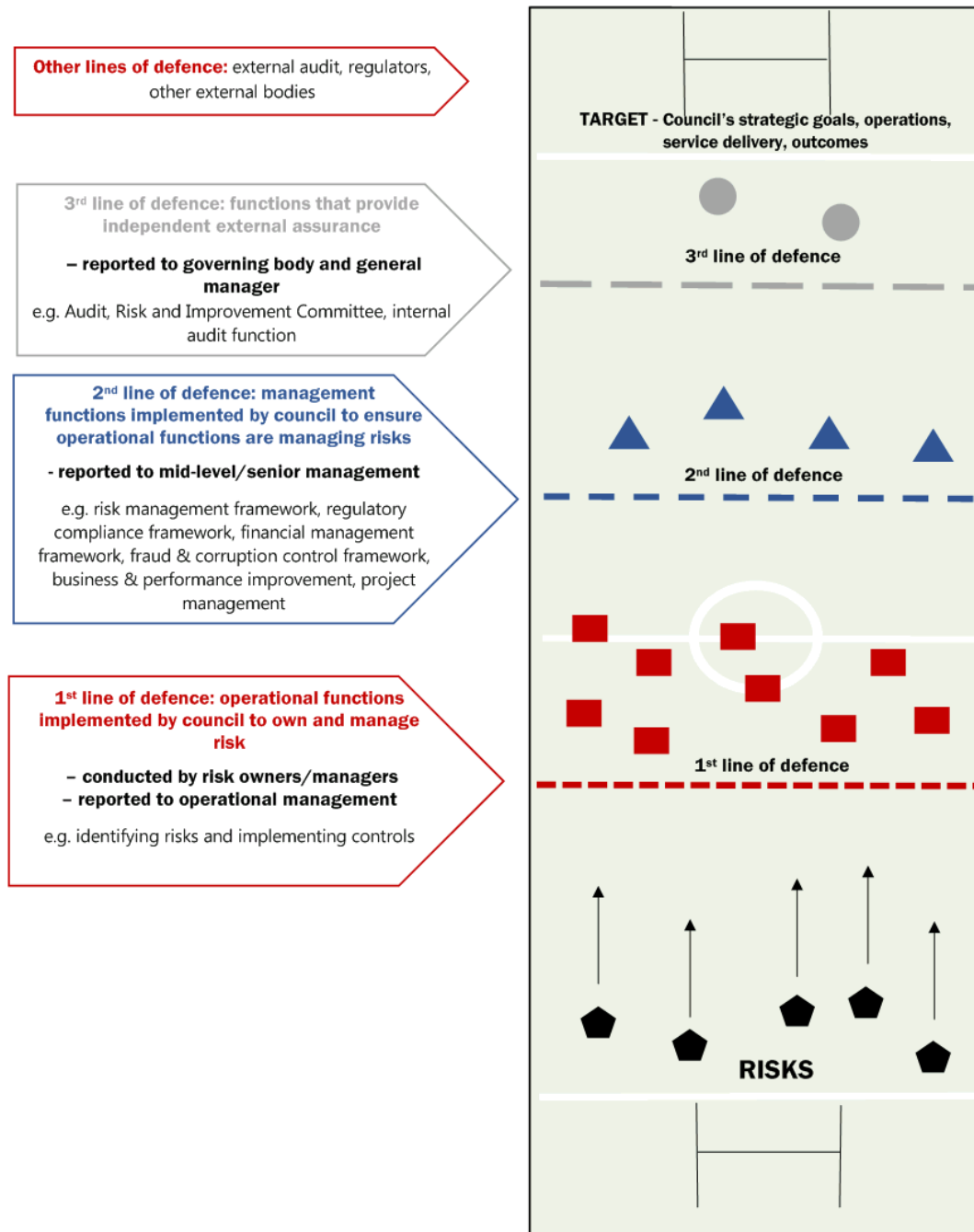
For councils, these include:

- external audit – an annual independent examination and opinion of council's financial statements which also assesses council's compliance with accounting standards, laws and regulations⁴
- performance audit – an audit of council activities to determine whether the council is carrying out these activities effectively, economically, efficiently and in compliance with all laws. A performance audit can include an individual program or service provided by a group of councils, all or part of an individual council, or issues affecting the sector as a whole⁵, and
- regulatory bodies – these set minimum requirements for council's lines of defence, and/or assess the effectiveness of council's governance (for example, the Office of Local Government, NSW Ombudsman, Independent Commission Against Corruption, NSW Parliament).

⁴ The Local Government Act (s 415) requires each council to have their annual financial reports externally audited by the NSW Auditor-General (s 422) so that the community and the governing body of the council have access to an independent opinion on their validity. The Auditor-General is to also provide a copy of the Independent Audit Report and the Conduct of the Audit to the Office of Local Government, and report to Parliament on local government sector-wide matters arising from the examination of the financial statements of councils and any other issues the Auditor-General has identified during its audit and the exercise of her other functions (s 421C).

⁵ The NSW Auditor-General conducts performance audits of councils under the Local Government Act and reports to the Office of Local Government, the council concerned and the Minister for Local Government any findings, recommendations or concerns that arise from a performance audit (s 421B)

Council's three lines of defence against risk



3. Purpose of this discussion paper

Amendments made to the Local Government Act in 2016 require each council to be financially sustainable, continuously review its performance, properly exercise its regulatory functions, operate honestly, efficiently and appropriately, and have sound decision-making and risk management practices (s 8A-8C and 223).

They also require each council to establish an Audit, Risk and Improvement Committee as a third line of defence to continuously review and provide independent advice and assurance on council's first and second lines of defence (s 428A). The Local Government Act also envisages the establishment of a risk management framework and internal audit function in each council to support the work of the Committee.

The purpose of this discussion paper is to propose how councils should establish and implement these functions.

It is envisaged that each council's Audit, Risk and Improvement Committee, once established by March 2021, will undertake assurance activities by overseeing each council's internal audit function and risk management framework.

Over time (post-2021), and as resources allow, each council's Audit, Risk and Improvement Committee will be expected to expand its reach to include the other management functions that councils should have in place as part of their second line of defence (for example, financial management, integrated planning and reporting, fraud control, performance etc.).

INTRODUCTION TO RISK MANAGEMENT AND INTERNAL AUDIT

1. Risk management

Risk management describes the coordinated activities an organisation takes to ensure it knows the risks it faces, makes informed decisions about how to respond to these risks, and identifies and harnesses potential opportunities⁶.

In practice, it is a deliberate, systematic, comprehensive and documented program that provides a structure to managing risk consistently across the entire organisation, regardless of where, and by who, decisions are made. It also provides a mechanism to shape organisational culture – 'the way we do things around here'.

Risk management is not about being risk averse and it is not a guaranteed way to eliminate all the risks an organisation faces altogether. It is a framework that can help an organisation to reduce its risks to a level that is acceptable and take calculated and appropriate risks that will help it to achieve its strategic goals and deal positively with opportunities.

As required under Australian risk management standards, councils will be required to adopt an 'enterprise risk management' approach under the new regulatory framework.

This will require councils to identify, assess and manage all the risks that affect the ability of the council to meet its goals and objectives, and goes beyond traditional risk management that focuses on insurable risks. Further explanation is provided in the table below.

Traditional risk management	Enterprise risk management
Focuses on insurable risks	Considers all risks that could affect a council's ability to meet its goals, including risks that cannot be insured, for example, a council's reputation
Focused on threats and minimising losses	Considers risks that present both negative and positive consequences or impacts and focuses on adding value
Manages each risk individually and in isolation, often within the particular business unit	Considers risks holistically across the entire council taking into account any connections or interdependencies that could reduce losses or maximize growth opportunities. Risk management is integrated across the entire council
Responses to risk are largely reactive and sporadic	Responses to risk are proactive and continually applied and assessed. Risk management is embedded in organisational culture

⁶ Adapted from the definition of risk management in AS ISO 31000:2018

Governing standards

A number of worldwide standards have been developed to help organisations implement risk management. These standards are set by recognised international standards bodies or industry groups and provide an accepted benchmark for risk management practices.

In Australia, the International Organisation for Standardisation's risk management standard *ISO 31000:2009, Risk Management – Guidelines* (AS/NZS ISO 31000:2009) has been accepted as the Australian risk management standard and widely adopted in the private and public sectors. AS/NZS ISO 31000:2009 has just been replaced by AS ISO 31000:2018⁷.

AS ISO 31000:2018 states that an organisation's approach to risk management must be based on the following eight specific principles to ensure it is effective:

- risk management is **integrated** into all organisational activities and decision-making processes
- risk management is **structured and comprehensive** process that achieves consistent and comparable results
- the risk management framework and process is **customised** to the organisation
- risk management is **inclusive** of all stakeholders and enables their knowledge, views and perceptions to be considered
- risk management is **dynamic** and able to respond to changes and events in an appropriate and timely manner
- risk management decisions are based on the **best available information** and takes into account any limitations and uncertainties
- risk management takes into account **human and cultural factors**, and
- risk management is continuously and periodically **evaluated and improved** through learning and experience.

To achieve these principles, AS ISO 31000:2018 requires each organisation to ensure its risk management framework includes the following elements:

- **leadership and commitment** – the organisation's board/governing body must clearly communicate and demonstrate strong leadership and commitment to risk management. This will be shown by the board/governing body:
 - adopting a risk management policy which communicates the organisation's commitment to risk management and how risk management will be undertaken
 - ensuring the necessary resources are allocated to risk management, and
 - assigning authority and accountability for risk management at appropriate levels in the organisation and aligning risk management to the organisation's objectives
- **integration** – integration of risk management into a council should be a dynamic and iterative process, customised to the organisation's unique needs and culture. Risk management must be made part of the organisation's purpose, governance, leadership, strategy, objectives and operations and everyone in the organisation must understand their responsibility for managing risk.

This can be achieved through the development and implementation of a risk management plan that provides structure for how the organisation will implement its risk management policy and conduct its risk management activities

⁷ More information about AS ISO 31000:2018 can be found at <https://www.iso.org/iso-31000-risk-management.html>.

- **design** – the organisation’s risk management framework must be based on the unique needs, characteristics and risks of the organisation, and its external and internal context.
This can be achieved by following a tailored risk management process that:
 - evaluates the organisation’s internal and external context, operations, stakeholders, complexity, culture, capabilities etc.
 - identifies, assesses and prioritises the risks these present
 - decides how they will be managed
 - allocates resources
 - assigns risk management roles, responsibilities and accountabilities
 - documents and communicates this across the organisation, and
 - demonstrates the organisation’s continual commitment to risk management.
- **evaluation and improvement** – the organisation must regularly evaluate the effectiveness of its risk management framework and continually adapt and improve how it is designed and integrated throughout the organisation and ensure it is fit for purpose.

2. Internal audit

Internal audit is a mechanism that an organisation can use to receive independent assurance that its first and second lines of defence are appropriate and working effectively. Internal audit can also help an organisation to improve its overall performance.

It does this by:

- providing management with information on the effectiveness of risk management, control and governance processes, and acting as a catalyst for improvement
- providing an independent and unbiased assessment of the organisation’s culture, decision-making, financial management, operations, fraud risk, safeguarding of assets, information, policies, processes and systems
- assessing the efficiency, effectiveness, economy and ethical conduct of business activities
- reviewing the achievement of organisational goals and objectives
- assessing compliance with laws, regulation, policies and contracts, and
- looking for better ways the organisation can be doing things.

In relation to risk management, internal audit provides assurance that an organisation’s:

- risk management framework is effective and regularly reviewed
- risks are correctly identified and assessed
- risks are being managed to an acceptable level in accordance with the organisation’s risk criteria⁸, goals and objectives
- internal controls are appropriately designed and effectively implemented, and
- risk information is captured and communicated in a timely manner across the organisation, enabling staff to carry out their risk management responsibilities.

Unlike organisational staff, an internal audit function has no direct involvement in day-to-day operations or financial management of an organisation. It sits within an organisation, but external to it, and investigates how an organisation conducts its day-to-day operations and financial management and helps an organisation to improve those processes and systems.

⁸ ‘Risk criteria’ can also be known as ‘risk appetite’

To preserve an internal audit function's independence, it cannot be responsible or held accountable for:

- setting an organisation's risk criteria
- implementing risk management processes
- deciding how an organisation responds to risk, or
- implementing risk responses or controls.

The internal audit function also reports functionally (for internal audit operations) to an organisation's Audit, Risk and Improvement Committee to ensure that it is allowed to operate without inappropriate interference.

Governing standards

The Institute of Internal Auditors (IIA) is the recognised international standard setting body for internal audit and provides professional certification for internal auditors.

The IIA has developed the International Professional Practices Framework (IPPF)⁹ which outlines the mandatory requirements for the practice of internal auditing. It describes:

- the definition of internal auditing
- the core principles for the practice of internal auditing
- the international standards for the professional practice of internal auditing, and
- a Code of Ethics which describe the minimum behavioural and conduct requirements of individuals and organisations in the conduct of internal auditing.

These standards are international and are to be applied consistently to the practice of internal audit activity worldwide.

The core components required for internal audit under the IPPF include:

- an **internal audit charter** which communicates internal audit's purpose and authority, its position within the organisation and how internal audit will be undertaken
- reporting arrangements and responsibilities that provide the internal audit function with **independence** from the organisation so that it can be objective and unbiased in its work
- authority for the internal audit function to have **full access** to the records, information, property and personnel it needs to undertake its work
- **work plans** which provide a short-term and long-term structure for the internal audits to be undertaken
- use of **approved methods** and procedures to conduct audits
- a system to **monitor and report** on internal audit findings and the implementation of corrective actions, and
- a **quality assurance and improvement process** to continuously review and improve internal audit activities.

⁹ More information about the IPPF can be found at <https://www.iaa.org.au/technical-resources/professionalGuidance.aspx>

Under the IPPF, an effective internal audit function must also exhibit the following 10 mandatory core principles:

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk-based assurance
- is insightful, proactive and future-focused, and
- promotes organisational improvement.

3. Audit Committees

An audit committee is a committee of experts that plays a key role in assisting the board/governing body of an organisation to fulfil its corporate governance and oversight responsibilities. Its main role is to provide advice and assurance regarding:

- the organisation's culture and ethics
- the organisation's first and second lines of defence, including:
 - the effectiveness of risk management and the organisation's internal controls
 - the organisation's fraud and corruption controls
 - business performance and improvement
 - the adequacy of financial management practices and the organisation's accounting, financial records and external reporting
 - systems for managing the organisation's assets
 - compliance with applicable laws, regulations, standards and best practice guidelines, and
- matters that are raised during external and internal audits.

An audit committee also provides a forum for communication between the organisation, senior management, risk and compliance managers, internal auditors and external auditors.

To be effective, an audit committee must be independent from the organisation's management and free from any undue influence.

The size and nature of the committee depends on the industry and size of the organisation. Some organisations establish one committee with responsibility for all these tasks. Larger organisations may establish more than one committee, for example, an audit committee, a risk committee, a compliance committee etc. depending on the nature and extent of the organisation's operations.

There are a number of legal requirements and good practice guides that apply to audit committees depending on the jurisdiction and type of industry and organisation.

4. Use of risk management, internal audit and audit committees in the private and government sectors

Private sector

Audit committees, risk management and internal audit are widely used in the corporate sector worldwide as a mechanism to manage risk and provide independent assurance on governance, controls and financial reporting.

The *Corporations Act 2001* (Commonwealth) requires some Australian companies to ensure that financial reports are true and fair and comply with accounting standards made by the Australian Accounting Standards Board. Most of these companies have audit committees to monitor and oversight their financial reporting (in consultation with external auditors).

The Australian Securities Exchange requires entities included in the S&P/ASX All Ordinaries Index at the beginning of their financial year to have an audit committee during that year¹⁰, and to comply with specific requirements¹¹ regarding the composition, operation and responsibilities of their audit committee. If an entity does not have an audit committee, this must be disclosed along with the processes the board/governing body employs to independently verify and safeguard the integrity of its corporate reporting.

The establishment of an internal audit function is seen by many investors as essential before they will invest in a company. Since 2014, entities listed on the Australian Securities Exchange have been required to disclose to potential investors whether they have an internal audit function, how the function is structured and what role it performs. If an entity does not have an internal audit function, it must outline why it doesn't, and what assurance arrangements it has in place to manage risk and verify the integrity of financial records¹². Whilst it is not mandatory, non-listed companies are recommended under Australian standards to have an audit committee as part of good governance¹³.

The Australian Prudential Regulation Authority has also mandated the requirement for financial, insurance and superannuation institutions to have internal audit and an audit committee¹⁴. The audit committee must also meet specific requirements.

Australian Government public sector

While risk management and internal audit is often voluntary in the private sector, many governments around the world have mandated through legislation a requirement for public sector agencies to have an audit committee and some form of risk management.

The Australian Government, under the *Public Governance, Performance and Accountability Act 2013*, requires all Commonwealth entities to establish and maintain appropriate risk management systems and have an audit committee. The *Public Governance, Performance and Accountability Rule 2014* and Commonwealth Risk Management Policy¹⁵ prescribe the requirements for how risk is to be managed.

¹⁰ ASX Corporate Governance Council (2016) *ASX Listing Rules* – Rule 12.7

¹¹ As set out in ASX Corporate Governance Council (2019) *Corporate Governance Principles and Recommendations 4th Edition*

¹² ASX Corporate Governance Council (2014) *Corporate Governance Principles and Recommendations 3rd Edition*

¹³ Standards Australia International (2004) *Australian Standard – Good Governance Principles* (AS 8000-2003)

¹⁴ Australian Prudential Regulation Authority (2019) *Prudential Standard CPS 510 Governance* (July 2019)

¹⁵ Australian Government, Department of Finance (2014) *Commonwealth Risk Management Policy*

While an internal audit function is not mandated by legislation, it is recommended that Commonwealth entities establish one to support the audit committee¹⁶ and to ensure that the Secretary or Chief Executive is able to fulfil their other responsibilities under the Act. There have been calls for internal audit to be mandated for Commonwealth entities under the *Public Governance, Performance and Accountability Act 2013*¹⁷.

There are no legislated standards for risk management or internal audit in Commonwealth entities. However, the Australian Government recommends Commonwealth entities conform to ISO risk management standards and the IPPF.

State and Territory public sectors

Most Australian states and territories have mandated risk management, internal audit and/or audit committees in their public sector agencies – these include NSW, Queensland¹⁸, Tasmania¹⁹, Western Australia²⁰, Victoria²¹, and the Northern Territory²².

In South Australia, only public corporations are required to have an audit committee and an internal audit function²³. While not mandatory, the Australian Capital Territory recommends its agencies have an audit committee and internal audit function and provides guidance on how they should be established and operate²⁴.

In NSW, the new *Government Sector Finance Act 2018* requires all NSW Government departments and statutory bodies to have effective systems for risk management, internal control and assurance (including internal audit) that are appropriate for the agency²⁵.

The NSW Government's Internal Audit and Risk Management Policy²⁶ further stipulates that all NSW Government departments and statutory bodies are required to establish an Audit and Risk Committee, risk management framework and internal audit function. The core requirements of this policy are modelled on AS ISO 31000:2009²⁷ and the IPPF. The policy is currently under review by the NSW Government following the release of AS ISO 31000:2018.

¹⁶ Australian Government, Department of Finance (2018) *Resource Management Guide No. 202. A guide for non-corporate Commonwealth entities on the role of the audit committee* and Australian Government, Department of Finance (2018) *Resource Management Guide No. 202. A guide for corporate Commonwealth entities on the role of the audit committee*

¹⁷ IIA (2017) *Submission to the Department of Finance's Review of the Public Governance, Performance and Accountability Act 2013*

¹⁸ Section 78 of the *Financial Accountability Act 2009* (QLD) and *Financial and Performance Management Standard 2009* (QLD)

¹⁹ *Treasurer's Instruction 108 – Internal Audit* (TAS) September 2011

²⁰ Part 4 of the *Financial Management Act 2006* (WA) and Government of Western Australia, Department of Treasury (2018) *Treasurer's Instructions Part XII – Internal Audit*

²¹ Victorian Government (2018) *Standing Directions 2018 under the Financial Management Act 1994*

²² *Financial Management Act 1995* (NT) and NT Government (2001) *Treasurer's Directions L4/01 – Part 3 Responsible and Accountable Officers, Section 3 Internal Audit* (originally published 1995)

²³ Section 31 of the *Public Corporations Act 1993* (SA)

²⁴ ACT Government (2007) *Internal Audit Framework 2007* – this is currently under review by the ACT Government and changes may occur during 2019-2020

²⁵ Section 3.6 of the *Government Sector Finance Act 2018*

²⁶ NSW Treasury (2015) *TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector*

²⁷ AS ISO 31000:2018 did not exist when the policy was developed in 2015

Local government

The regulation of audit committees, risk management and internal audit in local councils varies between states and territories. Some jurisdictions, such as South Australia and Tasmania do not explicitly require their councils to have an audit committee, risk management or internal audit function. For those jurisdictions that do require an audit committee and an internal audit function, the approach varies.

All councils in Victoria are legislatively required to have an audit committee²⁸ and recommended to have an internal audit function that complies with the IPPF²⁹.

Only large councils in Queensland are legislatively required to have an audit committee³⁰, but all councils are required to have an internal audit function³¹ that complies with the IPPF³².

The Western Australian Government has legislatively mandated that each council has an audit committee comprising a majority of councillors³³. A formal internal audit function is not mandated, but encouraged³⁴.

The experience in NSW is detailed in the next part of this discussion paper.

²⁸ Section 139 of the *Local Government Act 1989 (VIC)*

²⁹ Local Government Victoria (2011) *Audit Committees, A Guide to Good Practice for Local Government*

³⁰ Section 105 of the *Local Government Act 2009 (QLD)*

³¹ Clause 207 of the *Local Government Regulation 2012 (QLD)*

³² *Local Government Bulletin 08/15: Internal Audit and Audit Committees*

³³ Part 7 of the *Local Government Act 1995 (WA)* and the *Local Government (Audit) Regulations 1996 (WA)*

³⁴ Government of Western Australia, Department of Local Government and Communities (2013) *Local Government Operational Guidelines Number 9: Audit in Local Government. The Appointment, Function and Responsibilities of Audit Committees*

PROPOSED RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK – THE ROAD AHEAD

1. Risk management and internal audit in NSW local government – the story so far

Local councils in NSW were initially created to provide local communities with basic public services such as water, roads and waste removal on behalf of the NSW Government. As NSW has grown since federation, so too have the responsibilities of local councils. In most local government areas, councils now also provide a wide variety of community services, social infrastructure and local facilities.

NSW councils continue to largely rely on funding from the NSW Government to fulfil their responsibilities, coupled with grants from the Australian Government and rates paid by private citizens. Councils must therefore be accountable to the community and the governments who fund their activities for the way they spend this money and manage public assets.

External independent assurance via an audit committee and internal audit function has been seen for some time as key mechanisms to deliver this accountability. Up to 2008, around 20% of NSW councils were voluntarily following the example set by the private sector and implementing some aspect of external assurance or internal audit function into their operations³⁵.

In 2008, the Office of Local Government³⁶ first released guidelines to encourage councils to establish an Audit, Risk and Improvement Committee, risk management framework and internal audit function and set minimum requirements. This led to more councils establishing these mechanisms recognising the benefits they offer.

In 2009, integrated planning and reporting (IP&R) was introduced into the Local Government Act to provide a strategic planning framework for councils. IP&R could also be used to improve the management by councils of actual or potential risks to the strategic goals and objectives.

Reviews by the NSW Auditor-General found that by 2012 over 75 councils had some sort of internal audit function³⁷, and by 2016 about 60 councils (out of 152 councils), equivalent to 39%, had or shared an Audit, Risk and Improvement Committee³⁸. Other research conducted in 2015 suggested full adoption by councils of the other minimum requirements in the Office of Local Government's 2008 Internal Audit Guidelines may have been lower³⁹.

By June 2018, the NSW Auditor-General⁴⁰ found that 86 councils or 62% (out of 138 councils and county councils) now had an internal audit function and the number of councils that had an Audit, Risk and Improvement Committee had risen to 97 or 70%. In terms of risk management, the NSW Auditor-General found that 18 councils did not have a risk management policy and 38 councils did not have a risk register.

³⁵ NSW Auditor-General (2012) *NSW Auditor-General's Report - Monitoring local government: Department of Premier and Cabinet, Division of Local Government*

³⁶ Then the Department of Local Government

³⁷ NSW Auditor-General (2012) *NSW Auditor-General's Report - Monitoring local government: Department of Premier and Cabinet, Division of Local Government*

³⁸ Audit Office of NSW (2017) *NSW Auditor-General Update for Audit, Risk and Improvement Committee Chairs*

³⁹ Jones and Beattie (2015) Local Government Internal Audit Compliance, *Australasian Accounting, Business and Finance Journal* 9(3)

⁴⁰ NSW Auditor-General (2019) *Report on Local Government 2018* (see erratum)

The findings of various public inquiries and corruption investigations since 2008 have led to increased calls for risk management and internal audit to be mandated for NSW councils.

This was realised in 2016 with amendments to the Local Government Act which require councils to establish an Audit, Risk and Improvement Committee by March 2021. These amendments also enable the making of future regulations to mandate a risk management framework and internal audit function in all councils and set a minimum standard of compliance.

This discussion paper outlines what this regulatory framework is proposed to look like.

A timeline of the key influential events that lead to the development of the proposed mandatory framework is provided in **Appendix 1**.

2. Proposed policy framework

The risk management and internal audit framework proposed for the NSW local government sector seeks to:

- ensure each council (including county council/joint organisation) in NSW has an independent Audit, Risk and Improvement Committee that adds value to the council
- ensure each council (including county council/joint organisation) in NSW has a robust risk management framework in place that accurately identifies and mitigates the risks facing the council and its operations
- ensure each council (including county council/joint organisation) in NSW has an effective internal audit function that provides independent assurance that the council is functioning effectively and the internal controls the council has put into place to manage risk are working, and
- establish a minimum standard for these mechanisms based on internationally accepted standards and good practice guidance.

The framework has been based primarily on the NSW public sector risk management and internal audit framework (as recommended by the Independent Commission Against Corruption⁴¹) and the IPPF⁴².

It has also taken into consideration:

- the existing *Internal Audit Guidelines* updated by the Office of Local Government in 2010⁴³
- the internal audit-related recommendations of the Independent Local Government Review Panel's 2013 inquiry⁴⁴ and the Local Government Acts Taskforce's 2013 review⁴⁵
- recommendations made by the Independent Commission Against Corruption in its various public inquiries into local councils in NSW⁴⁶
- the Australian Government's public sector internal audit framework

⁴¹ Independent Commission Against Corruption (2011) *Investigation into the alleged corrupt conduct involving Burwood Council's general manager and others*

⁴² The Institute of Internal Auditors (2017) *International Professionals Practices Framework. International Standards for the Professional Practice of Internal Auditing*

⁴³ Division of Local Government (2010) *Internal Audit Guidelines*

⁴⁴ Independent Local Government Review Panel (2013) *Revitalising Local Government. Final Report of the NSW Independent Local Government Review Panel*

⁴⁵ Local Government Acts Taskforce (2013) *A New Local Act for New South Wales and Review of the City of Sydney Act 1988*

⁴⁶ Independent Commission Against Corruption (2017) *Investigation into the former City of Botany Bay Council Chief Financial Officer and others*. ICAC Report July 2017 and Independent Commission Against Corruption (2011) *Investigation into the alleged corrupt conduct involving Burwood Council's general manager and others*

- opinions, research and recommendations of leaders and practitioners in risk management and internal audit, and
- feedback obtained from NSW Treasury, the NSW Audit Office, the Department of Finance, Services and Innovation, the Institute of Internal Auditors and executive members of the Local Government Internal Auditors Network on earlier drafts of this discussion paper.

An overriding concern has been to ensure that the proposed framework reflects the unique structure and needs of NSW local government and that it also minimises the administrative and resource impacts for councils. For this reason, there are components of the proposed framework that are unique to NSW councils and not reflected in the above-mentioned resources.

3. Proposed statutory framework

The proposed statutory framework regulating internal audit in NSW councils (including county council/joint organisation) will consist of the current provisions in the Local Government Act, new regulations in the Local Government Regulation and new guidelines.

Current legislation

Audit, Risk and Improvement Committee

Section 428A of the Local Government Act (when proclaimed) will require each council to establish an Audit, Risk and Improvement Committee to continuously review and provide independent advice to the general manager and the governing body of the council about:

- whether the council is complying with all necessary legislation
- the adequacy and effectiveness of the council's risk management framework, fraud and corruption prevention activities, financial management processes, and the council's financial position and performance
- the council's governance arrangements
- the achievement of the goals set out in the council's community strategic plan, delivery program, operational plan and other strategies
- how the council delivers local services and how to improve the council's performance of its functions more generally
- the collection of performance measurement data by the council, and
- any other matters prescribed by the Local Government Regulation⁴⁷.

Section 428B (when proclaimed) will also allow a council to establish a joint Audit, Risk and Improvement Committee with another council/s including through joint or regional organisations of councils.

Other supporting provisions

Amendments made to the Local Government Act in 2016 to prescribe new guiding principles for councils, and update the prescribed roles and responsibilities of the governing body and general manager will support and inform the work of the Audit, Risk and Improvement Committee and provide for the future establishment of a risk management and internal audit function in each council. These guiding principles and roles and responsibilities have already been proclaimed.

⁴⁷ Internal audit will be a matter prescribed under the Regulation.

Guiding principles

The guiding principles of the Local Government Act require each council to carry out its functions in a way that provides the best possible value for residents and ratepayers. The guiding principles also specify that councils are to:

- spend money responsibly and sustainably, and align general revenue and expenses (s 8B(a))
- invest in responsible and sustainable infrastructure for the benefit of the local community (s 8B(b))
- effectively manage their finances and assets and have sound policies and processes for performance management and reporting, asset maintenance and enhancement, funding decisions, and risk management practices (s 8B(c))
- ensure the current generation funds the cost of its services and achieves intergenerational equity (s 8B(d)), and
- manage risks to the local community, area or council effectively and proactively (s 8C(h)).

Role of the governing body

Under section 223, the statutory role and responsibilities of the governing body include:

- directing and controlling the affairs of the council in accordance with the Local Government Act (s 223 (1)(a))
- ensuring as far as possible the financial sustainability of the council (s 223 (1)(c))
- ensuring as far as possible that the council complies with the guiding principles of the Local Government Act (s 223 (1)(d))
- keeping the performance of the council under review (s 223 (1)(g))
- making the decisions necessary to ensure the council properly exercises its regulatory functions (s 223 (1)(h)), and
- being responsible for ensuring that the council acts honestly, efficiently and appropriately (s 223 (1)(l)).

Role of the general manager

Under section 335, the general manager is responsible for ensuring the operational delivery of council's risk management framework and internal audit function. This includes:

- conducting the day-to-day management of the council in accordance with the strategic plans, programs, strategies and policies of the council (s 335(a))
- implementing, without undue delay, the lawful decisions of the council (s 335(b))
- advising the governing body on the development and implementation of the council's plans, programs, strategies and policies (s335(c)), and
- ensuring that the Mayor and other councillors are given timely information and advice and the administrative and professional support necessary to effectively discharge their functions (s335(f)).

Clause 209 of the Local Government Regulation also states that the general manager must ensure that:

- the council complies with all legal financial obligations, including the keeping of accounting records
- effective measures are taken to secure the effective, efficient and economical management of financial operations within each division of the council's administration
- authorised and recorded procedures are established to provide effective control over the council's assets, liabilities, revenue and expenditure and secure the accuracy of the accounting records, and
- lines of authority and the responsibilities of members of the council's staff for related tasks are clearly defined.

New regulations

The operation of sections 428A and 428B will be supported by new regulations. These will prescribe the requirements that councils are to comply with when appointing their Audit, Risk and Improvement Committee and establishing their risk management framework and internal audit function. They will also include internal audit as a function of the Committee under section 428A(2)(i) of the Local Government Act.

The Local Government Regulation will provide for a Model Internal Audit Charter and Model Terms of Reference for Audit, Risk and Improvement Committees which all councils must adopt and comply with. This discussion paper describes the key requirements that will ultimately be prescribed by the Local Government Regulation.

New guidelines

To support compliance with the Local Government Act and Regulation, *Guidelines for NSW Local Government Audit, Risk and Improvement Committees, Risk Management Frameworks and Internal Audit Functions* will be issued under section 23A of the Local Government Act. These Guidelines will outline the core requirements that each council's Audit, Risk and Improvement Committee, risk management framework and internal audit function must have.

A key aim of the Guidelines will be to create a strong and effective risk management framework and internal audit function in all councils by establishing minimum standards that reflect accepted international standards.

The nine core requirements of the Guidelines that councils will need to comply with are summarised below and explained in greater detail throughout the rest of this discussion paper.

The Office of Local Government will, on a periodic basis and at least once every five years, review the Local Government Regulation and Guidelines to assess the efficiency and effectiveness of internal audit requirements and the local government sector's compliance.

CORE REQUIREMENT 1:

Appoint an independent Audit, Risk and Improvement Committee

- (a) Each council (including county council/joint organisation) is to have an independent Audit, Risk and Improvement Committee that reviews all the matters prescribed in section 428A of the Local Government Act
- (b) The Audit, Risk and Improvement Committee is to operate according to terms of reference, based on a model terms of reference, and approved by the governing body of the council after endorsement by the Committee
- (c) The Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (d) Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years
- (e) The Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit Executive should attend except where excluded by the Committee
- (f) Audit, Risk and Improvement Committee members are to comply with council's Code of Conduct and the conduct requirements of the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (g) Disputes between the general manager and/or the Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council
- (h) The Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body of the council and be assessed by an external party at least once each council term as part of council's quality assurance and improvement program
- (i) The general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes are to be recorded for all committee meetings

CORE REQUIREMENT 2:

Establish a risk management framework consistent with the current Australian risk management standards

- (a) Each council (including county council/joint organisation) is to establish a risk management framework that is consistent with current Australian standards for risk management
- (b) The governing body of the council is to ensure that the council is sufficiently resourced to implement an appropriate and effective risk management framework
- (c) Each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process. This includes deciding council's risk criteria and how risk that falls outside tolerance levels will be treated
- (d) Each council is to fully integrate its risk management framework within all of council's decision-making, operational and integrated planning and reporting processes
- (e) Each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and to ensure accountability
- (f) Each council is to ensure its risk management framework is regularly monitored and reviewed
- (g) The Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities, and
- (h) The general manager is to publish in council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements

<p>CORE REQUIREMENT 3: Establish an internal audit function mandated by an Internal Audit Charter</p>
<ul style="list-style-type: none"> (a) Each council (including county council/joint organisation) is to establish an internal audit function (b) The governing body is to ensure that the council's internal audit function is sufficiently resourced to carry out its work (c) The governing body of the council is to assign administrative responsibility for internal audit to the general manager and to include this in their employment contract and performance reviews (d) The Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. The Charter is to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee
<p>CORE REQUIREMENT 4: Appoint internal audit personnel and establish reporting lines</p>
<ul style="list-style-type: none"> (a) The general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee (b) The Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager and attend all committee meetings (c) The general manager is to ensure that, if required, council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel or completely or partially outsource their internal audit function to an external provider
<p>CORE REQUIREMENT 5: Develop an agreed internal audit work program</p>
<ul style="list-style-type: none"> (a) The Chief Audit Executive is to develop a four-year strategic plan to guide the council's longer term internal audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee (b) The Chief Audit Executive is to develop an annual risk-based internal audit work plan, based on the strategic plan, to guide council's internal audits each year. The work plan is to be developed in consultation with the governing body, general manager and senior managers and approved by the Audit, Risk and Improvement Committee (c) The Chief Audit Executive is to ensure performance against the annual and strategic plans can be assessed
<p>CORE REQUIREMENT 6: How to performing and report internal audits</p>
<ul style="list-style-type: none"> (a) The Chief Audit Executive is to ensure that the council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee (b) The Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits (c) The Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s (d) All internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit Risk and Improvement Committee, external auditor and governing body of the council (by resolution)

CORE REQUIREMENT 7: Undertake ongoing monitoring and reporting
<ul style="list-style-type: none"> (a) The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective actions (b) The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions (c) The Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair
CORE REQUIREMENT 8: Establish a quality assurance and improvement program
<ul style="list-style-type: none"> (a) The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term (b) The general manager is to publish in the council's annual report an annual attestation certificate indicating whether council has complied with the core requirements for the Audit, Risk and Improvement Committee and the internal audit function
CORE REQUIREMENT 9: Councils can establish shared internal audit arrangements
<ul style="list-style-type: none"> (a) A council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils (b) The core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements (c) The general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements

Implementation timelines

The transitional arrangements built into the Local Government Act mean that the requirement to have an Audit, Risk and Improvement Committee will not come into force until six months after the next ordinary elections in September 2020. Councils will therefore have until March 2021 to establish their Audit, Risk and Improvement Committees in line with the regulatory requirements proposed in this discussion paper.

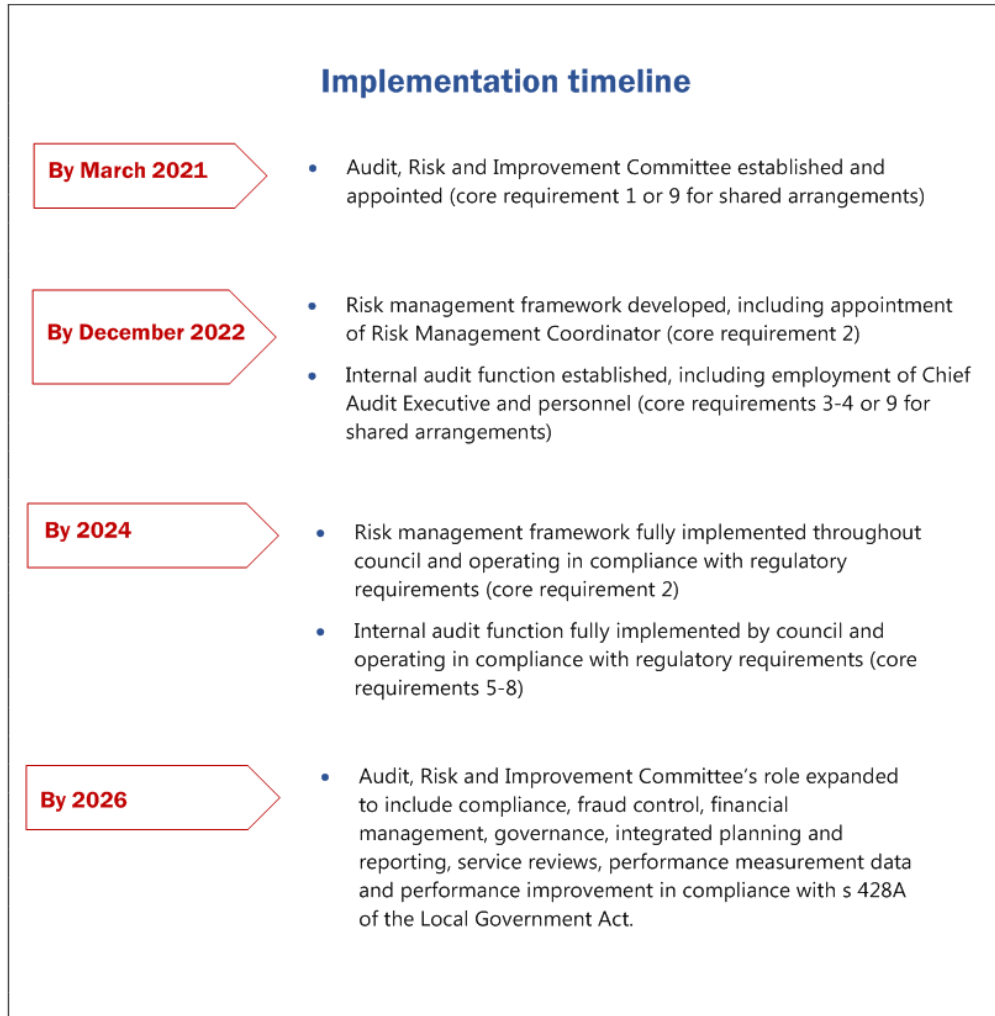
It is proposed that councils will then have a further 18 months, until December 2022, to establish and resource their internal audit function and risk management framework (guided by the Audit, Risk and Improvement Committee).

Councils' Audit, Risk and Improvement Committees will focus on ensuring the council's internal audit function and risk management framework comply with regulatory requirements during the following three years, until 2024.

As these functions are bedded down, the role of the committee is to broaden to comply with the remaining requirements of sections 428A of the Local Government Act.

Full compliance with s 428A of the Local Government Act will be expected by 2026. However, councils that already have an Audit, Risk and Improvement Committee and a mature internal audit function and risk management framework will be encouraged to comply sooner.

This implementation timeline is illustrated below.



4. Benefits of risk management and internal audit for NSW local government

Risk management and internal audit will be a valuable asset for councils.

Risk management will help each council to ensure that any risks to the achievement of its strategic goals and objectives are identified and managed effectively.

Audit, Risk and Improvement Committees and internal audit will provide councils with independent, objective assurance that they are doing things the best way that they can for their community. It will also lead to each council having effective risk management, control and governance processes which will help to instil stakeholder and community confidence in the council's ability to operate effectively.

If implemented effectively, these mechanisms will also lead to each council:

- having better and more efficient levels of service delivery
- achieving better operational consistency across council
- having a greater likelihood of achieving its goals and objectives
- using its resources more efficiently and effectively
- having improved responsiveness and flexibility
- having increased accountability and transparency
- achieving better decision-making and having the confidence to make difficult decisions
- developing good internal governance
- having increased financial stability
- being more resilient to change
- achieving and maintaining compliance with all laws, regulations, internal policies and procedures
- safeguarding its assets
- more reliable, timely and accurate financial and management reporting
- maintaining business continuity, and
- focusing on doing the right things, the right way.

PROPOSED CORE REQUIREMENTS

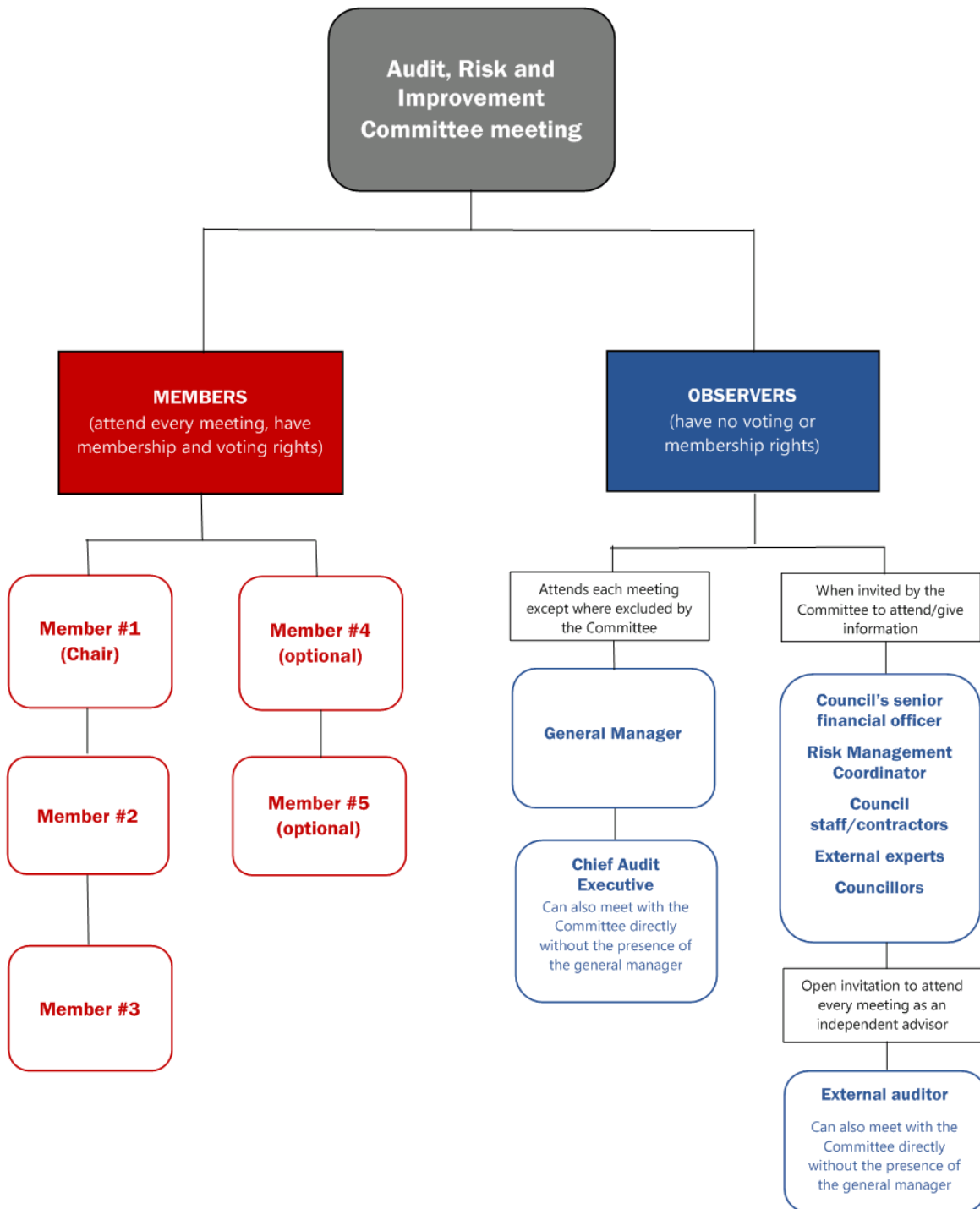
Core requirement 1:

Appoint an independent Audit, Risk and Improvement Committee

Proposal

It is proposed that:

- (a) each council (including county council/joint organisation) is to have an independent Audit, Risk and Improvement Committee that reviews all the matters prescribed in section 428A of the Local Government Act
- (b) the Audit, Risk and Improvement Committee is to operate according to terms of reference, based on model terms of reference, approved by the governing body of the council after endorsement by the Committee
- (c) the Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (d) Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years
- (e) the Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit Executive should attend except where excluded by the Committee
- (f) Audit, Risk and Improvement Committee members are to comply with the council's Code of Conduct and the conduct requirements of the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (g) disputes between the general manager and/or the Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council
- (h) the Audit, Risk and Improvement Committee is to provide an annual assurance review to the governing body of the council and be assessed by an external party at least once each council term as part of the council's quality assurance and improvement program, and
- (i) the general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes must be recorded for all committee meetings.



Description

(a) Each council (including county council/joint organisation) is to have an independent Audit, Risk and Improvement Committee that reviews all matters prescribed in section 428A of the Local Government Act

Each council in NSW, (including county council/joint organisation), will be required to have an independent Audit, Risk and Improvement Committee that reviews all matters prescribed in section 428A of the Local Government Act.

It is recognised that each council will have different Audit, Risk and Improvement Committee requirements depending on its size, needs, budget and complexity of operations. To provide councils greater flexibility, they can either:

- directly appoint an Audit, Risk and Improvement Committee for their exclusive use
- utilise a joint Committee established by their joint or regional organisation of councils that is shared by member councils, or
- share their Committee with another council/s in close proximity or of their choosing as part of an independent shared arrangement.

It is recommended that county councils, due to their size, enter into a shared arrangement with one of their member councils or utilise an internal audit function established by a joint or regional organisation of councils.

Some of the requirements for shared arrangements will differ from those of stand-alone Audit, Risk and Improvement Committees established for a council's exclusive use (as described in core requirements 1-8). Core requirement 9 outlines the specific requirements of shared arrangements.

Role and functions

Under section 428A of the Local Government Act, each council must have an Audit, Risk and Improvement Committee to keep under review the following aspects of the council's operations:

- (a) compliance
- (b) risk management
- (c) fraud control
- (d) financial management
- (e) governance
- (f) implementation of the strategic plan, delivery program and strategies
- (g) service reviews
- (h) collection of performance measurement data by the council, and
- (i) any other matters prescribed by the regulation (i.e. internal audit).

The Committee will also provide information to the council for the purpose of improving council's performance of its functions.

The Audit, Risk and Improvement Committee is to provide an advisory and assurance role only, and is to have no administrative function, delegated financial responsibility or any management functions.

Audit, Risk and Improvement Committees will be required to give independent advice and assurance to the general manager and the governing body of the council on the issues listed in the following table. It is envisaged that these items will be standing items on agenda of each committee meeting. Beyond this, committees will have the flexibility to address the unique challenges and operating environment of each council.

It will be a matter for each council to decide whether or not it's Audit, Risk and Improvement Committee also serves any entities formed by the council.

Audit, Risk and Improvement Committee: role and responsibilities

Audit

Issue (s 428A)	Committee's role and responsibilities
Internal audit	<p>Advisory:</p> <ul style="list-style-type: none"> • providing overall strategic and executive direction for internal audit activities • advising the general manager and governing body of the council of the resources necessary to successfully deliver the internal audit function • assessing the adequacy and effectiveness of council's internal audit activities • acting as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit • overseeing the coordination of audit programs conducted by internal and external audit and other review functions, and • ensuring the council achieves maximum value from its internal audit activities. <p>Review:</p> <ul style="list-style-type: none"> • the appropriateness of council's Internal Audit Charter, internal audit policies and procedures • audit/risk methodologies used • the findings/recommendations of internal audit activities, particularly recommendations that have been assessed as the most significant according to the risk to the council if they are not implemented • the effectiveness of corrective actions implemented • compliance with statutory requirements • the performance of the Chief Audit Executive and the internal audit function as part of the council's internal audit quality improvement program • the findings of any external reviews of the internal audit function <p>Endorsement of:</p> <ul style="list-style-type: none"> • the council's Internal Audit Charter, internal audit strategic four-year plan and annual work plan, and • the appointment and remuneration of the Chief Audit Executive
External audit	<p>Advisory:</p> <ul style="list-style-type: none"> • acting as a forum for communication on external audit issues, and • advising on the findings of external audits and monitoring the implementation by the council of any recommendations for corrective action.

Risk

Issue (s 428A)	Committee's role and responsibilities
Risk management	<p>Advisory – advising whether:</p> <ul style="list-style-type: none"> the council has provided sufficient resources for risk management and staff are able to carry out their risk management responsibilities the council's risk management framework complies with current Australian risk management standards the council's risk management framework operates effectively and supports the achievement of council's strategic goals and objectives management has embedded a positive risk management culture risk management is fully integrated into all aspects of the council, including decision-making processes and operations risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect council's risk criteria risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities, and the council's risk management policies, procedures and plans are being complied with. <p>Review the appropriateness and effectiveness of the council's:</p> <ul style="list-style-type: none"> risk criteria internal control framework risk register and risk profile risk reports risk management framework in relation to its insurance arrangements, and business continuity plans and natural disaster plans (including periodic testing). <p>Endorsement of:</p> <ul style="list-style-type: none"> the council's risk management policy, risk management plan and risk criteria prior to their approval by the governing body of the council, and the council's risk profile and risk register/s prior to their approval by the general manager.
Control framework	<p>Providing independent assurance on the following internal controls implemented by the council to manage specific categories of risk:</p> <p><u>The council's compliance framework</u> - advising whether:</p> <ul style="list-style-type: none"> management has embedded a culture which is committed to lawful and ethical behaviour the council has in place necessary policies and procedures and that these are periodically reviewed and updated the council is complying with all necessary legislation, regulations, policies and procedures management has appropriately considered all legal and compliance risks as part of the council's risk assessment and management arrangements delegations are properly managed and exercised, and the council's system for monitoring compliance is effective

Issue (s 428A)	Committee's role and responsibilities
	<p>The council's fraud and corruption framework - advising whether the:</p> <ul style="list-style-type: none"> • council's fraud and corruption prevention plan and activities are adequate and effective, and • council has appropriate processes and systems in place to capture and effectively investigate fraud-related information <p>The council's financial management and external accountability framework – including:</p> <ul style="list-style-type: none"> • advising whether the council's financial management processes are adequate • assessing the policies and procedures for council management's review and consideration of the council's current and future financial position and performance and the nature of that review (including the approach taken to addressing variances and budget risks) • advising on the adequacy of early close and year-end review procedures, and • reviewing council's financial statements, including: <ul style="list-style-type: none"> ○ providing input and feedback on council's financial statements ○ advising whether council is meeting its external accountability requirements ○ advising whether appropriate action has been taken in response to audit recommendations and adjustments ○ satisfying itself that the financial statements are supported by appropriate management signoff ○ reviewing the 'Statement by Councillors and Management' (made pursuant to s 413(2)(c) of the Local Government Act) ○ reviewing the processes in place designed to ensure that financial information included in the council's annual report is consistent with the signed financial statements ○ reviewing cash management policies and procedures ○ reviewing policies and procedures for the collection, management and disbursement of grants and tied funding, and ○ satisfying itself that the council has a performance management framework that is linked to organisational objectives and outcomes. <p>The council's governance framework – including:</p> <ul style="list-style-type: none"> • advising on the adequacy and robustness of the processes and systems that the council has put in place to govern day-to-day activities and decision-making, and • reviewing whether controls over external parties such as contractors and advisors are sound and effective.

Improvement

Issue (s 428A)	Committee's role and responsibilities
Strategic planning	<ul style="list-style-type: none"> advising whether the council is achieving the objectives and goals it set out in its community strategic plan and has successfully implemented its delivery program, operational plan and other strategies
Service delivery	<ul style="list-style-type: none"> advising how the council is delivering local services and how it could improve its service delivery performance
Performance data and measurement	<ul style="list-style-type: none"> assessing the adequacy of the performance indicators and data the council uses to measure its performance

Learning and development program

Some councils, particularly larger metropolitan councils, already have an established risk management and internal audit framework and have been successfully using these assurance methods for some time. They may just need to make some adjustments to their frameworks to comply with the proposed requirements.

There are other councils that are just starting this journey - for example, they may have appointed an Audit, Risk and Improvement Committee and are now beginning the process of bedding down internal audit and risk management in their councils.

There are also some councils, particularly in rural areas, who do not have any type of internal audit or risk management in place yet, and are starting to think about how this might work for their council.

There is an opportunity for councils to learn from each other's knowledge and experiences, especially during the initial implementation stage.

A sharing and learning program for Audit, Risk and Improvement Committees will be established to facilitate sharing information between committees about how they implement s428A of the Local Government Act and perform the other regulatory requirements placed upon them.

A sharing and learning program for councils (general managers, Chief Audit Executives and/or Risk Management Coordinators) will also be established to facilitate the sharing of information and learning from each other, particularly between councils that have already established a strong internal audit and risk management function and those that are just starting this journey.

The development of these programs will be guided by similar programs established by the Australian Government and bodies such as Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Actuaries Institute.

(b) The Audit, Risk and Improvement Committee is to operate according to terms of reference, based on model terms of reference, approved by the governing body of the council after endorsement by the Committee

Each Audit, Risk and Improvement Committee is to prepare terms of reference to define how it is structured and how it will operate. The terms of reference are to be approved by the governing body after endorsement by the Committee. The terms of reference can also be used by the council as a benchmarking tool to measure the effectiveness of the committee.

The general manager is to ensure that each member of the Audit, Risk and Improvement Committee, including new appointments, are provided with a copy of the terms of reference and a formal induction.

Each Audit, Risk and Improvement Committee's terms of reference are to comply with Model Terms of Reference⁴⁸. This is consistent with councils being required to adopt policies based on model documents (for example, the Model Code of Conduct and the Model Code of Meeting Practice).

The Model Terms of Reference will require each Audit, Risk and Improvement Committee's terms of reference to:

- set out the committee's objectives, authority, composition, tenure, roles, responsibilities, duties, reporting lines, reporting and administrative arrangements
- be sufficiently detailed to ensure there is no ambiguity, and
- have clear guidance on key aspects of the committee's operations.

The Audit, Risk and Improvement Committee will be able to include additional provisions in its terms of reference as long as they do not conflict with the Model Terms of Reference or the IPPF. This will ensure any matters not contemplated by the Model Terms of Reference are addressed by councils in a robust way that complies with internationally recognised industry standards.

As part of the council's quality assurance and improvement program, where the Audit, Risk and Improvement Committee's Terms of Reference include additional provisions, they are to be reviewed annually by the Audit, Risk and Improvement Committee, and once each council term (i.e. four years) by an external party.

(c) The Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members

Appointment and size of the Committee

The Audit, Risk and Improvement Committee is to be appointed by the governing body of the council. Councils may find it practical to establish a small committee of councillors and the general manager to conduct the selection process and make appointment recommendations to the larger governing body.

⁴⁸ The Model Terms of Reference will be drafted by the Office of Local Government in consultation with councils based on the final internal audit framework developed following consultation on this discussion paper

Each council's Audit, Risk and Improvement Committee is to have no fewer than three members and no more than five members. The Chair is to be counted as a member of the committee. The exact size of the committee is to be determined by the governing body of the council, in consultation with the general manager, taking into account the size and complexity of the council's operations and risk profile.

The Chair of the Audit, Risk and Improvement Committee is to act as the interface between the Committee and the general manager, the Committee and the governing body of council, and the Committee and the Chief Audit Executive.

Independence of members

All Audit, Risk and Improvement Committee members must be independent. To be classified as 'independent', a member must be both:

1. Free of any relationships that could be perceived to result in bias or a conflict of interest or interfere with their ability to act independently.

This means an independent committee member cannot:

- be a councillor of any council in Australia, a candidate at the last election of a council or a person who has held office in a council during its previous two terms
- be employed (currently or during the last three years) by any council in Australia
- have a close personal or business relationship with a councillor or a person who has a senior role in the council
- be a current service provider to the NSW Audit Office, or have been a service provider during the last three years
- currently, or within the last three years, provided any material goods or services (including consultancy, legal, internal audit and advisory services) to the council which directly affect subjects or issues considered by the Audit, Risk and Improvement Committee
- be a substantial shareholder, owner, officer or employee of a company that has a material business, contractual relationship, direct financial interest or material indirect financial interest with the council or a related entity, or have an immediate or close family member who is, which could be perceived to interfere with the individual's ability to act in the best interests of the council
- currently or previously acted as an advocate of a material interest on behalf of the council or a related entity, or

2. Selected from the panel of prequalified audit and risk committee independent chairs and members administered by the NSW Government⁴⁹.

The evaluation criteria for prequalification as a member on the Panel includes⁵⁰:

- extensive senior level experience in governance and management of complex organisations
- an ability to read and understand financial statements

⁴⁹ The NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members* streamlines selection processes by providing an impartial third party assessment of independent persons seeking appointment to public sector Audit and Risk Committee positions. Individuals prequalified under the scheme have satisfied key skills, knowledge and experience criteria that ensure they will be able to undertake their role on an audit committee effectively. Further information about the scheme can be found at <https://www.procurepoint.nsw.gov.au/scm2421>. The scheme's prequalification criteria may be amended to ensure that members who wish to work with local government satisfy the unique needs and requirements of councils.

⁵⁰ See the prequalification scheme's conditions at <https://tenders.nsw.gov.au/dfs/?event=public.scheme.show&RFTUID=32C22F9B-DCD8-D61D-59601E7558E2FA26> for more information on the scheme's prequalification criteria. These criteria may be amended in relation to council Audit, Risk and Improvement Committees to ensure that members who wish to work with local government satisfy the unique needs and requirements of councils.

- a capacity to understand the ethical requirements of government (including potential conflicts of interest)
- functional knowledge of areas such as:
 - risk management
 - performance management
 - human resources management
 - internal and external auditing
 - financial reporting
 - accounting
 - management control frameworks
 - financial internal controls
 - governance (including planning, reporting and oversight), or
 - business operations
- a capacity to form independent judgements and willingness to constructively challenge/question management practices and information
- a professional, ethical approach to the exercise of their duties
- the capacity to devote the necessary time and effort to the responsibilities of a member of an Audit, Risk and Improvement Committee, and
- possession of a relevant professional qualification or membership (for example, Certified Internal Auditor, Certified Practising Accountant, Chartered Accountant, Certified Practising Risk Manager, Graduate Member of the Australian Institute of Company Directors) is desirable.

Chairs must also possess:

- leadership qualities and the ability to promote effective working relationships in complex organisations
- an ability to communicate complex and sensitive assessments in a tactful manner to chief audit executives, senior management, board members and Ministers
- a sound understanding of:
 - the principles of good organisational governance and capacity to understand public sector accountability, including financial reporting
 - the business of the department or statutory body or the environment in which it operates
 - internal audit operations, including selection and review of chief audit executives, and
 - risk management principles.

A person prequalified under the scheme as a 'committee member' can only be appointed as a member of an Audit, Risk and Improvement Committee – they cannot be appointed as the Chair. Similarly, only a person pre-qualified as a 'Chair' can be appointed as the Chair of an Audit, Risk and Improvement Committee.

Satisfying both these criteria will ensure Audit, Risk and Improvement Committee chairs and members are sufficiently skilled and experienced and have no real or perceived conflicts of interest. It is important to note that prequalification does not automatically mean that an individual satisfies the independence requirements listed in criteria 1 above.

Living in a local government area is not, in itself, to be considered as impacting a person's ability to be independent of council.

Both the governing body of the council and the general manager must ensure that adequate procedures are in place to preserve the independence of the Audit, Risk and Improvement Committee Chair and committee members. Likewise, the chair and members must notify the governing body and/or general manager if a real or perceived threat to their independence arises⁵¹.

Knowledge, skills and experience collectively needed on the committee

When selecting individual Audit, Risk and Improvement Committee members, the governing body of the council will be required to ensure that the committee as a collective body has the appropriate mix of skills, knowledge and experience to successfully implement its terms of reference and add value to the council.

At least one member of the Audit, Risk and Improvement Committee should have accounting or financial management experience with an understanding of accounting and auditing standards in a local government context.

Each individual should also have sufficient time to devote to their responsibilities as an Audit, Risk and Improvement Committee member.

Fees paid to members and the Chair

Fees paid to Audit, Risk and Improvement Committee members and the Chair are to be the same as those currently paid under the NSW Government's prequalification scheme, as set out in the table below, subject to any changes to the scheme. Members will be able to serve on Audit, Risk and Improvement Committees on a voluntary basis.

The rates include all reasonable costs incurred by members and the Chair engaged under the scheme excluding subsistence and travel costs if travelling into the Sydney metropolitan area from interstate. Subsistence and travel expenses outside the Sydney metropolitan area and/or where the panel member is from interstate are to be charged at the actual cost, or at the rates specified under the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2009*, whichever is the lesser.

The method of payment (e.g. payroll, invoice) will be at the discretion of the council.

Council size	Indicator	Chair fee (excluding GST)	Member fee (excluding GST)
Large	Expenditure greater than \$400 million	\$20,920 per annum	\$2,092 per meeting day including preparation time
Medium	Expenditure between \$50 million and \$400 million	\$16,213 per annum	\$1,621 per meeting day including preparation time
Small	Expenditure less than \$50 million	\$12,552 per annum	\$1,255 per meeting day including preparation time

⁵¹ As part of their inclusion in the prequalification scheme and prior to their engagement taking effect, chairs and members will be required to provide the council and NSW Government and the details of any other panels they are already on or any other significant appointments within or outside the local government sector (including their nature, duration, payments to the NSW Government agency administering the scheme). Currently under the scheme, members are only permitted to be appointed to five separate audit committees in the NSW public sector. This requirement will be updated to also include the NSW local government sector.

(d) Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years

The initial term of membership of an Audit, Risk and Improvement Committee member on any one Audit, Risk and Improvement Committee will be three to five-years to ensure that the committee maintains a fresh approach. Members can be reappointed or extended for a further term/s but the total period of continuous membership on any one committee will not be able to exceed eight years. This includes any term as Chair of the committee. Individuals who have served an eight-year term (either as a member or Chair) must have a three-year break from serving on the committee before being appointed again.

The terms of appointments will commence on the date the legislation is commenced. This includes for any existing members of Audit, Risk and Improvement Committees already established by councils who will remain members under the new arrangements.

Membership is to be regularly rotated to keep a fresh approach and avoid any perceptions of bias or conflicts of interest. Care is to be taken to ensure that membership renewal dates are staggered so knowledge is not lost to the Audit, Risk and Improvement Committee when members change. Ideally, no more than one member should leave the committee because of rotation in any one year.

Each council is to provide a thorough induction to each of its Audit, Risk and Improvement Committee members.

When approving the reappointment or extension of a membership term on the Audit, Risk and Improvement Committee, the governing body of the council is to consider a formal assessment by the Mayor (in consultation with the general manager) of the member's or Chair's performance on the committee.

The Council may engage an external reviewer to undertake this assessment if they choose. Joint or regional organisations may wish to engage an external reviewer that the mayors of member councils can utilise for this purpose.

The reappointment of members is also to be subject to the individual still meeting the independence and prequalification requirements outlined above.

The governing body can appoint the Chair for one term only for a period of three to five-years. The Chair's term can be extended but any extension must not cause the total term of the Chair to exceed five years.

(e) The Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit Executive should attend except where excluded by the Committee

The Audit, Risk and Improvement Committee is to meet at least quarterly over the course of each year. A special meeting may be held, if needed, to review the council's financial statements.

Meetings can be held in person, by telephone or videoconference.

The committee is to ensure that its meeting agenda covers all of its responsibilities, as outlined in the committee's terms of reference, and all the items included in council's annual internal audit work plan.

The Audit, Risk and Improvement Committee will also be able to hold additional meetings when significant unexpected issues arise, or the Chair is asked to hold an additional meeting by the majority of committee members, the general manager, or the governing body of the council (by resolution). The Chair will be responsible for deciding if an additional meeting will be held. To enhance accountability, the ability to hold additional meetings is to be documented in the committee's terms of reference.

Any individual Audit, Risk and Improvement Committee member who wishes to meet with the general manager or governing body of the council to discuss internal audit issues is to do so through the Chair of the committee, and vice versa.

Agenda and minutes

The agenda for each Audit, Risk and Improvement Committee meeting is to be circulated at least one week before the meeting. It is to include as standing items all the lines of defence listed in section 428A of the Local Government Act - internal audit, external audit, risk management, compliance, fraud and corruption, financial management, governance, strategic planning, service delivery and performance measurement.

Audit, Risk and Improvement Committee meeting minutes are to:

- include a record of attendance, items of business considered, decisions and actions arising
- be approved by the Chair before circulation
- be provided to the governing body to enable councillors to keep abreast of assurance issues throughout the year, as well as the general manager, Chief Audit Executive and external auditor
- be provided within two weeks of the meeting date to ensure relevant individuals are made aware of any significant issues discussed at the meeting that need to be dealt with, and
- be treated as confidential unless otherwise specified by the committee - public access should be controlled to maintain confidentiality in accordance with council policy.

Quorum

A quorum is to consist of a majority of Audit, Risk and Improvement Committee members. Where the vote is tied, the Chair is to have the casting vote.

Attendance of non-voting observers at committee meetings

Audit, Risk and Improvement Committee meetings will not be open to the public.

In addition to Audit, Risk and Improvement Committee members, the general manager and the Chief Audit Executive are to attend committee meetings as non-voting observers, except where they are excluded by the committee.

The NSW Auditor-General, as council's external auditor, or their representative, is to be invited to each committee meeting as an independent non-voting observer and can choose whether to attend. The committee can also exclude the external auditor if needed.

The Audit, Risk and Improvement Committee will be able to request to meet with any of the following non-voting individuals whenever necessary in order to seek additional information or explanations:

- privately with the Chief Audit Executive and/or external auditor without the general manager present (this is to occur at least annually)
- council's Chief Financial Officer (or equivalent) given their knowledge of, and responsibility for, council's financial management
- council's Risk Management Coordinator
- any councillor (the Chair of the Committee only)
- any employee or contractor of the council, and/or
- any external independent expert or external party whose advice is needed (subject to confidentiality considerations).

These individuals must comply with the Audit, Risk and Improvement Committee's request.

Others may, with the agreement of the Audit, Risk and Improvement Committee, attend as non-voting observers at committee meetings, but such persons will have no membership or voting rights. The committee can also exclude any of these observers from meetings as needed.

The Audit, Risk and Improvement Committee can also request any written reports or other risk management reports from council's senior management, or other related information as necessary, to enable it to fulfil its assurance role in relation to council's risk management framework. The Committee can also request senior managers to present at Committee meetings to discuss their activities and risks.

The committee will be able to hold closed ('in-camera') meetings whenever it needs to discuss confidential or sensitive issues with only committee members of the Audit, Risk and Improvement Committee present.

The Audit, Risk and Improvement Committee can obtain such external legal or other professional or subject matter expert advice, as considered necessary to meet its responsibilities. The service provider and payment of costs for that advice by the council is subject to the prior approval of the governing body of the council.

Access to council, staff, resources and information

The Audit, Risk and Improvement Committee is to have direct and unrestricted access to the general manager, senior management and staff and contractors of the council in order to perform its role.

The Audit, Risk and Improvement Committee is also to have direct and unrestricted access to the council resources and information it needs to perform its role.

The Audit, Risk and Improvement Committee may only release council information to external parties with the approval of the general manager. The general manager's approval is not required where the information is being provided to an external investigative, audit or oversight agency such as, but not limited to, the Office of Local Government, the NSW Audit Office, the Independent Commission Against Corruption or the NSW Ombudsman for the purpose of informing that agency of a matter that may warrant its attention.

(f) Audit, Risk and Improvement Committee members are to comply with the council's Code of Conduct and the conduct requirements of the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members

Under section 440 of the Local Government Act, independent Audit, Risk and Improvement Committee members are subject to and required to comply with the council's Code of Conduct. Complaints or breaches of council's code of conduct will be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*⁵². Committee members should also be deemed to be a 'designated person' and required to complete and submit returns of interests.

As required under the Model Code of Conduct, Audit, Risk and Improvement Committee members must declare any pecuniary or significant non-pecuniary conflicts of interest at the start of each Committee meeting, before discussion of the relevant agenda item or issue, or when the issue arises. Details of any conflicts of interest should also be appropriately minuted.

Where Audit, Risk and Improvement Committee members or observers at Committee meetings are deemed to have a real or perceived conflict of interest they are to remove themselves from Committee deliberations on the issue.

Given they will have been selected from the NSW Government's panel of prequalified Audit and Risk Committee Independent Chairs and Members, members will also be required to comply with that scheme's conduct requirements⁵³.

(g) Disputes between the general manager and/or Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council

Members of the Audit, Risk and Improvement Committee should maintain an effective working relationship and try to resolve any differences they may have via open negotiation.

However, in the event of a disagreement between the council management and the Chief Audit Executive (for example, about findings or recommendations of audits), it is to be resolved by the Audit, Risk and Improvement Committee. Disputes between the council management and the Audit, Risk and Improvement Committee are to be resolved by the governing body.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Office of Local Government in writing for its resolution.

⁵² The Procedures can be found at <http://www.olg.nsw.gov.au/sites/default/files/Procedures-for-Administration-of-Model-Code-of-Conduct.pdf>

⁵³ The prequalification scheme's code of conduct can be found at <https://www.procurepoint.nsw.gov.au/scm2421>

(h) The Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body of the council and be assessed by an external party at least once each council term as part of the council's quality assurance and improvement program

Annual assurance report

As part of council's quality assurance and improvement program, the Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body which provides:

- a summary of the work the committee performed to discharge its responsibilities during the preceding year
- advice on the appropriateness of the Committee's terms of reference (where the Committee's terms of reference contain additional clauses to those contained in the Model Terms of Reference)
- an overall assessment of the following aspects of council's operations in accordance with section 428A of the Local Government Act:
 - compliance
 - risk management
 - fraud control
 - financial management
 - governance
 - implementation of the strategic plan, delivery program and strategies
 - service reviews
 - collection of performance measurement data by the council, and
 - any other matters prescribed by the regulation (i.e. internal audit), and
- any other information to help the council improve the performance of its functions.

This will ensure that the governing body of the council receives the committee's independent views about these matters in accordance with legislative requirements each year. It will also enable the governing body to assess the work of the Committee each year.

Strategic external review

At least once each council term (i.e. four years) an external strategic review of the effectiveness of the Audit, Risk and Improvement Committee is to be conducted to assess how the committee is functioning. This will provide accountability and ensure that the governing body of the council can assess how the committee's performance and whether any changes to the committee's terms of reference or membership are required.

This strategic external review is to consider:

- whether the Committee has fulfilled its terms of reference
- the appropriateness of the Committee's terms of reference (where the Committee's terms of reference contain additional provisions to those contained in the Model Terms of Reference)
- the performance of Committee members and whether any change of membership is required
- the way the Committee, external auditor, council and internal audit function work together to manage risk and support the council and how effective this is, and
- whether the work of the Committee has contributed to the improvement of the factors identified in section 428A of the Local Government Act.

The external review is to address the collective performance of the Audit, Risk and Improvement Committee, as well as the individual performance of each member and the Chair. In considering the outcomes of the external strategic review, the review is to consider feedback on each member's performance by the Chair of the Committee, mayor and general manager. The governing body of council will be able to request the Chair of the committee to address the council and answer any questions about the operation of the committee.

Dismissal of committee members and the Chair

The governing body of council may terminate the engagement of the Chair or a member of the Audit, Risk and Improvement Committee where the Chair or member has:

- breached the conditions of the prequalification scheme
- breached the council's Code of Conduct
- performed unsatisfactorily, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

Termination can only occur with the approval of the Chief Executive of the Office of Local Government and is to be reported to the agency which is responsible for administering the Audit, Risk and Improvement Committee prequalification scheme. Approval is not needed for termination where the Chair or member has become ineligible or removed from the prequalification scheme by the agency administering the scheme. Dismissal is automatic in these situations.

(i) The general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes are to be recorded for all committee meetings

The general manager will be required to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. The main functions of this role are to be:

- minuting Audit, Risk and Improvement Committee meetings
- preparing agendas, and
- providing the committee with any information it needs to fulfil its responsibilities.

Core requirement 2:**Establish a risk management framework consistent with current Australian risk management standards****Proposal**

It is proposed that:

- (a) each council (including county council/joint organisation) is to establish a risk management framework that is consistent with current Australian standards for risk management
- (b) the governing body of the council is to ensure that council is sufficiently resourced to implement an appropriate and effective risk management framework
- (c) each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process. This includes deciding council's risk criteria and how risk that falls outside tolerance levels will be treated
- (d) each council is to fully integrate its risk management framework within all of the council's decision-making, operational and integrated planning and reporting processes
- (e) each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and ensure accountability
- (f) each council is to ensure its risk management framework is regularly monitored and reviewed
- (g) the Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities, and
- (h) the general manager is to publish in the council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements.

Description**(a) Each council (including county council/joint organisation) is to establish a risk management framework that is consistent with current Australian standards for risk management**

Each council in NSW (including county council/joint organisation) will be required to implement a risk management framework that is consistent with the current Australian risk management standard – currently AS ISO 31000:2018⁵⁴. The framework is to take an enterprise risk management approach which applies to all council activities and risks, not just well-recognised risks such as work health and safety, insurable risks and disaster recovery planning.

⁵⁴ Where ISO 31000:2018 is superseded following a future review by the International Organisation of Standardisation or Standards Australia, councils are to conform to the most current Australian risk management standard. AS ISO 31000:2018 can be found at <https://www.standards.org.au/standards-catalogue/sa-snz/publicsafety/ob-007/as--iso--31000-colon-2018>

The definition of risk management adopted by councils will be the same as that adopted in AS ISO 31000:2018. Risk management comprises of *"coordinated activities to direct and control an organisation with regard to risk"*. Risk is the *"effect of uncertainty on objectives, where an effect is a deviation from the expected. It can be positive, negative or both, and can address, create or result in opportunities and threats"*.

It is recognised that each council will have different risk management requirements depending on its size, needs, budget, complexity of operations and risk management maturity (i.e. the extent to which risk management has already been implemented in the council). Councils will have the flexibility under AS ISO 31000:2018 to choose the size, scope and delivery of their risk management activities so long as they include a number of key structural components (see below).

Where a council wishes to impose requirements that are additional to the proposed framework, it will be able to do so provided the requirements conform to AS ISO 31000:2018 and do not conflict with regulatory requirements.

(b) The governing body of the council is to ensure that council is sufficiently resourced to implement an appropriate and effective risk management framework

The governing body of each council is to provide the resources needed to:

- implement a risk management framework appropriate to the council, and
- deliver the risk treatments and internal controls needed to ensure the council's risks are appropriately managed.

This forms part of the governing body's responsibility for approving the council's budget.

These resources include the necessary:

- human resources (with appropriate skills and experience)
- technology, equipment, tools and information management systems for managing risk
- documented processes and procedures, and
- professional development and training for staff to ensure they can fulfil their risk management responsibilities.

To ensure that the governing body makes informed budgeting decisions, the Audit, Risk and Improvement Committee is to advise the governing body of the resources needed, having regard to any budgetary constraints and the council's operational environment.

Where the Audit, Risk and Improvement Committee considers the resourcing provided for risk management is insufficient relative to the risks facing the council, it is to draw this to the attention of the general manager and the governing body of the council. The Chair of the Committee is to also ensure that the Committee's funding recommendations are minuted by the Committee's secretariat.

The governing body will also be responsible for approving key elements of the council's risk management framework, including the council's risk management policy, risk management plan and risk criteria, following their endorsement by the Audit, Risk and Improvement Committee (see below).

(c) Each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process. This includes deciding the council's risk criteria and how risk that falls outside tolerance levels will be treated

In compliance with AS ISO 31000:2018, each council's risk management framework is to comprise the following key elements:

Risk management policy

Each council will be required to adopt a risk management policy that communicates the commitment of the governing body and the general manager to risk management, and how risk management will be undertaken by the council. The risk management policy is to be approved by the governing body, after endorsement by the Audit, Risk and Improvement Committee.

The council's risk management policy is to describe, at a minimum:

- The council's risk management objectives and priorities, and how these are linked to the council's strategic plans and objectives
- how risk management will be integrated into the overall culture of the council, core business activities and decision-making
- the council's risk criteria
- how the council's risk management policy sits within, and is supported by the council's other policies
- who in the council is accountable and responsible for managing risk in the council
- the resources that will be made available, and
- how the council's risk management performance will be reviewed, measured, reported and improved.

The council's risk management policy can also provide guidance to council staff on the council's commitment to:

- integrating risk management into the council's procedures and practices
- communicating the council's approach to managing risk
- coordinating the interface between risk management and other assurance activities, for example, the Audit, Risk and Improvement Committee, the council's internal audit function and external audit, and
- incorporating risk management into internal staff induction and professional development programs.

The council's risk management policy is to be reviewed at least once each council term, or within one year if there is a significant restructure or change.

Risk management plan

Each council is to develop and implement a risk management plan that provides a structure for how the council will implement its risk management policy and conduct its risk management activities. The chief purpose of the plan is to ensure that the council's arrangements for managing risks are clearly understood and practiced, and identifies where, when and how different types of decisions relating to risk are made across the council and by whom.

To do this, it must include:

- the activities the council will undertake to implement its risk management policy
- roles, accountabilities and responsibilities in relation to risk management
- the timeframes for risk management activities

- how risk management processes will be implemented and maintained (see below)
- resourcing requirements (people, IT and physical assets)
- training and development requirements
- performance measures that will be used to evaluate the success of the council's risk management framework, and
- how and when the council's risk management framework will be reviewed.

Depending on the size, complexity and nature of the council, the council may require a single risk management plan or a hierarchy of linked risk management plans.

The governing body is to approve the council's risk management plan, and any changes made to it, after endorsement by the Audit, Risk and Improvement Committee.

Risk management plans should be living documents and regularly reviewed to reflect current and emerging risks as circumstances change.

Risk management process

The risk management process is a systematic way of identifying, assessing and prioritising risks, deciding how they will be managed, and documenting and communicating this across the council. A summary diagram of the risk management process is provided below.

Each council's risk management process is to include the following stages to ensure its risks are managed effectively. Each stage is to be performed in accordance with AS ISO 31000:2018, using qualitative, semi-quantitative or quantitative methods and techniques that best suit the council's operations, risk management maturity and decision-making needs. NSW Treasury has released a *Risk Management Toolkit for NSW Public Sector Agencies* that councils can use to help them establish their risk management framework⁵⁵.

All knowledgeable council staff are to be involved and councils are encouraged to access external expertise where required.

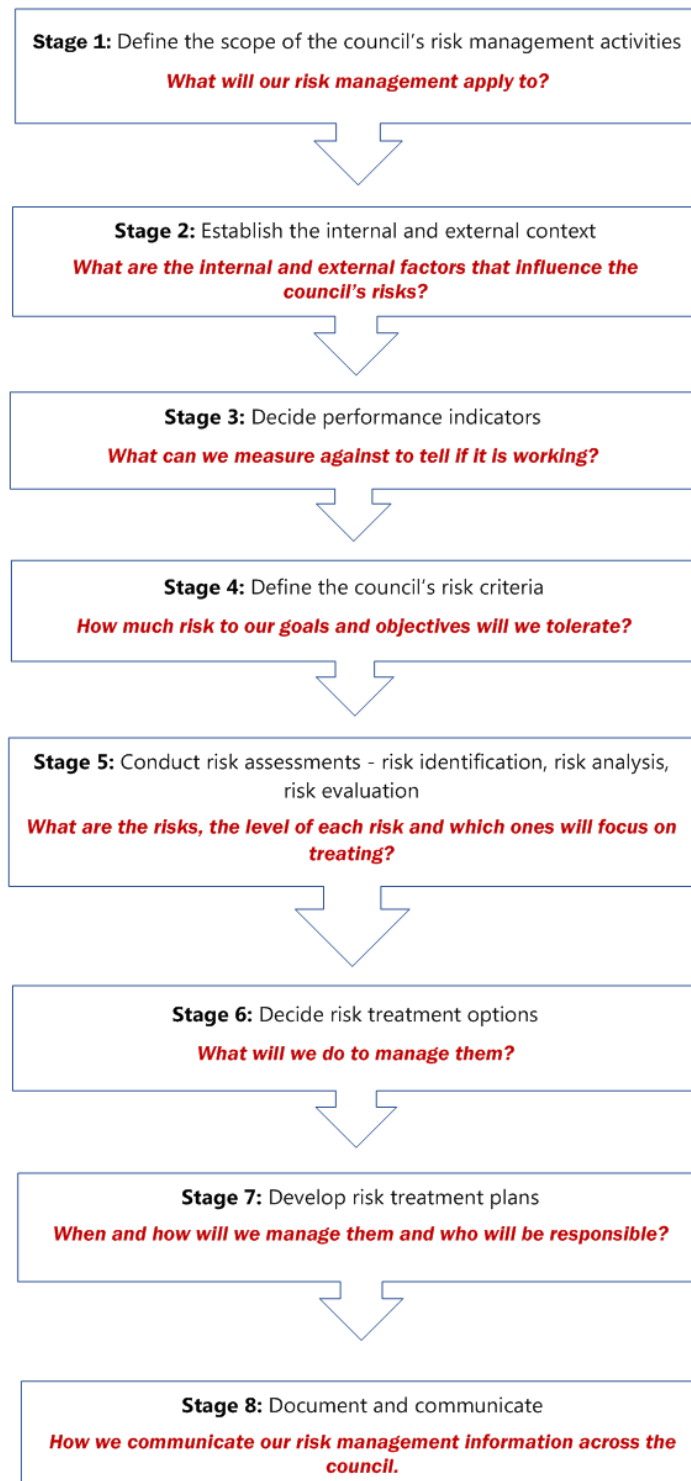
Stage 1: Define the scope of the council's risk management activities

The council is to decide and document the scope of its risk management activities to assist in planning the council's risk management approach. The scope to be decided includes aspects such as:

- the objectives of the council's risk management framework and outcomes expected
- the resources required to plan and develop the framework
- who is responsible for planning and developing the framework
- what records will be kept, and
- what will be the relationship of the risk management framework to other council projects, processes and activities.

⁵⁵ The *Risk Management Toolkit for Public Sector Agencies* (TPP 12-03) can be found at <https://www.treasury.nsw.gov.au/information-public-entities/governance-risk-and-assurance/internal-audit-and-risk-management/risk>

Stages of council's risk management process



Stage 2: Establish the internal and external context

The council is to ensure that it understands and documents the internal and external environment or parameters it operates in and how risk management will impact, and be impacted by these. Factors to be taken into consideration should include internal, political, economic, socio-cultural, technological, legal, and environmental trends and drivers that influence the council's operating environment and can be a source of risk.

Stage 3: Decide performance indicators

The council is to decide the performance indicators it will use to measure the effectiveness of its risk management framework and identify gaps between its actual and desired performance. The performance indicators selected need to be able to be easily measured on an ongoing basis, easily interpreted and understood by staff and management, and provide a meaningful picture of the council's risk management performance.

Stage 4: Define the council's risk criteria

The council is to decide its risk criteria - that is, the amount and type of risk that it is willing to take, or not take, in order to achieve its strategic plan and objectives. It should also define criteria to evaluate the significance of risk based on the council's values, objectives and resources. This will ensure that all council staff have a common understanding of how to evaluate whether a risk is significant and requires a response. It will also ensure that ongoing decision-making about specific activities is consistent across the council.

While the council's risk criteria must be established at the beginning of the risk assessment process, it is dynamic and should be continually reviewed and amended as changes occur to the council's internal or external context.

The council's risk criteria is to be approved by the governing body of the council, after endorsement by the Audit, Risk and Improvement Committee.

Stage 4: Conduct risk assessments

The council is to conduct risk assessments using the following three-step process⁵⁶:

- risk identification – as a first step to assessing what risks need managing, the council is to identify and categorise any risks it is aware of that may help or prevent the council from achieving its strategic goals and objectives. Risk categories could include, for example, council governance risks, fraud and corruption risks, financial risks, compliance risks, risks to council policies, programs and projects, risks to the continuity of operations and services, environmental damage risks, work health and safety risks, purchasing and procurement risks and reporting risks
- risk analysis - once each risk is identified, the council is to assess the effectiveness of any controls that already exist to reduce or enhance the likelihood of a particular event and manage the nature and magnitude of any consequences. This will enable the council to determine the overall level of risk that exists, and
- risk evaluation - once the overall level of risk is determined, the council is to assess and decide which risks require further treatment, and in what order of priority. This is to involve comparing the overall level of risk that exists (based on the risk analysis performed) to the council's risk criteria.

⁵⁶ In addition to AS ISO 31000:2018, *IEC/ISO 31010 Risk management – risk assessment techniques* provides additional guidance on each step of the risk assessment process. This standard can be found at <https://www.iso.org/standard/51073.html>

Those risks that fall outside the risk levels the council is willing to tolerate are to be proactively managed. The least tolerable risks are to be given the highest priority.

Stage 5: Decide risk treatment options

The council is to determine a strategy for the treatment of each risk. A decision should be made to either:

- minimise the risk by implementing controls (see stage 6)
- avoid the risk by adopting alternative approaches (for example, revising the timing of a project, choosing a different delivery model)
- transfer the risk to another party which has greater control over the risk, or is less susceptible to the impact of the risk (for example, insurance), or
- accept the risk and develop contingency plans to minimise the impact should the risk eventuate.

Stage 6: Develop risk treatment plans

The council is to develop risk treatment plans that document how the control will be implemented and integrated into the council's day-to-day management and operational processes. Risk treatment plans are to include:

- the rationale, actions to be taken and expected outcome of control
- who is responsible for implementing the control
- resources required
- timeframes, and
- necessary monitoring and reporting, including the performance indicators that will be used to measure the controls effectiveness.

The general manager is to approve the council's risk treatment plans.

Stage 7: Document and communicate

The council is to develop risk reports to summarise and communicate to all staff what risks the council faces. These reports will also be used by the council to regularly review the risk management framework.

Each council's risk reports will vary, dependent on the needs, complexity and risk maturity of each council. At a minimum, however, they should include:

- a risk profile – this is a high-level status report which describes the priorities and management of risk across the council. It provides an overall picture of a council's risk profile, identifies risk priorities, explains the rationale for decisions made about individual risks and allows those responsible for managing particular risks to see how their risks/controls fit into the council's overall risk management framework, and
- risk registers – these describe and prioritise each individual risk, including its cause/s, impact/s and control/s. They also outline who in the council is responsible for managing individual risks.

Risk reports are to be approved by the general manager, following endorsement by the Audit, Risk and Improvement Committee.

(d) Each council is to fully integrate its risk management framework within all of the council's decision-making, operational and integrated planning and reporting processes

The council's risk management framework must be integrated within all of the council's decision-making processes, governance structures, operational procedures and integrated planning and reporting processes for it to be successful.

For effective risk integration to occur, each council must ensure that, in addition to its risk management policy, plan and process, it implements the following supporting elements:

Risk management culture

A poor risk management culture can lead to poor risk management outcomes.

Each council is to foster a positive risk management culture that ensures that the task of managing risks is not seen by management and staff as an additional responsibility or burden, but a normal part of everyday activities and decision-making. A positive risk management culture relies on strong leadership, commitment, reinforcement and communication from the general manager and senior management of the council.

Risk management communication

Poor communication about risk management can lead to a lack of ownership for managing risk.

Each council is to ensure there is clear communication and consultation about risk management to ensure all staff have a common understanding of:

- the basic principles of risk management
- why the council undertakes risk management and how it relates to the council's strategic plans and objectives
- the basis on which decisions within the council are made and the reasons why particular actions are required to manage risk
- the council's risk criteria and risk management policy, plan and priorities
- staff responsibilities and accountabilities for managing certain risks, and
- how to notify new or emerging risks or when something goes wrong or is not working.

The way each council communicates risk management to its staff will vary depending on its needs, organisational structure, existing communication methods and risk maturity. Communication mechanisms could include, for example, specific risk reports relating to key drivers, trends, incidents, risks or business units, formal training programs, information sessions and informal communication such as staff newsletters.

Risk management information system/s

Each council's risk management framework is to be supported by a robust risk management information system that manages risk-related reports, registers, information, documents, policies and procedures. Easy access to information will ensure the council is able to monitor risks/controls and make informed decisions about any further action needed.

The size, complexity and risk management maturity of a council, and the nature of its risk information, will influence the type of risk management information system that it requires. For smaller councils, Microsoft Word or Excel documents that record, report and communicate risk may be appropriate. Larger councils may need to purchase a custom-made product or system.

(e) Each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and ensure accountability

It is the responsibility of all council managers and staff to manage risk.

For risk management to be effective, all staff (permanent, temporary and contractors) must be aware of the risks that relate to their day-to-day roles and activities and their responsibility for managing these risks and following risk management policies and procedures.

To provide accountability, risk management responsibilities are to be clearly articulated in the job descriptions and performance measurement processes of all relevant managers and staff.

Managers and staff with risk management responsibilities are to also have the necessary skills, knowledge and experience required to fulfil their risk management responsibilities, as well as attitudes and behaviours that support risk management.

General manager and senior managers

Consistent with the general manager's role under section 335 of the Local Government Act to conduct the day-to-day management of the council, the general manager will have ultimate responsibility and accountability for risk management in the council.

This includes:

- approving the council's risk management plan, risk treatment plans, risk register and risk profile
- recommending the council's risk management policy and risk criteria for the endorsement of the Audit, Risk and Improvement Committee and approval of the governing body
- overseeing the council's risk management framework and ensuring it is effectively communicated, implemented and reviewed regularly
- promoting and championing a positive risk culture
- ensuring that all council managers and staff (permanent, temporary or contract) understand their risk management responsibilities and that these are included in all job descriptions, staff induction programs, performance agreements and performance appraisals
- annually attesting that council's risk management framework complies with statutory requirements, and
- approving the council's implementation of corrective actions recommended by the council's internal audit function, external audit and Audit, Risk and Improvement Committee.

Depending on the council's needs, resources and organisational structure, and to assist the integration of risk management across the council, the general manager may wish to delegate key aspects of the council's risk management framework to a group of senior managers established for this purpose. The senior management group would report to the general manager on risk management issues.

Tasks delegated to a council's senior management group could include:

- developing the council's risk management policy
- determining the council's risk criteria
- leading the risk management process - for example, evaluating the council's internal and external context, identifying, assessing and prioritising risks and developing risk treatment plans and internal controls
- developing the council's risk register and risk profile
- communicating and implementing the council's risk management policy and plans across council

- advising/reporting on the performance and implementation of the council's risk management framework to the general manager, and
- reviewing recommendations for corrective actions from the Chief Audit Executive and council's internal audit function and determining council's response.

The senior management group is to meet regularly to enable it to fulfil its functions. Council's Risk Management Coordinator is to attend senior management group meetings. The senior management group can also invite the Chief Audit Executive.

Responsibilities for risk management assigned to the general manager and senior managers are to be included in their employment contract and performance reviews.

Risk Management Coordinator and risk management function

The general manager is to appoint a Risk Management Coordinator who will be responsible for the day-to-day activities required to implement the council's risk management framework and provide specialist risk management skills and knowledge.

The Risk Management Coordinator is to report directly to the general manager or a member of the senior management group in relation to council's risk management function.

Whilst this role has been titled as the 'Risk Management Coordinator', councils will be free to use whatever title they wish to refer to this function (for example, Chief Risk Officer, Risk Manager etc.).

The role and responsibilities of the Risk Management Coordinator are to include:

- supporting the senior management group by coordinating and providing clear and concise risk information, advice and/or reports that can be used in planning and decision-making
- coordinating the various activities relating to risk management within the council
- helping to build a risk management culture within the council, including facilitating and driving risk management at the strategic and operational level within the council and ensuring consistency in practice
- ensuring there are easily accessible systems and processes in place to enable all staff to conveniently undertake risk management in their day-to-day work
- ensuring risk management processes are applied consistently across the council
- organising appropriate staff risk management training and development
- developing and maintaining a risk reporting framework to enable regular advising/reporting of key risks, and the management of those risks, to the senior management group
- supporting council staff with their risk management obligations and providing staff with advice and tools to ensure risk management compliance
- implementing effective risk management communication mechanisms and information system/s
- establishing and maintaining an ongoing monitoring system to track the risk management activities undertaken within council and assessing the need for further action
- assessing risk management information for completeness, accuracy and consistency (for example, risk registers, risk treatment plans), and
- preparing advice or reports for the Audit, Risk and Improvement Committee and attending Committee meetings (where requested).

In order to fulfil their role, the Risk Management Coordinator must:

- have a well-developed understanding of the council and its operations
- have the skills, knowledge and leadership qualities required to support and drive risk management
- have sufficient authority to intervene in instances where risk management efforts are being hampered by a lack of cooperation or through lack of risk management capability or maturity, and

- be able to add value to the risk management process by providing guidance and support in managing difficult risk, or risks spread across a number of the council's business units or operational areas.

Each council will have the flexibility to establish its risk management function based on its structure, resourcing, risk management needs and risk management maturity.

For some councils with larger budgets and higher risks, the Risk Management Coordinator will require dedicated staff to help implement the council's risk management framework. For other councils, their size and risk profile may not justify additional risk management staff and the Risk Management Coordinator will be sufficient.

While best practice would see a stand-alone Risk Management Coordinator employed by each council, it is recognised that some smaller or rural councils may find it difficult to employ a stand-alone Risk Management Coordinator due to the cost involved, the council's remote location and/or that the council's risk management framework may not require a full-time stand-alone employee.

Councils will, therefore, be able to combine the Risk Management Coordinator's role with other council responsibilities (including the Chief Audit Executive) provided that there are adequate safeguards put in place by the council to limit any cognitive bias (which can lead to faulty risk assessments and decision-making errors).

Depending on the specific needs and circumstances of the council, these safeguards could include:

- the Audit, Risk and Improvement Committee being informed of the Risk Management Coordinator's additional role, including the reporting lines, responsibilities and expectations related to the role
- any potential issues or conflicts of interest arising from the other operational roles held by the Risk Management Coordinator being formally documented and communicated to the Audit, Risk and Improvement Committee
- the Risk Management Coordinator being prohibited from undertaking risk management evaluations and reviews in relation to the council operations they are responsible for. Another senior staff member will conduct these and will report directly to the general manager on the results
- if the Chief Audit Executive and Risk Management Coordinator is a combined role, any independent review of council's risk management framework must be undertaken by an independent external party, and
- the Audit, Risk and Improvement Committee regularly assessing that the safeguards put in place are effective.

Council managers

Responsibility for managing specific policy, project and program risks generally rests with council managers across the council. This includes council managers being responsible, within the sphere of their authority, for:

- promoting awareness of risks and risk treatments that must be implemented
- ensuring council staff are implementing the council's risk management framework as developed and intended and performing their risk management responsibilities
- identifying risks that will affect the achievement of the council objectives
- establishing and/or implementing specific policies, operating and performance standards, budgets, plans, systems and/or procedures to manage risks, and
- monitoring the effectiveness of risk treatment and internal controls.

All other council staff

All council staff are to be responsible for:

- helping to identify risks in their business unit
- implementing risk treatment plans within their area of responsibility
- following standard operating procedures (where applicable), and
- communicating or escalating new risks that emerge to their manager.

(f) Each council is to ensure its risk management framework is regularly monitored and reviewed

The senior management group is to establish and maintain an ongoing monitoring and review process of the information gathered from council's risk management process⁵⁷ to ensure its risk management framework is up-to-date and relevant. It will also enable the senior management group to report to the general manager, governing body of the council and Audit, Risk and Improvement Committee when required about the council's risk management framework.

Each council is to base its ongoing monitoring and review process based on its own needs, however, this should include at a minimum the following two key elements:

1. **Quarterly advice from the Risk Management Coordinator to the senior management group assessing the council's risk profile and risk registers** – this will ensure that risks are being correctly identified, prioritised and treated, and any emerging problems are known and rectified quickly. Any changes are to be captured in updates to the council's risk profile and risk register, and relevant risk treatment plans.
2. **An annual self-assessment at the end of each financial year by the senior management group of the quality of the council's risk management framework** – this is to assess the operation of the risk management framework during the preceding financial year and to ensure:
 - the council is providing sufficient resources for risk management and staff are able to carry out their risk management responsibilities
 - the council's risk management framework complies with AS ISO 31000:2018
 - the council's risk management framework operates effectively and supports the achievement of council's strategic goals and objectives
 - management has embedded a positive risk culture
 - the council's risk criteria is appropriately reflected in council's internal control framework
 - the council takes an enterprise risk management approach that is fully integrated into all aspects of the council, including decision-making processes and operations
 - risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement
 - risk management covers all relevant risk categories including strategic, operational, compliance, reputational and reporting risks
 - major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect the council's risk criteria
 - the council's internal controls are effective and appropriate
 - the council's risk register and risk profile is current and appropriate

⁵⁷ This includes ongoing monitoring and review of the scope of the council's risk management framework, the context the council operates in, the council's risk criteria, the results of the council's risk assessment, controls implemented, risk treatment plans and risk reports such as the council's risk profile and risk registers

- risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities, and
- the council's risk management policies, procedures and plans are being complied with.

Ultimately the general manager is responsible for the implementation of the council's risk management framework, and ensuring that risks are being managed appropriately. Each council will have the flexibility to decide, based on its own needs and resources, how and when the senior management group reports risk information to the general manager and the governing body of the council.

Standards Australia has released *HSB 158-2010 Delivering assurance based on ISO 31000:2009 Risk management – Principles and guidelines*⁵⁸ which may assist councils to monitor and review their risk management frameworks.

Performance management system

The senior management group is to ensure the effectiveness of the risk management framework can be assessed. This will require the senior management group and Risk Management Coordinator to ensure that:

- approved risk treatment plans have performance targets that can be measured against goals and objectives, and
- a data collection system is maintained to obtain the data needed to measure the impact of the council's risk management framework.

Performance targets are to be set annually by the senior management group, in consultation with the general manager and the Audit, Risk and Improvement Committee.

(g) The Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities

Role of the Audit, Risk and Improvement Committee

The Audit, Risk and Improvement Committee will be responsible for providing independent assurance to the general manager and governing body that the council's risk management framework is appropriate and working effectively.

This includes advising whether:

- the council is providing sufficient resources for risk management and staff are able to carry out their risk management responsibilities
- the council's risk management framework complies with AS ISO 31000:2018
- the council's risk management framework operates effectively and supports the achievement of the council's strategic goals and objectives
- management has embedded a positive risk management culture
- the council's risk criteria is appropriately reflected in the council's internal control framework
- the council takes an enterprise risk management approach that is fully integrated into all aspects of the council, including decision-making processes and operations

⁵⁸ More information about HSB 158-2010 can be found at <https://www.standards.org.au/standards-catalogue/sa-snz/publicsafety/ob-007/hb--158-2010>. Please note that this standard is based on the previous risk management standard ISO 3100:2009 and may possibly be updated.

- risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement
- risk management covers all relevant risk categories including strategic, operational, compliance, reputational and reporting risks
- major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect the council's risk criteria
- the council's internal controls are effective and appropriate
- the council's risk register and risk profile is appropriate
- risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities
- there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities, and
- the council's risk management policies, procedures and plans are being complied with.

The Audit, Risk and Improvement Committee's role and responsibilities in relation to risk management are to be documented in its terms of reference.

The frequency and nature of the Committee's assurance to the general manager and governing body is to be determined by the Committee in consultation with the general manager and governing body of the council.

At a minimum, the Audit, Risk and Improvement Committee is to be required to provide an annual assessment of the council's risk management framework as part of its annual assurance report to the governing body of the council. This will ensure that the governing body of the council receives the Committee's independent and objective opinion about the risk management activities conducted each year. It will also support the governing body in the exercise of its oversight role under the Local Government Act.

Reporting to the Audit, Risk and Improvement Committee

The Audit, Risk and Improvement Committee is to determine in consultation with the general manager what information it needs from the council to fulfil its risk management assurance role. Information requirements are to be based on the council's risk management maturity, the resources available and the aspect of the risk management framework being assessed.

Review or information requirements could include, for example:

- advice from the senior management group to each quarterly meeting of the Audit, Risk and Improvement Committee providing an overview of the council's risks and controls and whether significant risks have been identified, assessed and responded to appropriately
- annual advice from the senior management group about the implementation of the council's risk management framework - for example, whether it conforms with AS ISO 31000:2018, the risk process has been implemented effectively, there is a positive risk culture, the council's risk register and profile are appropriate, the council's risk management policy and procedures are being complied with, and/or
- an independent strategic review by the internal audit function or an external party at least once each council term (i.e. four years) assessing adequacy of the risk management framework.

The Audit, Risk and Improvement Committee will also be informed by any findings or recommendations made by the council's external auditor in relation to risk management.

The senior management group will be required to develop an action plan for the general manager and the Audit, Risk and Improvement Committee to address any risk management issues identified by the Committee.

Role of the internal audit function

The council's internal audit function will support the Audit, Risk and Improvement Committee to fulfil its assurance responsibilities through the audit of particular risks, as identified in the internal audit function's work plan. The role of the council's internal audit function in relation to risk management is to be documented in the council's Internal Audit Charter.

Given the need to maintain the independence and objectivity of the internal audit function, the following boundaries are to apply with respect to the role of the internal audit function in the council's risk management framework:

- it is to be clear that council management remains responsible for risk management
- the internal audit function is to provide advice, challenge and support management's decision-making, as opposed to taking risk management decisions themselves
- the internal audit function should not:
 - manage any of the risks on behalf of the council
 - set the council's risk criteria
 - impose risk management processes
 - decide or implement risk responses, or
 - be held accountable for risk management activities.

(h) The general manager is to publish in the council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements

The general manager will be required to annually publish an attestation statement in the council's annual report indicating whether, during the prior financial year, the council was 'compliant', 'non-compliant' or 'in transition' against each of the above-mentioned requirements of the council's risk management framework.

Compliance status is to be self-assessed based on the results of the senior management group's annual self-assessment. The table on page 84 lists the proposed compliance categories and follow-up action that will be required.

The general manager is to ensure that a copy of the attestation statement and the exception approval from the Chief Executive Officer of the Office of Local Government (if applicable) is published in the council's annual report. A copy of the attestation statement is to also be provided to the Office of Local Government.

The Chair of the Audit, Risk and Improvement Committee is to also sign the attestation statement where he/she agrees that it is a true and accurate reflection of the council's compliance status against statutory requirements.

Core requirement 3:**Establish an internal audit function mandated by an Internal Audit Charter****Proposal**

It is proposed that:

- (a) each council (including county council/joint organisation) is to establish an internal audit function
- (b) the governing body is to ensure that the council's internal audit function is sufficiently resourced to carry out its work
- (c) the governing body of the council is to assign administrative responsibility for internal audit to the general manager and include this in their employment contract and performance reviews, and
- (d) the Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. This Charter is to be approved by the governing body of council after endorsement by the Audit, Risk and Improvement Committee.

Description**(a) Each council is to establish an internal audit function**

Each council in NSW, (including county council/joint organisation), will be required to have an internal audit function that reports functionally to the Audit, Risk and Improvement Committee and is independent from council management.

The definition of internal audit adopted by councils will be the same as that adopted in the IPPF - internal audit is *"an independent, objective, assurance and consulting activity designed to add value and improve [council's] operations. It helps [council] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.

It is recognised that each council will have different internal audit requirements depending on its size, needs, budget and complexity of operations. To provide councils greater flexibility, each council will have the freedom to determine the size and scope of their internal audit activities. Councils will also have the flexibility to decide how to deliver their internal audit function. They can either:

- establish a stand-alone internal audit function for their exclusive use
- utilise a joint internal audit function established by their joint or regional organisation of councils that is shared by member councils, or
- share their internal audit function with another council/s in close proximity or of their choosing as part of an independent shared arrangement.

It is recommended that county councils, due to their size, enter into a share arrangement with one of their member councils or utilise an internal audit function established by a joint or regional organisation of councils.

Some of the requirements for shared arrangements will differ from those of stand-alone internal audit functions established for a council's exclusive use (as described in core requirements 1-8). Core requirement 9 outlines the specific requirements of shared arrangements.

Where a council wishes to impose requirements that are additional to the proposed framework, it will be able to do so provided the requirements comply with the IPPF and do not conflict with statutory requirements.

(b) The governing body is to ensure that council's internal audit function is sufficiently resourced to carry out its work

The governing body will be required to ensure that the council's internal audit function is sufficiently resourced to effectively carry out its work⁵⁹. This is in line with the governing body's responsibility for the council's budget and other resourcing decisions. To ensure that the governing body makes informed budgeting decisions, the Audit, Risk and Improvement Committee is to advise the governing body of the resources needed.

Where the Audit, Risk and Improvement Committee considers the resourcing provided for internal audit activities is insufficient relative to the risks facing the council, it is to draw this to the attention of the general manager and the governing body of the council. The Chair of the Committee is to also ensure that the Committee's funding recommendations are minuted by the Committee's secretariat.

(c) The governing body of the council is to assign administrative responsibility for internal audit to the general manager and include this in their employment contract and performance reviews

Consistent with the general manager's role under section 335 of the Local Government Act to conduct the day-to-day management of the council, the general manager will be responsible for the **administrative** delivery of council's internal audit function. This means that the general manager will be required to:

- advise the governing body of the funding needed to adequately resource the internal audit function when making final budget decisions
- align the internal audit budget to approved work plans and recommendations made by the Audit, Risk and Improvement Committee
- allocate the funds needed to engage internal audit personnel or external providers with the technology, skills and experience necessary to meet the risk and assurance needs of the council
- provide appropriate administrative support, for example, access to council's human resources networks, payroll, work health and safety, office facilities and resources etc., and
- ensure that the council's internal audit activities are appropriately positioned within the council to work with external audit and internal business units and to operate independently.

The general manager will have no role in the exercise of the internal audit (for example, the conduct of internal audits, development of work plans, audit techniques used, reporting to the governing body and Audit, Risk and Improvement Committee etc.). The general manager's administrative responsibilities in relation to internal audit are to be included in the general manager's employment contract and regular performance reviews to ensure accountability. The Office of Local Government will amend the general manager's standard contract under section 338 of the Local Government Act to reflect this requirement.

⁵⁹ The Institute of Internal Auditors has developed the *Audit Intelligence Suite* which can be used to obtain a general picture of the potential resources needed for an internal audit function based on benchmark costs across the corporate and public sectors. For access (cost involved), go to <https://www.theiia.org/centers/aec/Pages/benchmarking.aspx>

(d) The Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. This Charter is to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee

Each council will be required to adopt an 'Internal Audit Charter' to guide how internal audit will be undertaken by that council and measure its effectiveness.

The Internal Audit Charter is to be developed by the council's Chief Audit Executive in consultation with the Audit, Risk and Improvement Committee and approved by the governing body of the council after endorsement by the Committee.

Each council's Internal Audit Charter is to comply, at a minimum, with a Model Internal Audit Charter⁶⁰. This is consistent with councils being required to adopt policies based on other model documents (for example, the Model Code of Conduct and the Model Code of Meeting Practice).

The Model Internal Audit Charter will:

- define the purpose, authority and responsibility of the internal audit function
- establish internal audit's position, role and responsibilities within the council
- describe the importance of the independence of the internal audit function and how this will be maintained
- define the roles and responsibilities of those involved in the council's internal audit activities
- assign responsibility for appointing and dismissing the Chief Audit Executive
- describe how internal audit activities are to be undertaken (i.e. the scope of assessments, writing internal audits and work plans, performing internal audits, communicating results, writing audit reports and monitoring the implementation of corrective actions)
- describe the quality assurance and improvement program
- describe administrative arrangements, HR support and budget provided to support the internal audit function
- define reporting relationships
- define internal audit's relationship with the external auditor, and
- authorise access to internal audit information.

Councils will be able to include additional provisions in their Internal Audit Charter so long as they do not conflict with the Model Internal Audit Charter or the IPPF. This will ensure any matters not contemplated by the Model Charter are addressed by councils in a robust way that complies with internationally recognised standards.

Where the council's Internal Audit Charter contains additional provisions not included in the Model Internal Audit Charter, the Chief Audit Executive is to review the Charter annually as part of the council's internal audit quality assurance and improvement program. A strategic review is to also be undertaken once each council term (i.e. four years). Changes to the Charter are to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee.

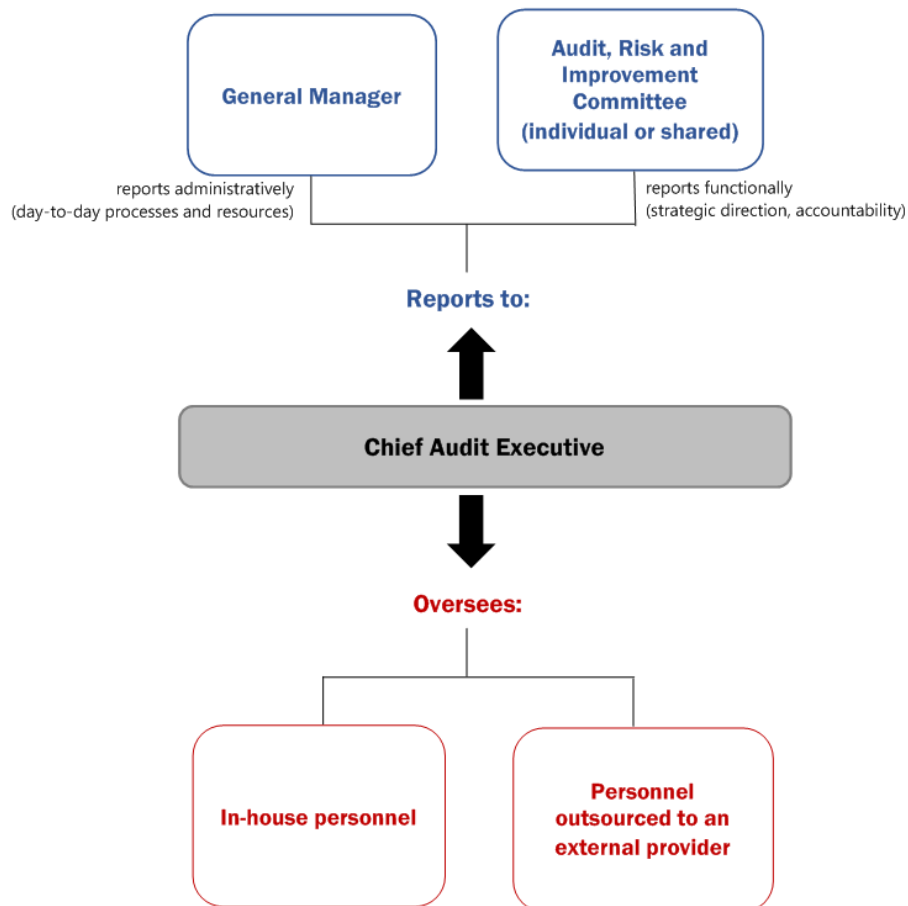
⁶⁰ The Model Internal Audit Charter will be drafted by the Office of Local Government in consultation with councils based on the final internal audit framework developed following consultation on this discussion paper

Core requirement 4: Appoint internal audit personnel and establish reporting lines

Proposal

It is proposed that the:

- (a) general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee
- (b) Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager and attend all committee meetings, and
- (c) general manager is to ensure that, if required, the council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel, or completely or partially outsource their internal audit function to an external provider.



Description

(a) The general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee

Attributes of the Chief Audit Executive

The general manager, in consultation with the Chair of the Audit, Risk and Improvement Committee, will be required to appoint a Chief Audit Executive to oversee the council's internal audit activities. The term 'Chief Audit Executive' has been used throughout this discussion paper to reflect the terminology used in the IPPF and NSW public sector internal audit model. However, each council is able to describe this role as it chooses, for example, Chief Internal Auditor, Chief Audit Officer etc.

The Chief Audit Executive is to

- be independent, impartial, unbiased and objective when performing their work and free from conflicts of interest. This also means that the Chief Audit Executive cannot undertake internal audit activities on any council operations or services that he/she has held responsibility for within the last five years
- be a council employee and the most senior member of staff in council responsible for internal audit (but not the general manager or council's senior financial officer)
- cannot be outsourced to an external service provider, except where the council has entered into a shared arrangement with another council or as part of their joint or regional organisation of councils
- possess the following skills, knowledge and experience to effectively carry out their role:

Essential

- the credibility to ensure they are able to negotiate on a reasonably equal footing with the general manager and councillors of the council, as well as the Audit, Risk and Improvement Committee, and
- the skills, knowledge and personal qualities necessary to lead credible and accepted internal audit activities in the council

Preferred

- high-level experience overseeing internal audit, and
- appropriate professional certifications such as those recognised by the Institute of Internal Auditors (Certified Internal Auditor), Certified Professional Accountants Australia or Chartered Accountants Australia and New Zealand.

This will ensure that the internal audit function of each council is led by someone with the skills, knowledge, experience and integrity needed to establish and effectively oversee a council's internal audit functions. It will also ensure that the council retains control of the internal audit strategic direction and is able to monitor the performance of any external service provider.

Oversight

It is important that the Chief Audit Executive has the functional independence to ensure that this role has the freedom necessary to independently assess and report on the way council operates. However, the Chief Audit Executive, as a member of staff under the Local Government Act, must also be appointed by and accountable to the general manager.

As a safeguard, to ensure the functional independence of the Chief Audit Executive, the general manager is to consult with the Chair of the Audit, Risk and Improvement Committee before appointing or dismissing the Chief Audit Executive, or making any change to the Chief Audit Executive's

employment conditions. Where dismissal occurs, the general manager is to report to the governing body advising of the reasons why the Chief Audit Executive was dismissed.

Where the Chair of the Audit, Risk and Improvement Committee has any concerns about the treatment of the Chief Audit Executive, or any action taken that may compromise the Chief Audit Executive's ability to undertake their functions, they must report their concerns to the governing body of the council.

Responsibilities

The key responsibilities of the Chief Audit Executive include:

- managing the day-to-day direction and performance of the council's internal audit activities to ensure they add value to council
- supporting the operation of the Audit, Risk and Improvement Committee
- ensuring the council's internal audit activities comply with statutory requirements, the IPPF and the council's needs
- developing, implementing and reviewing the council's Internal Audit Charter, policies and procedures, work plans and quality assurance and improvement program
- providing advice to the Audit, Risk and Improvement Committee and governing body of the council on the adequacy and effectiveness of the council's governance frameworks, risk management practices and internal controls
- confirming the implementation by the council of corrective actions that arise from the findings of internal audit activities, and
- managing internal audit personnel and ensuring that they have the skills necessary to perform audits and are up to date on current issues affecting the council and on audit techniques and developments.

Where a council has outsourced its internal audit activities to an external provider, the Chief Audit Executive will be responsible for:

- overseeing the service contract and the quality of audits conducted by the external provider (including overseeing the quality assurance and improvement program)
- ensuring that the council retains control of the strategic direction of internal audit activities
- reporting to the general manager and the governing body of the council on the adequacy and effectiveness of the council's governance frameworks, risk management practices and internal controls (based on the findings provided by the external provider)
- confirming the council's implementation of corrective actions that arise from the findings of audits
- developing policies and procedures that guide the audits conducted by the external provider
- developing the internal audit annual work plan and strategic plan
- ensuring audit methodologies used by the external provider comply with the IPPF and are accessible to the council (subject to any licensing restrictions), and
- supporting the operation of the Audit, Risk and Improvement Committee.

Combining Chief Audit Executive with other responsibilities

It is recognised that some smaller rural councils may find it difficult to employ both a stand-alone Chief Audit Officer and stand-alone Risk Management Coordinator due to the cost involved, council's remote location and/or that the council's risk management function and internal audit function may not require full-time stand-alone employees.

Whilst it is not best practice, it is recognised that combining the Chief Audit Officer role with the Risk Management Coordinator role may make it easier for smaller or remote councils to establish their risk management framework and internal audit function.

Councils will, therefore, be able to combine the Chief Audit Officer's role with the Risk Management Coordinator role provided there are adequate safeguards put in place by the council to limit any real or perceived bias or conflicts of interest that may lead to faulty decision-making and cognitive bias. The endorsement of the Audit, Risk and Improvement Committee will also be required before the combined role can commence.

Depending on the specific needs and circumstances of the council, safeguards could include:

- the Audit, Risk and Improvement Committee being informed of the Chief Audit Executive's dual role, including reporting lines, responsibilities and expectations related to the role
- any potential issues or conflicts of interest arising from the dual role being formally documented in council's Internal Audit Charter
- internal audit briefs being reviewed by the Audit, Risk and Improvement Committee to ensure adequate coverage of the proposed audit, where it concerns any key risks overseen by the Chief Audit Executive in their role as Risk Management Coordinator
- the Audit, Risk and Improvement Committee, or a qualified external party, reviewing internal audit findings and recommendations before they are finalised
- the council's quality assurance program including an external assessment of the Chief Audit Officer's independence and objectivity (for internal audit purposes) in relation to their Risk Management Coordinator role, and
- the Audit, Risk and Improvement Committee regularly assessing that the safeguards put in place are effective.

(b) The Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager, and attend all committee meetings

To ensure that internal audit operates independently, the Chief Audit Executive will have a dual reporting line and report:

- **administratively to the general manager** - to facilitate the day-to-day operations of internal audit (for example, in relation to budgeting, accounting, internal audit staff leave and disciplinary matters, internal communications, administration of policies and procedures), and
- **functionally to the Audit, Risk and Improvement Committee** - for the strategic direction, performance and accountability of internal audit activities and personnel.

The general manager must not take any action impacting on the employment of the Chief Audit Executive, including through performance management or disciplinary processes, without consulting with the Chair of the Audit, Risk and Improvement Committee.

The Chief Audit Executive will be required to confirm at least annually to the Audit, Risk and Improvement Committee the independence of internal audit activities.

Access to council staff and information

To achieve the degree of independence necessary to effectively carry out internal audit activities, the Chief Audit Executive will automatically have direct and unrestricted access to the general manager and senior managers of the council, as well as the Audit Risk and Improvement Committee (through the Chair).

Any council staff member or contractor will also be able to directly alert the Chief Audit Executive of emerging risks or internal audit related issues.

The Chief Audit Executive is to have direct and unrestricted access to all council staff, resources and information necessary for the performance of internal audit activities.

Reporting concerns about councillors or council staff

Where a Chief Audit Executive has concerns regarding the general manager or senior council staff, they will be able to:

- raise their concerns with the Chair of the Audit, Risk and Improvement Committee (if it relates to the effectiveness of the internal audit function)
- report breaches of the council's Code of Conduct to the general manager, or by the general manager to the Mayor⁶¹
- report their concerns through the council's internal reporting policy, complaints handling policy or other associated protocols, and/or
- make a public interest disclosure under the *Public Interest Disclosures Act 1994* to the:
 - Independent Commission Against Corruption (concerning corrupt conduct)⁶²
 - NSW Ombudsman (concerning maladministration)
 - NSW Auditor General (concerning serious and substantial waste of public money)
 - Office of Local Government (concerning serious and substantial waste in local government and breaches of pecuniary interest obligations), and/or
 - Information and Privacy Commissioner (concerning government information contraventions).

Code of Conduct

The Chief Audit Executive is to comply with the council's Code of Conduct, as well as the Code of Ethics in the IPPF.

Breaches of the council's Code of Conduct by the Chief Audit Executive are to be reported in writing to the general manager of the council in the first instance. The general manager should notify the Chair of the Audit, Risk and Improvement Committee of any such allegations and their outcome.

(c) The general manager is to ensure that, if required, the council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel or to completely or partially outsource their internal audit function to an external provider

Regardless of size, each council will be required to have an appropriately resourced internal audit function when section 428A of the Local Government Act commences.

For some councils with larger budgets and higher risks, this will require dedicated internal audit staff to support the Chief Audit Executive to deliver the internal audit function. For other councils, their size and risk profile may not justify additional internal audit staff and the Chief Audit Executive will be sufficient.

For councils that require additional internal audit personnel, options include having a dedicated in-house team, co-sourcing arrangements, or outsourcing their audits to an external provider.

⁶¹ As required by the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*

⁶² Under section 11 of the *Independent Commission Against Corruption Act 1988*, the Chief Audit Executive must report any suspected corrupt activity to the Independent Commission Against Corruption

In determining the most appropriate option for the delivering the council's internal audit function, the general manager should consider the:

- size of the council in terms of both staffing levels and budget
- geographical and functional distribution of the council's operations
- complexity of the council's core business
- risk profile of the council's operations
- council's integrated planning and reporting framework
- the viability of alternative service delivery models (for example, whether council could attract and retain suitable in-house internal audit staff or experienced contract managers for out-sourced service delivery)
- overall cost of alternative service delivery models, including the salaries and overheads of in-house internal audit personnel compared to the costs of contract management and delivery for out-sourced services, and
- capacity of alternative service delivery models to deliver flexibility in the internal audit work plan.

Whichever model a council chooses, the internal audit function, including the appointment of internal audit personnel, is to be overseen by the Chief Audit Executive.

The Chief Audit Executive must be a council employee and cannot be outsourced, other than through a shared arrangement with another council or through a joint or regional organisation of councils.

Employing in-house internal audit personnel

Internal audit personnel report directly to the Chief Audit Executive.

In-house internal audit personnel can be appointed on a full-time or part-time basis. They will be required to comply with the council's Code of Conduct and the Code of Ethics in the IPPF and are to have no executive, managerial or operational powers, authorities, functions or duties except those relating to internal audit. They also cannot have any responsibility for managing any risks or implementing any audit recommendations, including those made by external audit.

Position descriptions for in-house internal audit staff are to require:

- appropriate qualifications
- proficiency in internal audit and accounting principles and techniques (particularly if working extensively with financial information and reports)
- knowledge of economics, management practices, commercial law, taxation, finance, quantitative methods, fraud and internal audit technology, and
- effective interpersonal and communication skills.

Outsourcing internal audits to an external provider

Providing that independence requirements are adhered to, councils can contract their internal audit function to an external internal audit service provider. Examples of providers include private sector accounting firms with a specialist internal audit division, boutique firms that specialise in internal audit, and internal audit contractors.

The advantages of using external providers for internal audit activities include⁶³:

- flexibility
- access to a wide range of expertise
- the ability to access the service as and when required, and
- the ability to pool resources with other councils to purchase external services as part of a shared arrangement.

Disadvantages include loss of corporate knowledge, lack of proximity and possible increased costs.

If a council chooses to outsource its internal audits, the Chief Audit Executive is to be the contract manager of the service and is to ensure that:

- an appropriately qualified external provider is conducting the audit in compliance with relevant standards
- the performance of the external provider is actively monitored, and
- the external provider:
 - does not undertake audit work regarding operations or services they have been responsible for, or consulted on, within the last two years
 - is not the same auditor providing council's external audit services
 - is not the auditor of any contractors of the council (and therefore subject to council's internal audits)
 - does not undertake other contract work for the council in addition to internal audit
 - has authority to implement the work program approved by the Audit, Risk and Improvement Committee
 - is rotated, or some other method is established, to address risks caused from having the same auditors auditing the same unit/functional area over a prolonged period of time, and
 - uses audit methodologies that comply with the IPPF and are accessible to the council (subject to any licensing restrictions that may be in place).

⁶³ *Internal Audit in Australia* published by The Institute of Internal Auditors - Australia (2016) provides a useful comparison of the advantages and disadvantages of different internal audit function delivery models (page 23 onwards).

Core requirement 5:

Develop an agreed internal audit work program

Proposal

It is proposed that, for each council, the Chief Audit Executive will:

- (a) develop a four-year strategic plan to guide the council's longer-term internal audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee
- (b) develop an annual risk-based internal audit work plan, based on the strategic plan, to guide the council's internal audits each year. The work plan is to be developed in consultation with the governing body, general manager and senior managers and approved by the Audit, Risk and Improvement Committee, and
- (c) ensure performance against the annual and strategic plans can be assessed.

Description

(a) The Chief Audit Executive is to develop a four-year strategic plan to guide the council's longer-term audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee

The Chief Audit Executive will be required to develop a strategic plan every four years based on the council's risk profile to ensure that areas or activities with higher risks are audited over the longer term and that no higher risk area or activity is forgotten. This should align with the council's integrated planning and reporting framework and timetable.

The four-year strategic plan is to be developed in consultation with the Audit, Risk and Improvement Committee, governing body, general manager and senior managers. Final approval is to be given by the Committee.

The purpose of the plan is to decide and outline what council areas or activities will be covered in any given year, and if the area/activity is not covered in a given year, when it will be scheduled for review during the four-year period. It is to include:

- a description of the goals/objectives of internal audit
- key organisational issues and risks faced by the council, in order of priority, and
- which council areas will be audited over the four years, prioritised according to risk.

The Chief Audit Executive is to review and update the four-year strategic plan at least annually to ensure that it still aligns with the council's risk profile. This will also ensure that the council remains on track with its audits and any slippage in progress can be quickly addressed.

(b) The Chief Audit Executive is to develop an annual risk-based internal audit work plan, based on the strategic plan, to guide the council's audits each year in consultation with the governing body, general manager and senior managers. The work plan is to be approved by the Audit, Risk and Improvement Committee

The Chief Audit Executive will be required to develop an annual risk-based work plan for the council's internal audits based on:

- the priorities set by the council's four-year internal audit strategic plan
- the council's strategic goals and objectives, developed through the integrated planning and reporting framework
- the information obtained as part of the council's risk assessment process and the council's material risks
- any findings or risks raised by the NSW Auditor-General in its external audits of the council and sector-wide performance audits
- external factors such as industry trends or emerging issues, and
- any special requirements of the Audit, Risk and Improvement Committee.

The annual work plan is to be developed in consultation with the Audit, Risk and Improvement Committee, governing body, general manager, and senior managers. Final approval is to be given by the Committee.

The annual work plan is to identify:

- the key risks facing the council
- the key goals and objectives of the proposed audits
- the audits that will be carried out during the year and rationale for selecting each, having regard to areas of most significant risk to achieving the council's strategic objectives
- the resources needed for each audit (for example, staffing, budget, technology), including any external expertise needed
- the timing and duration of each audit
- the performance measures that will be used to measure against goals and objectives (described below)
- any areas not included in the work plan, which in the opinion of the Chief Audit Executive, should be reviewed, and
- quality assurance activities (where applicable).

The annual work plan is to be flexible enough to allow the Chief Audit Executive to review and adjust it as necessary in response to any changes to the council's risks or operations. Significant changes are to be approved by the Audit, Risk and Improvement Committee.

(c) The Chief Audit Executive is to ensure performance against the annual and strategic plans can be assessed

To establish the quality assurance and improvement program and to collect the data and information required to review the council's internal audit activities:

- the Chief Audit Executive will need to ensure internal audit work plans have performance indicators that can be measured against goals and objectives⁶⁴, and
- the general manager will need to ensure that a data collection or performance management system is established and maintained to collect the data needed to measure the impact of the internal audit function.

Performance indicators are to be set annually by the Audit, Risk and Improvement Committee, in consultation with the Chief Audit Executive and the general manager of the council.

⁶⁴ *Internal Audit in Australia* published by The Institute of Internal Auditors - Australia (2016) lists a range of examples of performance indicators that councils could consider when selecting their performance indicators

Core requirement 6: How to perform and report internal audits

Proposal

It is proposed that:

- (a) the Chief Audit Executive is to ensure that the council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee
- (b) the Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits
- (c) the Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s, and
- (d) all internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit, Risk and Improvement Committee, external auditor and governing body of the council (by resolution).

Description

- (a) The Chief Audit Executive is to ensure that the council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee**
-

Each council's internal audits are to be performed in accordance with statutory requirements, and the IPPF (only where the IPPF does not conflict with statutory requirements).

The internal audit methodologies used (that is, the tools or techniques used by internal auditors to conduct internal audits and analyse the information or data obtained) are also to be approved by the Audit, Risk and Improvement Committee.

Where risk information or ratings are used during the internal audit process, they must be developed and applied consistent with current Australian risk management standards. This means the Chief Audit Executive is responsible for ensuring that any risk information used in internal audits or any risk ratings given to internal audit findings and recommendations (for example, the risk of not implementing a recommendation) must be developed and assigned in a way that complies with AS ISO 31000:2018 and is consistent with council's risk management framework.

Performing internal audits

The Chief Audit Executive will be responsible for approving the project plan for each internal audit, supervising how each internal audit is conducted, and for any significant judgements made throughout each internal audit (including those performed by an external provider).

Each audit undertaken is to consist of following steps:

- **planning the internal audit** – which includes:
 - preliminary research
 - defining the audit's scope and criteria
 - defining the audit's objectives
 - timing
 - audit budget, and
 - information needed to perform the audit (for example, access to people, documents, systems)
- **performing the internal audit** – is to consider:
 - the objectives and purpose of the activity being reviewed
 - any risks to these objectives and the effectiveness of existing controls
 - opportunities to improve the efficiency and effectiveness of the activity, how risks are managed and council's performance more broadly
- **documenting and reporting the internal audit** - which includes:
 - documenting the evidence collected and analysed
 - producing working papers to support the findings and recommendations made
 - writing an audit report, and
 - discussing internal audit results with relevant staff and management.

It is best practice that each internal audit report is to be appropriately supervised and approved by a person not conducting the audit to ensure its findings and recommendations are accurate. Larger councils that employ or contract more than one internal auditor are encouraged to embed this practice into their audit process.

(b) The Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits

The Chief Audit Executive is to ensure that the council develops and maintains policies and procedures to guide the operation of the internal audit function and the performance of internal audits. These policies and procedures should address:

- the structure, resourcing and professional development of the internal audit function
- strategic and annual audit planning
- audit methodology
- audit reports
- ongoing monitoring and reporting
- conducting internal audits and the quality assurance and improvement program
- resolving differences in professional opinion/judgements regarding internal audits
- communication between the governing body of the council, Audit, Risk and Improvement Committee, general manager, Chief Audit Executive and council staff - particularly of non-compliance or sensitive information, and
- information management including document retention, security and access to audit reports.

The Audit, Risk and Improvement Committee is to review and provide advice to the general manager of the council on all internal audit policies and procedures before they are finalised.

Where the internal audit function is outsourced, the Chief Audit Executive will be required to ensure that the external provider is consulted in the development and/or maintenance of internal audit policies and procedures.

(c) The Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s

The Chief Audit Executive will be required to report the findings and recommendations of internal audits to the Audit, Risk and Improvement Committee at the end of each audit.

Each internal audit report written must include:

- necessary background information, including the objective and scope of the audit
- the audit processes and methodology used
- findings and recommendations based on the audit's objectives, prioritised according to their level of risk
- recommended remedial actions to address problems identified, which:
 - are risk-rated (that is, clearly show the severity of risks identified by the audit, focus management attention on high risks that need prompt attention and allow resources to be first applied to high risks rather than low risks), and
 - have been agreed to by the general manager and responsible senior managers of the council.

The Chief Audit Executive will be responsible for ensuring that each internal audit report (or supporting working papers) contains sufficient information that would enable another internal or external auditor to reach the same conclusions.

A copy of each internal audit report is to be provided to the Audit, Risk and Improvement Committee at the Committee's next quarterly meeting, or distributed out-of-session before the next meeting.

The council's response to internal audit report recommendations

The Chief Audit Executive is to provide a draft of each report to the responsible senior manager/s so that a response to each recommendation from each relevant business unit can be included in the final report that is submitted to the Audit, Risk and Improvement Committee. The general manager will have a maximum of ten working days to approve and provide the council's response to the Committee.

Responsible senior managers will have the right to reject recommended corrective action/s on reasonable grounds, but must discuss their position with the Chief Audit Executive before finalising the council's position with the general manager. Reasons for rejecting the recommendation/s must be included in the final audit report.

For those recommendations that are accepted, responsible senior managers will be required to ensure that:

- an action plan is prepared for each recommendation that assigns responsibility for implementation to a council staff member/s and timeframes for implementation
- all corrective actions are implemented within proposed timeframes, and
- the Chief Audit Executive is provided regular updates, or as otherwise reasonably requested by the Chief Audit Executive, in relation to the implementation of the internal audit action plan.

Where corrective actions are not implemented within agreed timeframes, the Audit, Risk and Improvement Committee can invite the responsible senior manager to explain why implementation has not occurred and how the resulting risk is being addressed in the interim.

The Audit, Risk and Improvement Committee can raise any concerns it may have about the council's response to internal audit reports in the committee's quarterly report to the governing body.

(d) All internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit, Risk and Improvement Committee, external auditor and the governing body of the council (by resolution)

The Chief Audit Executive will be responsible for ensuring internal audit information (in whatever form) is documented, retained and controlled in accordance with the council's policies and any legislative or IPPF requirements. Internal audit documentation includes any information or documents produced or obtained by council's internal audit function that relates to the internal audit activities of the council.

All audit documentation is to remain the property of the audited council and can be accessed by the audited council, the Audit, Risk and Improvement Committee and the external auditor. This includes where the internal audits are performed by an external provider. Authorised access to internal audit documents must be outlined in council's Internal Audit Charter.

The governing body can also request access to internal audit information via a resolution of the council. The Audit, Risk and Improvement Committee is to decide the governing body's request. Any disputes between the governing body and the committee are to be referred to the Office of Local Government for resolution.

Apart from external audit purposes, it is envisaged that internal audit reports will be for internal council use only, subject to the requirements of the *Government Information (Public Access) Act 2009*. Approval must be obtained from Chief Audit Executive or Audit, Risk and Improvement Committee before internal audit reports are provided to any other person or external party.

The Chief Audit Executive or the Audit, Risk and Improvement Committee must obtain approval from the general manager prior to releasing any internal audit documents to external parties.

The general manager's approval is not required where the information is being provided to an external oversight or investigative such as, but not limited to, the Office of Local Government, the Audit Office, the Independent Commission Against Corruption or the NSW Ombudsman, for the purposes of informing that agency of a matter that may warrant its attention.

Core requirement 7:

Undertake ongoing monitoring and reporting

Proposal

It is proposed that an ongoing monitoring and reporting system be established where the:

- (a) Audit, Risk and Improvement Committee is advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective actions
- (b) governing body of the council is advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions, and
- (c) Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair.

Description

(a) The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective actions

Ongoing monitoring and reporting to the Audit, Risk and Improvement Committee is essential to ensure that any emerging problems are identified and rectified quickly before their consequences escalate, especially in relation to material risks. It will also ensure that a clear message is sent that these matters are important and are being reviewed at the most senior levels in council.

To ensure this occurs, the Chief Audit Executive is to establish and maintain an ongoing monitoring system to track the internal audits undertaken within the council and follow-up the council's progress in implementing corrective actions. For smaller councils, this could simply be in a table or spreadsheet format.

The Chief Audit Executive is to ensure that the Audit, Risk and Improvement Committee is advised at each of the Committee's quarterly meetings of

- the number of internal audits completed during that quarter, including providing copies of the audit reports and advice on their findings
- progress in implementing the annual work plan
- progress made implementing corrective actions arising from any past internal audits, and
- any concerns the Chief Audit Executive may have.

The way this information is communicated is to be decided by the Audit, Risk and Improvement Committee in consultation with the Chief Audit Executive.

(b) The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions

Ongoing monitoring and reporting by the Audit, Risk and Improvement Committee to the governing body of the council is essential for accountability. It will also ensure that the governing body is kept abreast of the internal audits conducted and any emerging issues that may influence the strategic direction of the council or the achievement of the council's goals and objectives.

The governing body of the council is to be advised of the internal audits undertaken and progress made implementing corrective actions and any significant or emerging risk issues after each quarterly meeting of the Audit, Risk and Improvement Committee.

The governing body and the Audit, Risk and Improvement Committee is to decide how the Committee's advice is to be communicated. Options include providing the governing body with:

- a formal monitoring report from the Committee – this report would be for information only and a decision at the council meeting would not be required
- copies of the minutes of the Audit, Risk and Improvement Committee's meeting, or
- where appropriate, copies of the relevant agenda papers considered by the Committee at its quarterly meeting.

(c) The Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair

Where the Audit, Risk and Improvement Committee is concerned about the progress of implementing corrective actions, or an internal audit-related issue arises, the Committee will be able to provide an additional report to the governing body of the council. This will ensure that the governing body is fully aware of the risks posed to the council.

The Chair of the Audit, Risk and Improvement Committee can also request at any time a meeting with the governing body of the council to discuss an internal audit-related issue.

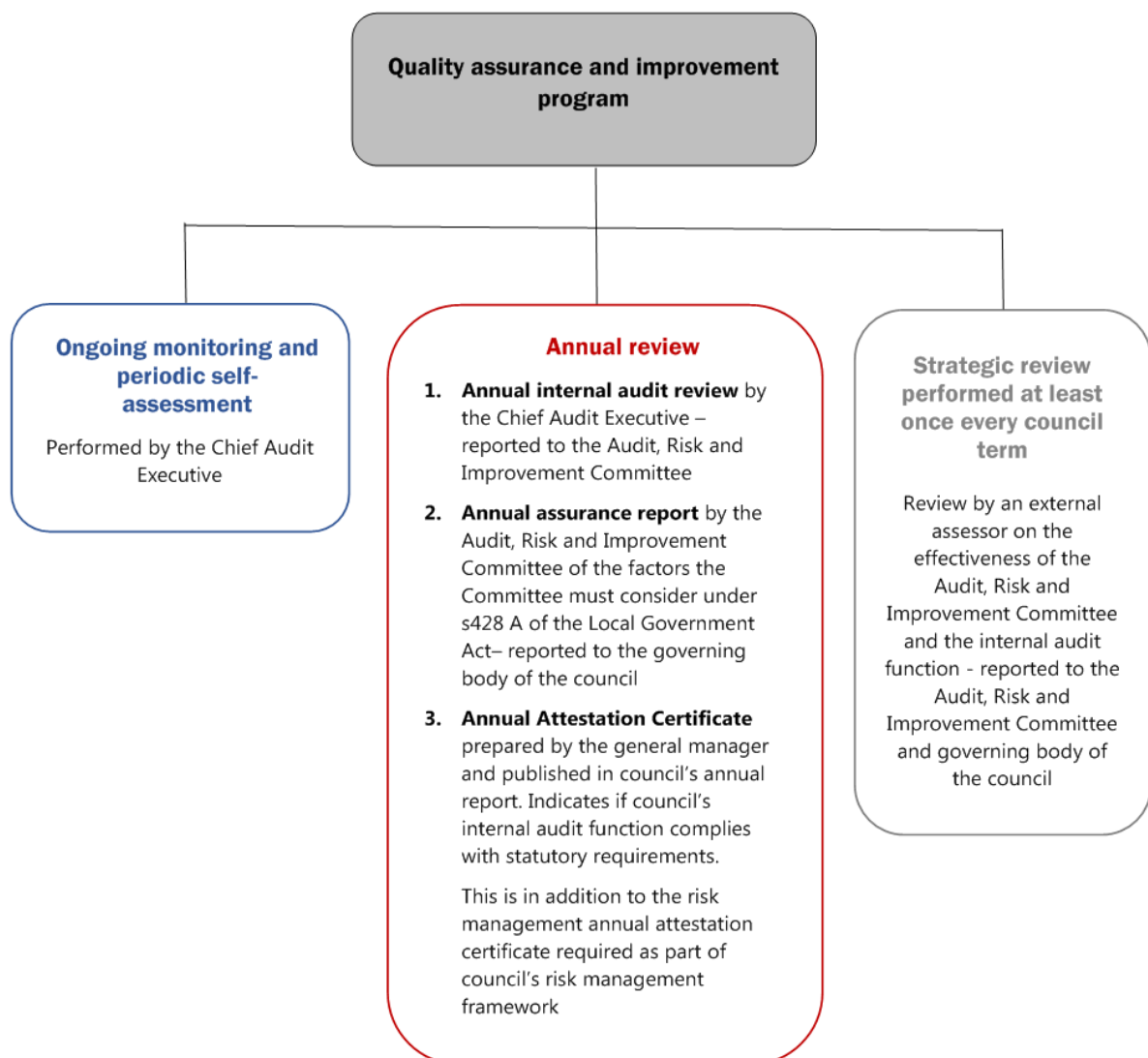
Similarly, the governing body of the council can request by resolution at any time to meet with the Chair of the Audit, Risk and Improvement Committee regarding an internal audit-related issue.

Core requirement 8:
Establish a quality assurance and improvement program

Proposal

It is proposed that:

- (a) the Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once every council term, and
- (b) the general manager is to publish in the council's annual report an annual attestation certificate indicating whether the council has complied with the core requirements for the Audit, Risk and Improvement Committee and the internal audit function.



Description

(a) The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term

The Chief Audit Executive is to ensure that there is a documented and operational quality assurance and improvement program for assurance activities that is reported to the governing body of the council. The quality assurance and improvement program is to consist of three key elements:

- 1. Ongoing monitoring and periodic self-assessments** by the Chief Audit Executive
- 2. An annual review** at the end of each financial year by the:
 - Chief Audit Executive on the performance of the internal audit function for the Audit, Risk and Improvement Committee, and
 - Audit, Risk and Improvement Committee on its responsibilities under section 428A of the Local Government Act for the governing body of the council,
- 3. A strategic external review at least once every council term** (i.e. four years) by an external party which is reported to the Audit, Risk and Improvement Committee and the governing body of the council.

These are described in greater detail below.

Ongoing monitoring and periodic self-assessments

The Chief Audit Executive is to undertake ongoing monitoring and periodic self-assessments of the internal audit function throughout the year to validate that it is operating effectively and delivering quality and value.

Monitoring and self-assessments could consider, for example:

- compliance with regulatory requirements and the IPPF
- the quality and supervision of audit work performed
- standardised work practices
- communication practices
- timeliness of audit activities
- any professional development or training required
- client satisfaction and the degree to which stakeholder expectations are being met
- the adequacy of internal audit policies
- progress towards key performance indicators, and
- any weaknesses or areas that need improvement.

The Chief Audit Executive is to implement any changes necessary to address deficiencies identified through ongoing monitoring and periodic self-assessment.

Annual performance review

The annual review (performed at the end of each financial year) is to assess the assurance activities that occurred over the preceding financial year. It is to consist of the following two elements, which together will ensure that the council's assurance activities are comprehensively assessed and any issues identified.

1. An annual internal audit review by the Chief Audit Executive for the Audit, Risk and Improvement Committee which assesses:

- how effectively council has implemented the internal audit function (for example, that findings are communicated and implemented appropriately, resourcing is sufficient, the Internal Audit Charter remains appropriate etc.)
- how the internal audit function has performed against the annual work plan and performance targets, and
- how the internal audit function and activities comply with statutory requirements and the IPPF and
- the independence of the internal audit function.

This will ensure that the Audit, Risk and Improvement Committee receives the Chief Audit Executive's advice on the effectiveness of the internal audit function each year. It will also enable the general manager to complete the council's annual attestation certificate (see below).

2. An annual assurance review by the Audit, Risk and Improvement Committee for the governing body of the council which includes:

- a summary of the work the Committee performed to discharge its responsibilities during the preceding year
- advice on the appropriateness of the Committee's terms of reference (where they contain additional clauses that are not included in the Model Terms of Reference)
- an overall assessment of the following aspects of the council's operations in accordance with section 428A of the Local Government Act:
 - compliance
 - risk management
 - fraud control
 - financial management
 - governance
 - implementation of the strategic plan, delivery program and strategies
 - service reviews
 - collection of performance measurement data by the council, and
 - any other matters prescribed by the regulation (i.e. internal audit), and
- information to help the council improve the performance of its functions.

This will ensure that the governing body of council receives the Audit, Risk and Improvement Committee's independent assurance about these matters in accordance with legislative requirements each year. This will support the governing body in the exercise of its oversight role under the Local Government Act.

The general manager and senior managers are to be advised of the findings and outcomes of the annual review and the Chief Audit Executive is to develop an action plan for the Audit, Risk and Improvement Committee, governing body of the council and general manager to address any issues identified in the annual review.

Strategic external review

An external assessment of council's assurance activities is to be conducted at least once every council term (i.e. four years) by a qualified, independent assessor according to the IPPF quality assessment framework. Requiring compliance with the IPPF will ensure that each council can have confidence in the findings and that councils are assessed consistently across the sector.

The strategic review is to be commissioned by the governing body of the council and reported to the Audit, Risk and Improvement Committee, governing body and the general manager. The Chief Audit Executive is to develop an action plan for the Committee, governing body of the council and general manager to address any issues identified in the external review.

The external review is to include the following two components:

- **the effectiveness of the Audit, Risk and Improvement Committee**, including:
 - whether the Committee has fulfilled its terms of reference
 - the appropriateness of the Committee's terms of reference (where the Committee's terms of reference contain additional provisions not contained in the Model Terms of Reference)
 - the performance of Committee members
 - the way the Committee, external auditor, council and internal audit function work together to manage risk and support the council and how effective this is, and
 - whether the Committee has contributed to the improvement of the factors identified in section 428A of the Local Government Act.

The external review is to address the collective performance of the Audit, Risk and Improvement Committee and the individual performance of each member and the Chair. The review is to consider feedback on each member's performance by the Chair of the Committee, mayor and general manager.

This component of the four-yearly external review will provide accountability and ensure that the governing body of the council can assess how the Audit, Risk and Improvement Committee is functioning and whether any changes to the Committee's terms of reference or membership are required.

In considering the outcomes of the external strategic review, the governing body of the council will be able to request the Chair of the Committee to address the council and answer any questions about the operation of the Committee.

- **the effectiveness of the internal audit function**, including:
 - the independence of the internal audit function
 - whether resourcing is sufficient
 - whether the internal audit function complies with statutory requirements and the IPPF
 - the appropriateness of annual work plans and strategic plans based on the risks facing the council
 - whether the internal audit function adds value and delivers outcomes for the council, and
 - the appropriateness of the Internal Audit Charter (where it includes additional provisions not contained in the Model Internal Audit Charter).

This component of the strategic external review will ensure that the governing body of the council is able to assess whether the internal audit function is effective and adding value to the council and whether any changes are required. The governing body of the council will be able to request the Chair of the Audit, Risk and Improvement Committee and/or the Chief Audit Executive to address the council and answer any questions about the internal audit function.

External assessor

The governing body will be able to commission the strategic external review by either engaging an external assessor to undertake the assessment, or by undertaking a self-assessment and engaging a qualified external reviewer to conduct an independent evaluation of that self-assessment.

The external assessor must have, at a minimum:

- no real or perceived conflicts of interest
- certification as an internal auditor
- knowledge of internal audit and external assessment practices, and
- sufficient recent experience in internal audit at a management level which demonstrates a working knowledge of statutory requirements and the IPPF.

The strategic review report is to outline the qualifications of the assessor and any potential conflicts of interest.

(b) The general manager is to publish in the council's annual report an annual attestation certificate indicating whether the council has complied with the core requirements for the Audit, Risk and Improvement Committee and internal audit function

The general manager will be required to annually publish an attestation statement in the council's annual report indicating whether, during the prior financial year, the council was 'compliant', 'non-compliant' or 'in transition' against each of the core requirements of the Audit, Risk and Improvement Committee and council's internal audit framework. The certificate can be combined with the risk management attestation certificate required as part of the council's risk management framework.

Compliance status is to be self-assessed based on the results of the annual performance review. The following table lists the proposed compliance categories and follow-up action that will be required.

Councils that are 'non-compliant' can apply to the Chief Executive Officer of the Office of Local Government for an exemption from statutory requirements. The Chief Executive Officer will be able to grant exemptions to any or all statutory requirements and will be able to impose conditions on the exemption given.

An exemption will only be granted where:

- a council cannot comply because of temporary extenuating circumstances, substantial structural constraints or resourcing constraints that will materially impact the council's operating budget
- the council is not able to enter into a shared arrangement with another council/s in order to comply (for internal audit only), and
- current or proposed alternative arrangements will achieve outcomes equivalent to the requirements.

The maximum period an exemption can apply will be 24 months (two reporting periods). Any further exemption must be reapplied for.

The council's application for an exemption must:

- be in writing
- be made prior to the reporting period in which full compliance with statutory requirements cannot be achieved or as soon as circumstances arise during the reporting period that will make full compliance throughout the reporting period impossible
- provide the reasons why the council cannot comply with statutory requirements, and
- describe and demonstrate the council's efforts to implement alternative arrangements and how these will achieve an outcome equivalent to the requirements.

The general manager is to ensure that a copy of the attestation statement and the exception approval from the Chief Executive Officer of the Office of Local Government (if applicable) is published in the council's annual report. A copy of the attestation statement is to also be provided to the Office of Local Government.

The Chair of the Audit, Risk and Improvement Committee is to also sign the attestation statement where they agree that it is a true and accurate reflection of the council's compliance status against statutory requirements.

Proposed compliance status for attestation certificates

Definition	Further requirements
COMPLIANT	
The council is 'compliant' if it has implemented and maintained practices consistent with statutory requirements for the whole of the financial year	The council is to provide a copy of its attestation statement to the Office of Local Government and publish the attestation certificate in the council's annual report.
NON-COMPLIANT	
<p>The council is 'non-compliant' if:</p> <ul style="list-style-type: none"> it has not implemented and maintained a risk management framework or internal audit practices consistent with statutory requirements for the whole of the financial year, or the council's Audit, Risk and Improvement Committee and internal audit function has been in place for more than five years but has not been externally assessed (for internal audit only) 	<p>The general manager will be required to apply to the Chief Executive Officer of the Office of Local Government for an exemption from statutory requirements</p> <p>The council's application for an exemption must:</p> <ul style="list-style-type: none"> be in writing be made prior to the reporting period in which full compliance with statutory requirements cannot be achieved or as soon as circumstances arise during the reporting period that will make full compliance throughout the reporting period impossible provide the reasons why the council cannot comply with statutory requirements, and describe and demonstrate the council's efforts to implement alternative arrangements and how these will achieve an outcome equivalent to the requirements. <p>The general manager must ensure a copy of the attestation statement and the Chief Executive Officer's exemption approval (if applicable) is published in the council's annual report. A copy of the council's attestation statement is also to be sent to the Office of Local Government.</p> <p>The council will also have to explain on the attestation statement why it is not compliant and if it has received an exemption from the Chief Executive Officer.</p>
IN TRANSITION	
<p>The council is 'in transition' if it is transitioning its operations to the statutory requirements during the financial year because:</p> <ul style="list-style-type: none"> it is a newly constituted council established after the risk management and internal audit requirements of the Local Government Act and Regulation came into force (a two-year transition period will be granted in this instance), or the requirements that are not complied with have been newly prescribed within the last two years and the council is in the process of implementing them. 	<p>Councils taking advantage of the transitional arrangements will not be required to apply for approval from the Chief Executive Officer of the Office of Local Government. However, councils must be actively taking steps during the two-year (for internal audit) and five-year (for risk management) transitional period to commence implementation and detail how the council plans to achieve compliance within this period.</p> <p>The council is to provide a copy of its attestation statement to the Office of Local Government.</p>

Core requirement 9:

Councils can establish shared internal audit arrangements

Proposal

It is proposed that:

- (a) a council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils
- (b) the core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements, and
- (c) the general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements.

Description

(a) A council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils

Councils that do not want to establish a stand-alone internal audit function will be able to:

- share all or part of their internal audit function with another council/s of their choosing as part of an independent shared arrangement, or
- utilise a joint internal audit function established by their joint or regional organisation of councils that is shared with other member councils.

These options will:

- assist smaller councils to implement their internal audit function in a more cost-effective way where:
 - a full-time committee, Chief Audit Executive or internal audit function is not necessary
 - the council's risk profile does not warrant stand-alone arrangements, and/or
 - the cost of having a stand-alone arrangements will significantly and unacceptably impact the council's operating budget
- assist councils in remote locations that may find it difficult to employ or appoint the suitably qualified personnel that are necessary to support a stand-alone internal audit function
- allow councils to access a larger resource pool than would be available to a single council
- create efficiencies through common systems, shared knowledge and internal audit tools, and
- potentially lower audit costs.

When deciding the most appropriate way to establish a council's internal audit function, the general manager should consider the viability and capacity of a shared Audit, Risk and Improvement Committee, Chief Audit Executive or internal audit function to meet their responsibilities given the:

- size of the council in terms of both staffing levels and budget
- geographical and functional distribution of the council's operations
- complexity of the council's core business

- risk profile of the council's operations
- expectations of stakeholders, and
- likely demands placed on the committee, Chief Audit Executive or internal audit function by other councils in the shared arrangement.

A shared arrangement should only be established where the shared internal audit function can maintain a high level of understanding and oversight of each council's operations and internal audit function, as well as effective working and reporting relationships with the general manager and governing bodies of each council.

(b) The core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements

The majority of the core requirements outlined in this discussion paper that apply to stand-alone internal audit functions will also apply to shared internal audit arrangements.

This means that any shared internal audit function must operate as an individual resource for each council that meets each council's unique internal audit needs. In terms of roles and responsibilities:

- the **Audit, Risk and Improvement Committee** is to operate as an individual committee for each council in any shared arrangement⁶⁵. This includes the committee:
 - providing independent assurance and oversight for each council
 - endorsing each council's Internal Audit Charter, annual work plan and four-year strategic plan
 - holding individual meetings for each council that are separately minuted⁶⁶ and observers being invited to only attend that part of the committee meeting that relates to their council
 - liaising with the respective governing bodies and general managers of each council in relation to that council's internal audit issues
 - approving individual performance indicators for each council based on that council's needs and operations
 - fulfilling the requirements of each council's quality assurance and improvement program and conducting a separate annual review for each individual council based on that council's internal audit activities which is reported to the governing body of that council
 - maintaining separate and confidential information for each council
- the **Chief Audit Executive** (who may be employed by one of the participating councils or by a joint or regional organisation of councils) is to work separately with each council in any shared arrangement to implement the internal audit function for that council. This includes the Chief Audit Executive:
 - liaising with the governing body and general manager of each separate council about that council's internal audit activities
 - individually developing and implementing the annual work plan and four-year strategic plan for each council, based on each council's individual requirements and in consultation with that council's general manager
 - developing and maintaining internal audit policies and procedures for each council based on that council's needs and operations

⁶⁵ Under the NSW Government's prequalification scheme, membership on any shared Audit, Risk and Improvement Committee will count as one towards the limit of five memberships allowed for a committee member

⁶⁶ Individual meetings for each council can be held sequentially but joint or shared meetings discussing multiple councils must not be held (apart from common agenda items, for example, the Audit, Risk and Improvement Committee's terms of reference, Internal Audit Charter etc.)

- conducting the individual audits of each council
- confirming the implementation by the council of corrective actions that arise from the findings on internal audit activities
- submitting to each respective council an individual report after each internal audit and liaising with the general manager of each respective council (and governing body where necessary) on that council's internal audit issues
- managing any contractual arrangements for externally provided internal audit personnel on behalf of each council in the shared arrangement
- fulfilling the requirements of each council's quality assurance and improvement program and conducting a separate annual review for each individual council based on that council's internal audit activities which is reported separately to the Audit, Risk and Improvement Committee
- attending the Audit, Risk and Improvement Committee meetings of each respective council on behalf of that council
- maintaining separate and confidential information for each council
- providing independent assurance and oversight for each council, and
- **internal audit personnel** (who may be employed by one of the participating councils or by a joint or regional organisation of councils or supplied through an external provider) are to operate as an individual internal auditor/internal audit team for each council in any shared arrangement. This includes internal audit personnel conducting the individual internal audits of each council.

Given there are multiple councils and therefore multiple decision-making bodies involved, shared arrangements will have a number of unique requirements that will be different to those that apply to a stand-alone internal audit function. These are described below.

Unique requirements for independent shared arrangements

Decision-making body

The governing body and general manager of a council are the key decision-makers in a council in relation to internal audit. However, given that any shared arrangement will have more than one governing body and general manager, decision-making in relation to a shared internal audit function is likely to be administratively complex.

To simplify and streamline decision making, councils in an independent shared arrangement will be required to establish a committee comprising of councillors from each of the participating councils under section 355 of the Local Government Act. This committee will make the following decisions (where applicable) about the Audit, Risk and Improvement Committee, Chief Audit Executive or internal audit function that would otherwise be made by the governing body of each council, and each council will be required to delegate these decisions to the committee:

- approving the Internal Audit Charter (after endorsement by the Audit, Risk and Improvement Committee), so it can then be adopted by each individual council
- determining the size of the shared Audit, Risk and Improvement Committee
- appointing and dismissing members and the Chair of the shared Audit, Risk and Improvement Committee
- approving the terms of reference of the Audit, Risk and Improvement Committee (after endorsement by the Committee), so it can then be adopted by each individual council, and
- approving internal audit policies and procedures (in consultation with the Audit, Risk and Improvement Committee and the general managers of each participating council), so they can then be adopted and implemented by each individual council.

Where an Audit, Risk and Improvement Committee is shared, each council in the shared arrangement will still be required to adopt and implement their own Internal Audit Charter, terms of reference for the Audit, Risk and Improvement Committee, and internal audit policies and procedures.

Committee members will be required to consult with other members of the governing body of their council on any decisions made. All other functions assigned to the governing body of a council in core requirements 1-8 will remain with each individual council.

Auspecting body

Where the Chief Audit Executive and other internal audit personnel are shared by councils, these positions must be employed by one of the participating councils in the shared arrangement and located together to work effectively. The Chief Audit Executive must also report administratively to the general manager of the council that employs them.

This will create greater administrative efficiency by reducing reporting and communication lines. It will also ensure that:

- the Chief Audit Executive reports administratively to one general manager on behalf of all councils in the independent shared arrangement
- the Chief Audit Executive, in-house internal audit staff and secretariat staff will be employees of, and located at the auspecting council and have access to necessary administrative and HR support, and
- the Chief Audit Executive and internal audit staff will be subject to the Code of Conduct of the auspecting council.

Administrative responsibility and oversight of the shared internal audit function should be exercised by an administrative oversight committee comprising of all general managers of the participating councils.

The administrative oversight committee will have the following responsibilities in relation to the Audit, Risk and Improvement Committee:

- ensuring adequate procedures are in place to protect the independence of the Audit, Risk and Improvement Committee
- overseeing arrangements for secretariat support for the Audit, Risk and Improvement Committee, and
- receiving written declarations from members that they do not have conflicts of interest that may preclude them from serving on the Audit, Risk and Improvement Committee.

The administrative oversight committee will also have the following responsibilities in relation to the Chief Audit Executive and internal audit staff:

- recommending the appointment and dismissal of the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee and governing bodies of each council) – the ultimate decision will be made by the employing general manager, and
- recommending any changes impacting the employment of the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee) – the ultimate decision will be made by the employing general manager.

Allegations of breaches of the auspecting council's Code of Conduct by the Chief Audit Executive or internal audit staff are to be dealt with by the auspecting general manager, in consultation with the other general managers.

The general managers of each council will be required to attend the Audit, Risk and Improvement Committee meetings related to their council and to undertake all other functions in relation to internal audit referred to general managers in core requirements 1-8.

Unique requirements for joint/regional organisation shared arrangements

Decision-making body

The member councils of a joint or regional organisation are to delegate their decision making authority in relation to internal audit under section 377 of the Local Government Act to the Board of their joint or regional organisation of councils. The Board will make the decisions that would have otherwise been made by the governing body of each council. This includes:

- adopting the Internal Audit Charter on behalf of each member council (after endorsement by the Audit Risk and Improvement Committee)
- appointing and dismissing members and the Chair of the shared Audit, Risk and Improvement Committee
- adopting the terms of reference of the Audit, Risk and Improvement Committee on behalf of each member council (after endorsement by the Audit, Risk and Improvement Committee), and
- adopting internal audit policies and procedures on behalf of each member council (in consultation with the Audit, Risk and Improvement Committee and the general managers of each participating council).

All other functions assigned to the governing body of a council in core requirements 1-8 will remain with each individual council.

Auspecting body

The shared internal audit function is to be undertaken on behalf of member councils by the joint or regional organisation of councils. This will mean that:

- the Chief Audit Executive will report administratively to the executive officer of the joint/regional organisation
- the Chief Audit Executive, in-house internal audit staff and secretariat staff will be employees of the joint or regional organisation. The Chief Audit Executive and in-house internal audit staff may be located at the joint or regional organisation or at one of the member councils and have access to necessary administrative and HR support supplied through the joint or regional organisation or council, and
- the Chief Audit Executive and internal audit staff will be required to comply with the Code of Conduct of the joint or regional organisation⁶⁷.

The executive officer of the joint/regional organisation will also, on behalf of, and in consultation with each general manager in the shared arrangement, take on the administrative responsibility of some aspects of the shared internal audit function.

In relation to the Audit, Risk and Improvement Committee, this includes:

- determining the size of the Audit, Risk and Improvement Committee
- ensuring adequate procedures are in place to protect the independence of the Audit, Risk and Improvement Committee
- arranging secretariat support for the Audit, Risk and Improvement Committee, and
- receiving written declarations from members that they do not have conflicts of interest that may preclude them from serving on the Audit, Risk and Improvement Committee.

⁶⁷ Where the Code of Conduct of the joint or regional organisation differs from the Model Code of Conduct, the Model Code of Conduct will apply.

In relation to the Chief Audit Executive and internal audit staff, this includes:

- appointing and dismissing the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee and governing bodies of each council)
- deciding any changes that may impact the employment of the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee), and
- dealing with breaches of the joint/regional organisation's code of conduct by the Chief Audit Executive or internal audit staff.

The general manager of each council will be required to attend the Audit, Risk and Improvement Committee meetings that relate to their council and exercise all other functions of the general managers in relation to internal audit described in core requirements 1-8.

Internal audit requirements for joint organisations

It is important to note that, like councils, joint organisations will also be required to appoint an Audit, Risk and Improvement Committee and have an internal audit function.

The Audit, Risk and Improvement Committee appointed by the joint organisation on behalf of member councils is therefore also to operate as the Audit, Risk and Improvement Committee for the joint organisation and the Chief Audit Executive appointed by the joint organisation is also to oversee the internal audit function for the joint organisation in addition to member councils.

Fees for shared Audit, Risk and Improvement Committee members

The following fee structure that currently applies under the NSW Government's prequalification scheme for Audit and Risk Committee Chairs and Members will apply to all shared arrangements, subject to any change.

Shared Audit, Risk and Improvement Committees	Fee category (based on stand-alone internal audit functions)	Chair fee (excluding GST)	Member fee (excluding GST)
Up to and including three small councils	Medium	\$16,213 per annum	\$1,621 per meeting day including preparation time
Two or more medium councils	Large	\$20,920 per annum	\$2,092 per meeting day including preparation time
Any combination of small and medium councils	Large	\$20,920 per annum	\$2,092 per meeting day including preparation time

(c) The general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements

The general manager of each council in any shared arrangement will be required to sign a 'Shared Internal Audit Resourcing Agreement' with the other councils in the shared arrangement which agrees the following components.

Shared Internal Audit Resourcing Agreement

Issue	Components to be agreed by councils
Audit, Risk and Improvement Committee	<ul style="list-style-type: none"> • Number of committee members • Term of committee membership • Process for appointing and dismissing the Chair and committee members, including skills and capability requirements • Content, approval and review of the committee's terms of reference • Process for reviewing the committee's performance • Secretariat support arrangements for the committee • The committee's meeting schedule, including the sequencing of meetings to cover each council's requirements and when and how emergency committee meetings can be called • Process for the committee to request others to attend committee meetings or provide additional information about internal audit matters • Arrangements for the provision of information by the committee to the Chief Audit Executive and internal audit personnel, as well as the governing body and general manager of each council
Auspicing arrangements	<ul style="list-style-type: none"> • What the auspicing arrangements will be • What the responsibilities of each council will be • Roles, responsibilities and reporting lines of the internal audit function
Chief Audit Executive and internal audit personnel	<ul style="list-style-type: none"> • Whether internal audit personnel are in-house or contracted through an external provider • Chief Audit Executive and internal audit personnel's purpose, scope, authority, delegations, role, responsibilities and reporting lines • HR matters such as recruitment processes, disciplinary matters, employment conditions, HR support, remuneration • Process for reviewing the performance of the Chief Audit Executive and internal audit personnel as part of each council's quality assurance and improvement program
Administrative arrangements	<ul style="list-style-type: none"> • Content of the Internal Audit Charter as well as how it is approved and reviewed • How costs will be determined, administered and shared • How disputes between councils in the shared arrangement will be resolved • How conflicts of interest, disciplinary or performance issues regarding Audit, Risk and Improvement Committee members, the Chief Audit Executive and internal audit personnel are to be dealt with • Information management and record-keeping • What information, if any, will be shared between councils • How much time the internal audit function spends on each council • Composition of the s 355 committee and the process for appointing and removing members (for independent shared arrangements) • Establishment and operation of the general manager's administrative oversight committee (for independent shared arrangements) • Process for agreeing contractual arrangements with external providers • Procedures and safeguards to be put in place to preserve the independence of the internal audit function

NEXT STEPS

Have Your Say

In developing the risk management and internal audit framework proposed in this paper, the Office of Local Government has considered the recommendations of various inquiries conducted by the Local Government Acts Taskforce, the Independent Local Government Review Panel and the Independent Commission Against Corruption, and the internal audit frameworks of other jurisdictions.

The Institute of Internal Auditors, NSW Treasury, the Department of Finance, Services and Innovation, the NSW Audit Office and the Executive of the Local Government Internal Auditors Network have also provided valuable feedback on earlier drafts of this discussion paper.

We now want to hear from you.

Key questions to consider

- Will the proposed internal audit framework achieve the outcomes sought?
- What challenges do you see for your council when implementing the proposed framework?
- Does the proposed framework include all important elements of an effective internal audit and risk framework?
- Is there anything you don't like about the proposed framework?
- Can you suggest any improvements to the proposed framework?

Submissions may be made in writing by **31 December 2019** to the following addresses.

Post

Locked Bag 3015
NOWRA NSW 2541

Email:

olg@olg.nsw.gov.au

Submissions should be marked to the attention of the Council Governance Team.

Next steps

Feedback will be considered when finalising the risk management and internal audit framework.

Once finalised, the Office of Local Government will notify councils of the new requirements and the steps and timeline for implementation.

Further information

For more information, please contact the Council Governance Team on (02) 4428 4100 or via email at olg@olg.nsw.gov.au.

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APPENDIX 1 – TIMELINE OF KEY INFLUENTIAL EVENTS

When	Who	What
2008	Office of Local Government ⁶⁸	<p>Internal Audit Guidelines for local government in NSW</p> <p>The Office of Local Government issued <i>Internal Audit Guidelines</i> under section 23A of the Local Government Act. The Guidelines sought to assist councils to put into place effective risk management and internal audit processes. This was in recognition that many councils wished to have a risk management framework and internal audit function and wanted guidance on how to achieve this. The Guidelines included:</p> <ul style="list-style-type: none"> • the aims and objectives of risk management and internal audit in councils • how a risk management framework and an internal audit function is to be overseen, structured and operated • the roles, responsibilities and reporting lines of relevant staff • the need for internal audit charters, and • the establishment, structure and function of audit and risk management committees.
2010	Office of Local Government ⁶⁹	<p>Internal Audit Guidelines for local government in NSW - updated⁷⁰</p> <p>A survey of councils conducted by the Office of Local Government to ascertain the progress made towards implementing the 2008 Guidelines found that while more than 50% of councils reported that they had an internal audit function, there were areas where the Guidelines needed to be clarified to improve compliance. The Guidelines were updated to:</p> <ul style="list-style-type: none"> • provide more guidance on the requirements for an independent audit committee • expand the conflicts of interest provisions, and • clarify the role of the general manager in the internal audit function.

⁶⁸ Then the Department of Local Government

⁶⁹ Then the Division of Local Government in the Department of Premier and Cabinet

⁷⁰ Division of Local Government (2010) *Internal Audit Guidelines*

When	Who	What
2011	Independent Commission Against Corruption	<p>Burwood Council Inquiry</p> <p>The Independent Commission Against Corruption found in its <i>Investigation into alleged corrupt conduct involving Burwood Council's General Manager and others</i>⁷¹ that the absence of internal audit at Burwood Council was a significant factor that allowed corruption to occur at that council. The Commission recommended that:</p> <ul style="list-style-type: none"> internal audit be legislatively mandated for local councils in NSW, and in the case of small councils, the possibility of councils sharing an internal audit function should also be provided as an option. <p>The Commission also made a number of specific recommendations regarding internal audit functions in NSW councils:</p> <ul style="list-style-type: none"> it be made a legislative requirement that council's internal audit committee be able to meet without the general manager present as this would preserve its capacity to meet as an independent body it be made a legislative requirement that the general manager of a council report to the governing body any decision to dismiss an internal auditor and the reason for the decision. This will help protect internal auditors from dismissal as a result of conducting an audit involving the conduct of a general manager the Local Government Act be amended to confer powers on internal auditors similar to those conferred on external auditors. These powers should include full and free access to council information in order to carry out the internal audit function and the power to direct general managers, councillors and staff to produce documents and answer questions clause 9.2(d) of the <i>Model Code of Conduct for Local Councils in NSW</i> be amended to permit councillors to provide information directly to internal auditors. This amendment was considered necessary to increase internal auditors' potential sources of information, and the reporting structure for councils' internal audit function include provision for the governing body of the council to receive information about the outcome of audits. <p>Specific to Burwood Council, but relevant to councils state-wide, the Commission also recommended that:</p> <ul style="list-style-type: none"> council's audit and risk committee be chaired by a person independent of council the governing body of the council receive regular updates on the outcome of internal audits council's internal audit function monitor compliance with the Councillor Expenses and Facilities Policy, any policy for the payment of out-of-pocket expenses to the general manager and staff and council's system for allocating work to legal practitioners as part of its oversight role, and council's internal audit function conducts audits of the authorisation certification and approval processes for expenditure that is unusual or infrequent.

⁷¹ Independent Commission Against Corruption (2011) *Investigation into the alleged corrupt conduct involving Burwood Council's general manager and others*

When	Who	What
2012	NSW Auditor-General	<p>Monitoring Local Government report⁷²</p> <p>The NSW Auditor-General found that over 75 councils had some sort of internal audit function and recommended that amendments be made to the Local Government Act (or other suitable alternative measures) that enable the Office of Local Government to make directions to require councils to have an Audit, Risk and Improvement Committee, internal audit function and fraud control procedures. The NSW Auditor-General also recommended that the Office of Local Government use council internal audit reports to identify councils at financial risk and identify matters which warrant attention.</p>
2013	Local Government Acts Taskforce	<p>Review of the Local Government Act 1993</p> <p>The Local Government Acts Taskforce recommended in its report, <i>A new Local Government Act for NSW and Review of the City of Sydney Act 1988⁷³</i>, that the Act be amended to:</p> <ul style="list-style-type: none"> • legislate financial governance principles councils are to abide by • require councils to implement a financial governance framework that includes risk management, audit, internal controls and independent verification of financial reporting • require councils to incorporate risk management, accountability, value for money and probity in procurement, approval, enforcement and capital expenditure processes, and • require all decisions to incorporate considerations of risk management and long-term sustainability. <p>The Taskforce conducted extensive public and sector consultation in formulating its recommendations.</p>
2013	Independent Local Government Review Panel	<p>Independent Local Government Review Panel</p> <p>The Independent Local Government Review Panel found that, as at 2013, 50% of NSW councils had an Audit, Risk and Improvement Committee and/or some form of internal audit process. However, those that did tended to focus primarily on compliance, risk and fraud control and had committees that were strongly embedded within the council and answerable primarily to the general manager. This could generate conflicts of interest.</p> <p>The Panel recommended in its report, <i>Revitalising Local Government⁷⁴</i>, that the 2010 Internal Audit Guidelines issued by the Office of Local Government be made mandatory under the Local Government Act and that each council be required to have an internal audit function. Under the mandatory framework the Panel specifically recommended that:</p> <ul style="list-style-type: none"> • each council's internal audit function focus on adding value and continuous improvement rather than compliance, risk and fraud control • all councils with expenditures over a set amount (e.g. \$20 million per annum) be required to have an Audit, Risk and Improvement Committee and associated internal audit function with broad terms of reference covering financial management, good governance, performance in implementing the community

⁷² NSW Auditor-General (2012) *NSW Auditor-General's Report - Monitoring local government: Department of Premier and Cabinet, Division of Local Government*

⁷³ Local Government Acts Taskforce (2013) *A New Local Act for New South Wales and Review of the City of Sydney Act 1988*

⁷⁴ Independent Local Government Review Panel (2013) *Revitalising Local Government. Final Report of the NSW Independent Local Government Review Panel*

When	Who	What
		<p>strategic plan and delivery program, service reviews, collection of required indicator data, continuous improvement and long-term sustainability</p> <ul style="list-style-type: none"> • each Audit, Risk and Improvement Committee should have a majority of independent members and an independent Chair, and the general manager should be precluded from being a committee member (but not from attending committee meetings) • the Chair be required to report biannually to a council meeting on council's financial management, governance processes and opportunities for continuous improvement • councils be able to share their internal audit functions under the auspices of joint organisations, and • the NSW Auditor-General conduct issue-based performance audits relating to internal audit. <p>The Panel conducted extensive public and sector consultation in formulating its recommendations.</p>
2016	NSW Parliament	<p>Amendments to the Local Government Act 1993</p> <p>In response to the recommendations of the Independent Local Government Review Panel, the Local Government Act was amended⁷⁵ to require all councils to have an Audit, Risk and Improvement Committee to keep under review the following aspects of council's operations:</p> <ul style="list-style-type: none"> • compliance • risk management • fraud control • financial management • governance • implementation of the strategic plan, delivery program and strategies • service reviews • council's performance, and • the collection of performance measurement data by the council. <p>Guiding principles were include in the Act to require councils to have sound policies and processes for risk management and to effectively and proactively manage risks to the local community and council.</p> <p>The roles and responsibilities of the governing body, mayor, councillors were also updated and include the need to comply with the guiding principles and keep the performance of the council under review.</p> <p>The amendments followed an extensive public consultation process.</p>
2017	Independent Commission Against Corruption	<p>Botany Bay Council Inquiry</p> <p>The Independent Commission Against Corruption found, in its <i>Investigation into the conduct of the former City of Botany Bay chief financial officer and others</i>⁷⁶, that whilst Botany Bay Council did have an internal audit function:</p> <ul style="list-style-type: none"> • it lacked independence from council's management and was prevented by the general manager from investigating the key operational areas and financial aspects of the council where corruption was occurring

⁷⁵ The Local Government Act was amended via the *Local Government Amendment (Governance and Planning) Act 2016*

⁷⁶ Independent Commission Against Corruption (2017) *Investigation into the former City of Botany Bay Council Chief Financial Officer and others*. ICAC Report July 2017

When	Who	What
		<ul style="list-style-type: none"> it was never able to directly present information or audit reports to the Audit, Risk and Improvement Committee or meet with the Committee to discuss concerns without the general manager present it did not use risk ratings to determine what audits would be conducted which enabled key areas (where corruption was occurring) to be missed the council's Audit, Risk and Improvement Committee was ineffective and did not properly examine the council, internal audit function or monitor the implementation of corrective actions, or report to the governing body standard controls were frequently ignored, e.g. management letters key financial staff in the council lacked the capabilities to perform their role the governing body thought it was unable to request more information about audit activities the governing body of council did not properly consider external audit reports or implement recommended corrective actions, and corruption and misuse of public money was able to occur unabated. <p>The Commission recommended that the internal audit model to be developed under the 2016 amendments to the Act be comparable to that which applies to state government agencies. The Commission specified in particular that the NSW Government:</p> <ul style="list-style-type: none"> issue mandatory administration and governance directives to local government similar to those that apply to state government agencies require the composition and operation of audit committees to be similar to those that apply to state government agencies (i.e. all independent members), and require the general managers of each council to regularly attest that its audit committee is operating in accordance with requirements. <p>The Commission also noted that had the NSW Auditor-General been conducting council's external audits (as now occurs) the corrupt conduct would have been detected much more quickly than it was.</p> <p>Specific to Botany Bay Council, but relevant to councils state-wide, the Commission also recommended that:</p> <ul style="list-style-type: none"> council ensures that the implementation of both internal and external audit recommendations is considered by the governing body of the council when evaluating the performance of the general manager council undertake a risk assessment (including an assessment of fraud and corruption risks) to inform its internal audit plan council ensures that its internal audit function operates independently from management by reporting functionally to its Audit, Risk and Improvement Committee council ensures that it has a robust system in place to monitor and report on the implementation of internal audit recommendations that is independent from management, and the general manager reviews the Audit, Risk and Improvement Committee's effectiveness and the adequacy of its arrangements to ensure that it fulfils the responsibilities of its charter and provides sufficient assistance to the governing body on governance processes.

When	Who	What
2018	NSW Auditor-General	<p>Report on Local Government 2017</p> <p>The NSW Auditor-General released her first audit of the NSW local government sector⁷⁷ in April 2018 following the 2016 Local Government Act amendments. In relation to internal audit, the NSW Auditor-General found that, out of a combined 128 local councils and 10 county councils:</p> <ul style="list-style-type: none"> 85 councils (62%) have an Audit, Risk and Improvement Committee and 53 (38%) do not. This is further broken down by location: <ul style="list-style-type: none"> 32 metropolitan councils (94%) have a committee and 2 (6%) do not 29 regional councils (78%) have a committee and 8 (22%) do not 23 rural councils (40%) have a committee and 34 (60%) do not 1 county council (10%) has a committee and 9 (90%) do not 86 council have a supporting internal audit function and 52 councils (38%) do not. This is further broken down by location: <ul style="list-style-type: none"> 31 metropolitan councils (91%) have an internal audit function and 3 (9%) do not 29 regional councils (78%) have an internal audit function and 8 (22%) do not 24 rural councils (42%) have an internal audit function and 33 (58%) do not 2 county councils (20%) have an internal audit function and 8 (80%) do not, and 102 councils (74%) have either an Audit, Risk and Improvement Committee or an internal audit function and 36 councils (26%) have neither. <p>The Auditor-General also found that of the councils that did have a risk management framework in place, many of them were outdated and did not have accurate risk registers, risk policies and/or procedures. Many councils also had significant risks that were not being managed appropriately and were consequently affecting the governance, financial sustainability, asset management and legislative compliance of the council. 55% of Committees were also not reviewing the financial statements of councils.</p> <p>The NSW Auditor-General recommended in relation to risk management and internal audit that:</p> <ul style="list-style-type: none"> the Office of Local Government introduce a requirement for all councils to establish internal audit functions the Office of Local Government update its 2010 Internal Audit Guidelines Audit, Risk and Improvement Committees review the financial statements of councils councils could strengthen governance by implementing risk management and/or ensure their existing risk management framework includes IT, and councils should early adopt the proposed requirement to establish an Audit, Risk and Improvement Committee.

⁷⁷ NSW Auditor-General (2018) *Report on Local Government 2017*

When	Who	What
2019	NSW Auditor-General	<p>Report on Local Government 2018</p> <p>The NSW Auditor-General⁷⁸ found in her 2018 report that out of a combined 128 councils and 10 county councils, the number that have an:</p> <ul style="list-style-type: none"> ○ Audit, Risk and Improvement Committee increased from 85 (62%) in 2017 to 97 (70%), and ○ internal audit function increased from 86 (62%) in 2017 to 92 (67%). <p>The NSW Auditor-General attributed these increases to the 2016 amendments to the Local Government Act that mandate Audit, Risk and Improvement Committees and internal audit functions from March 2021.</p> <p>The councils yet to establish an Audit, Risk and Improvement Committee and internal audit function are mainly rural and county councils (50-60% of rural and county councils are non-compliant). Most metropolitan councils have a Committee and all have an internal audit function.</p> <p>For those councils that did have an Audit, Risk and Improvement Committee:</p> <ul style="list-style-type: none"> • 98% of Committees have an Audit, Risk and Improvement Committee Charter • 94% of Committees have an independent Committee Chair • 90% of Committees are advised of significant, complex or contentious financial reporting issues • 87% of Committees monitor progress in addressing internal and external audit recommendations • 83% of Committees have a majority of members who are independent • 81% of Committees review the council's risk register • 48% of Committees perform an annual self-assessment of their performance. <p>For those councils that did have an internal audit function:</p> <ul style="list-style-type: none"> • 95% have a documented internal audit plan • 90% of Audit, Risk and Improvement Committees review the internal audit plan • 85% of internal audit plans align with the council's risk register, and • 61% of Committees assess the performance of the internal audit function. <p>In relation to risk management, the NSW Auditor-General found that:</p> <ul style="list-style-type: none"> • 120 (87%) councils have a risk management policy and 18 (13%) councils do not • 100 (72%) councils have a risk register and 38 (28%) councils do not, and • 126 (91%) councils' risk registers align with their strategic objectives and 12 (9%) do not. <p>The NSW Auditor-General also recommended that councils:</p> <ul style="list-style-type: none"> • strengthen their risk management policies and practices • manage a number of specific high-risks better • implement stronger internal controls • improve fraud control, IT, asset management, procurement and contract management policies and practices, and • implement a legislative compliance framework tailored to the size and risk profile of the council.

⁷⁸ NSW Auditor-General (2019) *Report on Local Government 2018* (see erratum)



A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK

for local councils in NSW

Snapshot Guide

September 2019



A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL COUNCILS IN NSW – SNAPSHOT GUIDE

2019

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A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL GOVERNMENT IN NSW - **Snapshot Guide**

Purpose

This summary guide provides a 'snapshot' of the mandatory internal audit and risk management framework that is being proposed for NSW councils.

For a full understanding of the proposed framework, please refer to the discussion paper, *A new risk management and internal audit framework for local councils in NSW*, which can be found at www.olg.nsw.gov.au.

Introduction

In 2016, the NSW Government made it a requirement under the *Local Government Act 1993* ('Local Government Act') that each council have an Audit, Risk and Improvement Committee. This requirement is likely to take effect from March 2021. Councils are also required to proactively manage any risks they face under the new guiding principles of the Act.

The Government is consulting on the proposed regulatory framework that will support the operation of these committees, and the establishment of a risk management framework and internal audit function in each council.

There will be nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committees, risk management framework and internal audit function.

These requirements are based on international standards and the experience of Australian and NSW Government public sector agencies who have already implemented risk management and internal audit.

There are also components of the proposed framework that are designed to reflect the unique needs and structure of NSW councils.

The framework will apply to councils, county councils and joint organisations.

Have Your Say

The NSW Government would like to know what you think of the framework being proposed.

Submissions may be made in writing by **31 December 2019** to the following addresses.

Post: Locked Bag 3015 NOWRA NSW 2541
Email: olg@olg.nsw.gov.au

Key questions you may wish to consider when providing your feedback include:

- will the proposed framework achieve the outcomes sought?
- what challenges do you see for your council when implementing the proposed framework?
- does the proposed framework include all important elements of an effective internal audit and risk framework?
- is there anything you don't like about the proposed framework?
- can you suggest any improvements to the proposed framework?

Proposed regulatory framework

The NSW Government's objective is to ensure that:

- each council in NSW has an independent Audit, Risk and Improvement Committee that adds value to the council
- each council in NSW has a robust risk management framework in place that accurately identifies and mitigates the risks facing the council and its operations
- each council in NSW has an effective internal audit function that provides independent assurance that the council is functioning effectively and the internal controls the council has put into place to manage risk are working, and
- councils comply with minimum standards for these mechanisms that are based on internationally accepted standards and good practice.

The proposed statutory framework will consist of the following three elements:

1. Current provisions in the Local Government Act

Section 428A

Section 428A (when proclaimed) will require each council to establish an Audit, Risk and Improvement Committee to continuously review and provide independent advice to the general manager and the governing body of council about:

- whether the council is complying with all necessary legislation
- the adequacy and effectiveness of the council's risk management framework, fraud and corruption prevention activities, financial management processes, and the council's financial position and performance
- the council's governance arrangements

- the achievement of the goals set out in the council's community strategic plan, delivery program, operational plan and other strategies
- how the council delivers local services and how to improve the council's performance of its functions more generally
- the collection of performance measurement data by the council, and
- any other matters prescribed by the *Local Government (General) Regulation 2005* (i.e. internal audit).

Section 428B

Section 428B (when proclaimed) will also allow a council to establish a joint Audit, Risk and Improvement Committee with another council/s including through joint or regional organisations of councils.

Guiding principles and roles and responsibilities

Amendments made to the Local Government Act in 2016 prescribed new guiding principles for councils and updated the prescribed roles and responsibilities of the governing body (section 223) and general manager (section 335). These amendments will operate to support the work of Audit, Risk and Improvement Committees and provide for the future establishment of a risk management and internal audit function in each council.

These guiding principles and roles and responsibilities have already commenced.

2. New regulations

The operation of sections 428A and 428B will be supported by new regulations in the *Local Government (General) Regulation 2005*.

These will prescribe the requirements that councils are to comply with when appointing their Audit, Risk and Improvement Committee and establishing their risk management framework and internal audit function.

The regulations will also provide for a model internal audit charter and model terms of reference for Audit, Risk and Improvement

Committees which all councils must adopt and comply with.

3. New Guidelines

New guidelines will be issued setting out the core requirements that each council's Audit, Risk and Improvement Committee, risk management framework and internal audit function must comply with.

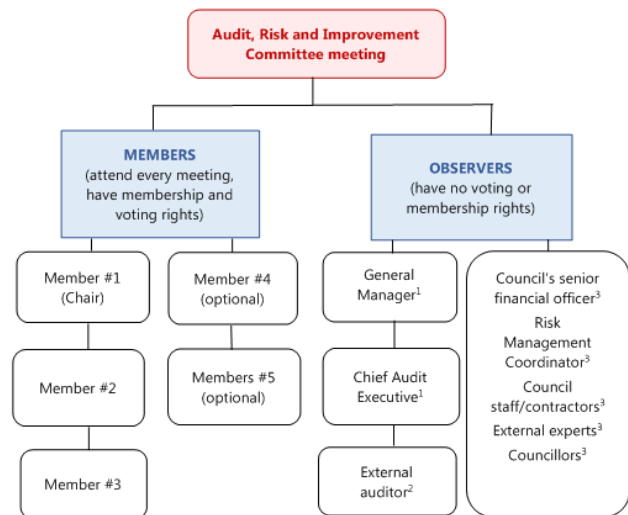
These core requirements are detailed below.

Core requirement 1: Appoint an independent Audit, Risk and Improvement Committee

- Each council is to have an independent Audit, Risk and Improvement Committee that reviews all the matters prescribed in section 428A of the Local Government Act
- The Audit, Risk and Improvement Committee is to operate according to terms of reference, based on a model terms of reference, and approved by the governing body of the council after endorsement by the Committee
- The Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years
- The Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit

Executive (see below) should attend except where excluded by the Committee

- Audit, Risk and Improvement Committee members are to comply with the council's code of conduct and the conduct requirements of the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- Disputes between the general manager and/or the Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council
- The Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body of the council and be assessed by an external party at least once each council term as part of council's quality assurance and improvement program
- The general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes are to be recorded for all committee meetings



¹ Attends each meeting except where excluded by the Committee

² Open invitation to attend every meeting as an independent advisor

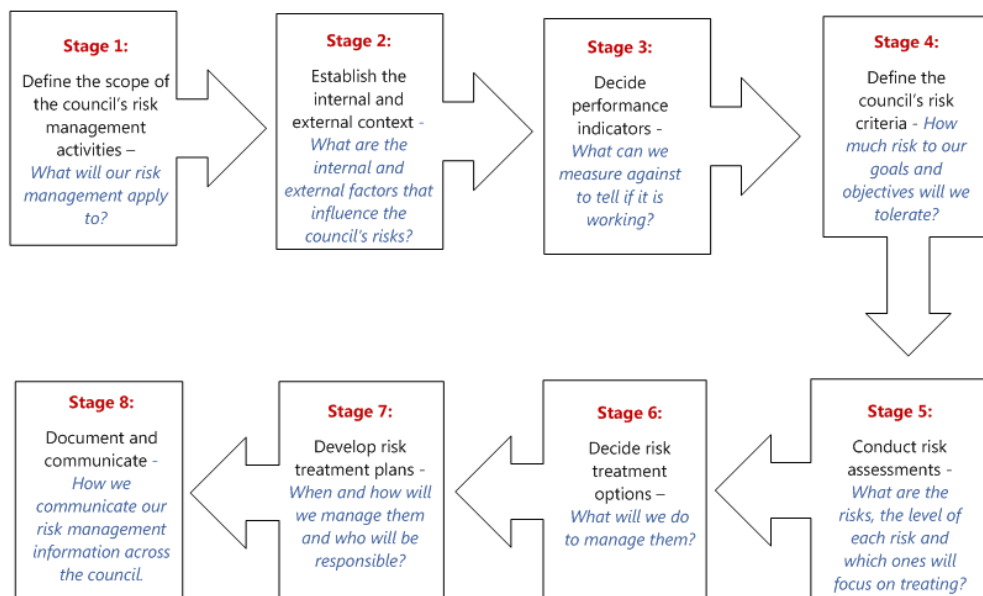
³ When invited by the Committee to attend/give information

Core requirement 2:

Establish a risk management framework consistent with the current Australian risk management standards

- Each council is to establish a risk management framework that is consistent with current Australian standards for risk management
- The governing body of the council is to ensure that council is sufficiently resourced to implement an appropriate and effective risk management framework
- Each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process (see below). This includes deciding the council's risk criteria and how risk that falls outside tolerance levels will be treated
- Each council is to fully integrate its risk management framework within all of council's decision-making, operational and integrated planning and reporting processes
- Each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and ensure accountability
- Each council is to ensure its risk management framework is regularly monitored and reviewed
- The Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities
- The general manager is to publish in the council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements

Stages of a council's risk management process



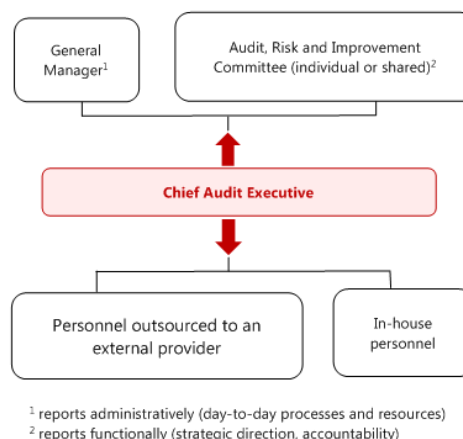
A New Risk Management and Internal Audit Framework for Local Councils in NSW – Snapshot Guide

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Core requirement 3: Establish an internal audit function mandated by an Internal Audit Charter

- Each council is to establish an internal audit function
- The governing body is to ensure that the council's internal audit function is sufficiently resourced to carry out its work
- The governing body of the council is to assign administrative responsibility for internal audit to the general manager and include this in their employment contract and performance reviews
- The Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. The Charter is to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee

- The general manager is to ensure that, if required, the council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel or completely or partially outsource their internal audit function to an external provider



Core requirement 4: Appoint internal audit personnel and establish reporting lines

- The general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee
- The Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager and attend all committee meetings

Core requirement 5: Develop an agreed internal audit work program

- The Chief Audit Executive is to develop a four-year strategic plan to guide the council's longer term internal audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee
- The Chief Audit Executive is to develop an annual risk-based internal audit work plan, based on the strategic plan, to guide the council's internal audits each year. The work plan is to be developed in consultation with the governing body, general manager and senior managers and approved by the Audit, Risk and Improvement Committee

- The Chief Audit Executive is to ensure performance against the annual and strategic plans can be assessed

Core requirement 6:

How to perform and report internal audits

- The Chief Audit Executive is to ensure that council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee
- The Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits
- The Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s
- All internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit Risk and Improvement Committee, external auditor and governing body of the council (by resolution)

Core requirement 7:

Undertake ongoing monitoring and reporting

- The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits

undertaken and progress made implementing corrective actions

- The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions
- The Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair

Core requirement 8:

Establish a quality assurance and improvement program

- The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term
- The general manager is to publish in the council's annual report an annual attestation certificate indicating whether the council has complied with the core requirements for the Audit, Risk and Improvement Committee and the internal audit function



Core requirement 9: Councils can establish shared internal audit arrangements

- A council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils
- The core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements
- The general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements

Implementation timeline

The transitional arrangements built into the Local Government Act mean that the requirement to have an Audit, Risk and Improvement Committee will not come into force until six months after the next ordinary elections in September 2020 at the earliest. Councils will therefore have until March 2021 to establish their committees.

It is proposed that councils will then have a further 18 months, until December 2022, to establish their internal audit function and risk management framework (guided by the Audit, Risk and Improvement Committee).

As these functions are bedded down and greater time and resources become available to the Audit, Risk and Improvement Committee and the council, the role of the committee is to broaden to comply with the

remaining requirements of sections 428A of the Local Government Act.

Full compliance with section 428A of the Local Government Act will be expected by 2026.

Councils with established Audit, Risk and Improvement Committees and mature risk management and internal audit functions will be encouraged to comply sooner.

→ By March 2021

Audit, Risk and Improvement Committee established and appointed (core requirement 1 or 9 for shared arrangements)

→ By December 2022

Risk management framework developed, including appointment of a Risk Management Coordinator (core requirement 2)

Internal audit function established, including employment of a Chief Audit Executive and personnel (core requirements 3-4 or 9 for shared arrangements)

→ By 2024

Risk management framework fully implemented throughout council and operating in compliance with regulatory requirements (core requirement 2)

Internal audit function fully implemented by the council and operating in compliance with regulatory requirements (core requirements 5-8)

→ By 2026

Audit, Risk and Improvement Committee's role expanded to include compliance, fraud control, financial management, governance, integrated planning and reporting, service reviews, performance measurement data and performance improvement in compliance with section 428A of the Local Government Act.



Report No. 4.2 **2018/2019 Financial Statements**
Directorate: Corporate and Community Services
Report Author: James Brickley, Manager Finance
File No: I2019/1843

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Summary:

10 This item provides the Audit, Risk and Improvement Committee with a report on the external audit for the financial year ended 30 June 2019. It covers the financial results for Council for the 2018/2019 financial year and the 2019 Audit Engagement Closing Report in respect of the audit provided by the NSW Audit Office.

15 The 2018/2019 Financial Statements were to be considered by the Audit, Risk and Improvement Committee on 10 October 2019 but as the audit was not finalised by this date, the Meeting was cancelled. Council adopted the 2018/2019 Financial Statements at its Ordinary Meeting held on 24 October 2019 through resolution **19-542** and will be presenting them to the public at the Ordinary Meeting to be held on 28 November 2019.

20

RECOMMENDATION:

That the Audit, Risk and Improvement Committee notes the report on the 2018/2019 Financial Statements and the 2019 Audit Engagement Closing Report received from the NSW Audit Office.

Attachments:

- 25 1 Published 2018/2019 Financial Statements, E2019/78804 , page 135 [↓](#)
 2 Confidential - 2019 Audit Engagement Closing Report, E2019/80719

REPORT

This report has been prepared to brief the Audit, Risk and Improvement Committee on the external audit for the financial year ended 30 June 2019. The report covers the financial results for Council
 5 It covers the financial results for Council for the 2018/2019 financial year and the 2019 Audit Engagement Closing Report in respect of the audit provided by the NSW Audit Office.

The 2018/2019 Financial Statements were to be considered by the Audit, Risk and Improvement Committee on 10 October 2019 but as the audit was not finalised by this date, the Meeting was
 10 cancelled. Council adopted the 2018/2019 Financial Statements at its Ordinary Meeting held on 24 October 2019 via resolution **19-542** and will be presenting them to the public at the Ordinary Meeting to be held on 28 November 2019. Council received a presentation from the External Auditor at its Ordinary Meeting held on 24 October 2019. The presentation was made by Mr Adam Bradfield from Thomas Noble and Russell as the representative firm for the Audit Office of NSW.

15 The 2018/2019 Financial Statements were lodged with the Office of Local Government on 25 October 2019.

20 The Financial Statements and Auditor's Reports are a statutory requirement and provide information on the financial performance of Council over the previous twelve-month period.

The Final 2018/2019 Financial Statements are provided at Attachment 1 with brief explanations for the contents of Attachment 1 as follows:

25 **General Purpose Financial Statements**

These Statements provide an overview of the operating result, financial position, changes in equity and cash flow movement of Council as at 30 June 2019 on a consolidated basis with internal transactions between Council's General, Water and Sewerage Funds eliminated. The notes
 30 included within these reports provide details of major items of income and expenditure with comparisons to the previous financial year. The notes also highlight the cash position of Council and indicate which funds are externally restricted (i.e. may be used for a specific purpose only), and those that may be used at Council's discretion.

35 **Special Purpose Financial Statements**

These Statements are a result of the implementation of the National Competition Policy and relate to those aspects of Council's operations that are business oriented and compete with other businesses with similar operations outside the Council. Mandatory disclosures in the Special
 40 Purpose Financial Reports are Water and Sewerage. Additional disclosure relates to Council business units that Council deems 'commercial'. In this regard Council has traditionally reported its Caravan Park Operations (Suffolk Beachfront Holiday Park and First Sun Holiday Park) on a combined basis. These financial reports must also classify business units in the following categories:

- Category 1 – operating turnover is greater than \$2million
- Category 2 – operating turnover is less than \$2million

45 All of Council's business units are classed as Category 1 with all having operating turnover greater than \$2 million.

55 Another feature of the Special Purpose Financial Reports is to build taxes and charges where not physically incurred into the financial results to measure the results on a level playing field with other organisations operating similar businesses, who are required to pay these additional taxes and charges. These taxes and charges include:

- Land tax – Council is normally exempt from this tax so notional land tax is applied.
- Income tax – Council is exempt from income tax and in regard to these reports, company tax. Any surplus generated has a notional company tax applied to it.
- 5 • Debt guarantee fees – Generally due to the low credit risk associated with Councils, Councils can often borrow loan funds at lower interest rates than the private sector. A debt guarantee fee inflates the borrowing costs by incorporating a notional cost between interest payable on loans at the interest rate borrowed by Council and one that would apply commercially.
- 10 In regard to the Special Purpose Financial Reports, these are prepared on a non consolidated basis or in other words grossed up to include any internal transactions with the General Fund.

Special Schedules

- 15 These schedules are prepared essentially for use by the Australian Bureau of Statistics, the NSW Grants Commission, the Office of Local Government, and are primarily used to gather information for comparative purposes. Special Schedules 3 to 6 are also used by the Department of Primary Industries (NSW Office of Water) in analysing the performance of the Water and Sewer Funds and are also non consolidated and grossed up including internal transactions. Special Schedule 7 (now
- 20 called a Report on Infrastructure) provides an approximate value of what funds are needed for the maintenance and renewal of Council assets in comparison to what is currently allocated in the budget. Special Schedule 2 is also included, which is a disclosure regarding Council's compliance with General Rate revenue raising and rate pegging. Special Schedule 2 is also subject to separate external audit aside from the financial statements.

- 25 The Special Schedules are no longer published from the 2018/2019 financial year following revision of the Local Government Code of Accounting Practice. They are still prepared but lodged separately to the Office of Local Government via the Financial Data Return. Given they are no longer published, they are not included in Attachment 1. Aside from Special Schedule 2, they have
- 30 never been subject to external audit.

Auditors Reports on the Financial Statements

- 35 Council's auditors, the Auditor General of NSW (NSW Audit Office) and its representative firm Thomas Noble and Russell, have completed their audit of the 2018/2019 Financial Statements. All matters identified during the audit have been adjusted and included in the 2018/2019 Financial Statements (if required) included at Attachments 1. The Auditor's Reports cover:

- 40 • A report on the conduct of the audit. This report states the financial statements have been audited with an opinion. For the year ended 30 June 2019 the opinion is unmodified. In addition, this report outlines significant audit issues and observations, and an analysis of the major aspects of the financial statements.
- 45 • An Audit Engagement Closing Report. This report (Confidential Annexure 2) does not form part of the Financial Statements but is provided to assess audit findings, usually prior to signing the Audit Representation Letter and the Statements by Council and Management. This report is provided specifically for the Audit, Risk and Improvement Committee for consideration but given the sequence of events for the 2018/2019 Financial Statements, this was not able to be achieved prior to signing the Financial Statements. Confidential Annexure 2 would normally
- 50 have been provided to the 10 October 2019 Audit, Risk and Improvement Committee.

Specific Items relating to 2018/2019 Financial Statements

- 55 The 2018/2019 Financial Statement results have been impacted by the following items that require explanation:

- Operating Result from Continuing Operations

5 The 2018/2019 financial year has seen a positive overall financial result. Council recorded a \$13.022million surplus which, while less than the \$35.295million surplus in 2017/2018, is still nevertheless a surplus. This result incorporates the recognition of capital revenues such as capital grants and contributions for specific purposes and asset dedications amounting to \$21.109 million compared to \$37.314million in 2017/2018. Capital grants and contributions in 2017/2018 were significantly influenced by the transfer of assets to Council from the Old Pacific Highway that was not repeated in 2018/2019.

15 A more important indicator is the operating result before capital grants and contributions. This result was a deficit of \$8.087 million in 2018/2019 compared to a deficit of 2.018million in 2017/2018 representing a decrease of \$6.069million between financial years. This indicates Council's operating expenditures exceeded its operating revenues. Whilst operating revenues excluding capital grants and contributions grew by \$2.383million, overall operating expenses grew by \$8.452million.

20 With reference to the Income Statement to the General Purpose Financial Reports included at Attachment 1, the following table indicates the major changes between 2018/2019 and 2017/2018 by line item:

Item	Change between 2018/2019 and 2017/2018 \$'000	Change Outcome	Comment
Income			
Rates & Annual Charges	+\$2,681	Increase	Reflects imposition of the second year of the 7.50% Special Rate Variation and changes in annual charges from Council's adopted 2018/2019 Revenue Policy
User Charges and Fees	+\$626	Increase	Major changes include additional \$1,026k revenue for water and sewer user charges, increase in waste fees \$229K and a decline in statutory/regulatory fees of \$229k. Further information is available in Note 3(b) to Attachment 1.
Interest and Investment Revenue	+\$368	Increase	Council's cash position did not decline as expected which enabled more funds to be invested even though interest rates have continued to decline. Council also realised a \$290k fair value gain on its investments.
Other Revenues	-\$1,224	Decrease	Increase of \$176k for fines, but major change was the once off recognition of share in Richmond Tweed Regional Library \$1,157k in 2017/2018 that was not repeated in 2018/2019.
Grants & Contributions – Operating	-\$68	Decrease	Overall operating grants increased by \$257k including 205k increase in the Financial Assistance Grant but contributions reduced by \$325k. Further information is available in Note 3€ and Note 3(f) to Attachment 1.
Grants & Contributions – Capital	-\$16,204	Decrease	Capital grants increased \$6,767k mainly for roads and bridges funding but capital contributions revenue decreased \$22,971k. Reduction in capital contributions is due to reduced asset dedication revenue that was significant in 2017/2018 from the dedication of former Pacific

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2

Item	Change between 2018/2019 and 2017/2018 \$'000	Change Outcome	Comment
			Highway assets.
Total Income Change	-\$13,821	Decrease	
Expenditure			
Employee Benefits and Oncosts	+\$774	Increase	Increased leave entitlement expenses of \$959k reflecting emphasis on controlling leave balances and impact of declining interest rates on present value of liability calculations. There was a decrease of \$371k of employee costs capitalised on capital works in 2018/2019 compared to 2017/2018 and gross salary and wages \$657k. More information is provided at Note 4(a) to Attachment 1.
Borrowing Costs	-\$14	Decrease	Results from Council gradually repaying loans and not borrowing significant new loans. New loans of \$7.669million borrowed at end of 2018/2019 financial year. Interest impact of this loan will be realised commencing in 2019/2020 and refinancing of significant sewerage loan in December 2019.
Materials & Contracts	+\$6,991	Increase	Raw materials and contracts increased of \$6,414k. Major contributor to this was former Mullumbimby Hospital demolition \$2,025k, natural disaster works \$1,886k and capital expenditure \$3,300k not capitalised. Other changes can be found at Note 4(b) to Attachment 1.
Depreciation	+\$397	Increase	Respective changes between asset classes are outlined at Note 4(d) to Attachment 1. Essentially small incremental increases in each asset class.
Other Expenses	+\$334	Increase	Overall increase but there were variations in line items as disclosed at Note 4(e) to Attachment 1. Most significant item was street lighting \$108k.
Net Losses from Disposal of Assets	-\$34	Decrease	Reflection of the written down value of assets disposed at the end of financial year and is contingent upon the extent of assets disposed and their written down value at the time of disposal which can vary. For 2018/2019, Council has more disposals than gains including the disposal of infrastructure \$2,668k, plant and equipment \$42k gain and gain on sale of land \$308k. Further details can be found at Note 5 to Attachment 1
Net share of interests in associates	+4	Increase	Recognition of Council's share of the operating result of Richmond Tweed Regional Library for 2018/2019
Total Expenditure Change	+\$8,452	Increase	
Change in Result	-\$22,273	Decrease	Decrease in overall surplus between financial years.

Following from the operating results, are the performance ratios at Note 25 to the General Purpose Financial Statements. These have been derived following the financial assessments undertaken by NSW Treasury Corporation on all NSW Councils in 2012, and are now incorporated into the

latest update to the Code of Accounting Practice and Financial Reporting that determines the content of Council's Financial Statements. These ratios present either a stable or improving result for Council except for the following:

- 5 1. Operating Performance Ratio is a reflection of the operating result of Council. The benchmark is to be greater than 0% but in 2017/2018 Council's ratio was -1.01% and in 2018/2019 it was -7.11%. This ratio was impacted by some one-off items i.e. demolition costs of the former Mullumbimby Hospital, however Council will look to improve this result back towards the benchmark.
- 10 2. Outstanding, Rates and Annual Charges – Whilst still well within benchmark, this ratio has increased given the compounding from the ongoing implementation of the 2017/2018 Special Rate Variation. This means that the increasing annual charges, as well as the current economic climate, are impacting the capacity of ratepayers to pay. Council also
- 15 changed its Debt Recovery Policy during the 2018/2019 financial year and this ratio will be closely monitored going forward.

- Asset Revaluations

20 During 2018/2019, there was no revaluation of assets except for the indexation of Water and Sewerage Assets which is compulsory. Council also indexed the valuation of its buildings even though this was not compulsory.

25 For the upcoming 2019/2020 financial year, Council will need to consider the revaluation of Roads and Drainage assets given these assets have not been revalued since 2015 and are due for revaluation.

- Asset Recognition

30 As indicated at Note 10 to the Council's financial statements, Council expended \$27.007million on asset renewals and \$9.792million on new assets. The extent of asset renewals is significant and demonstrates ongoing commitment in that area. The depreciation expense of Council's assets for 2018/2019 was \$15.012million so it is pleasing to see the extent of asset renewal recognised was significantly more than the financial realisation via depreciation of the consumption of Council's

35 assets.

- Cash and Investments

40 As at 30 June 2019 (detailed at Note 6 to the financial statements) Council has maintained \$1.000million in unrestricted cash and investments being a reduction of \$0.145million compared to 2017/2018. This is an ongoing pleasing result and Council has been able to maintain another one of its short term financial goals of reaching an unrestricted cash balance of \$1million. All other cash and investments totalling \$77.370million are restricted for specific purposes. Overall the cash and investment position of Council increased by \$0.970million during the year.

- Receivables

50 As at 30 June 2019 (detailed at Note 7 to the financial statements) Council was due \$11.187million in receivables. Of this amount \$1.535million was due from Roads and Maritime Services for expenditure claims, \$0.866million from the Commonwealth Government for Goods and Services Tax and \$1.581million in Government grants and subsidies. Overall receivables increased by \$1.083million compared to the 2017/2018 financial year.

- Payables and Provisions

At 30 June 2019 (detailed at Note 11 for payables and Note 12 for provisions) total payables by Council were \$10.603million including \$4.283million held in security bonds, deposits, retentions, payments received in advance, \$0.529million in accrued expenses and \$5.791million payable to suppliers. In addition at 30 June 2019, Council has accrued employee leave entitlements valued at \$5.852million. Specific employee leave entitlements include \$2.044million for annual leave, \$3.654million for long service leave and \$0.154million for gratuities. In comparison to 2017/2018, total payables increased \$0.593million whereas total provisions for employee leave entitlements increased \$0.334million.

- Loan Borrowings

During 2018/2019 Council borrowed new loans of \$7.669million and continued to make normal loan repayments.

Council's outstanding loans as at 30 June 2019 are \$64.15million. Total loan expenditure for 2018/2019 included interest of \$4.252million and principal payments of \$2.758million. Total expenditure in 2018/2019 related to loan repayments was \$7.010million or 8.20% of Council's revenue, excluding all grants and contributions.

The outstanding loans by Fund totalling \$64.150million are as follows:

- General Fund \$21.492million
- Water Fund \$0 – Water Fund is debt free
- Sewerage Fund \$42.658million

Liquidity

Council's Statement of Financial Position (balance sheet) indicates net current assets of \$63.537million. It is on this basis, in the opinion of the Responsible Accounting Officer, that the short term financial position of Council remains in a satisfactory position and that Council can be confident it can meet its payment obligations as and when they fall due. That is, there is no uncertainty as to Council being considered a 'going concern'. In addition, Council's cash expense cover ratio is at 11.02 months whereas the minimum benchmark is 3 months. Council exceeds this benchmark by nearly four times.

Council's Unrestricted Current Ratio has improved to 3.65 demonstrating Council has \$3.65 in unrestricted current assets compared to every \$1.00 of unrestricted current liabilities.

On a longer term basis Council will need to consider its financial position carefully. Nevertheless in isolation, the financial results for 2018/2019 continue to present a 'stable' financial position. Every effort will be made to manage the trend towards operational deficits before capital grants and contributions.

STRATEGIC CONSIDERATIONS

Community Strategic Plan and Operational Plan

CSP Objective	L2	CSP Strategy	L3	DP Action	L4	OP Activity
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Community Objective 5: We have community led decision making which is open and inclusive	5.5 Manage Council's finances sustainably	5.5.2 Ensure the financial integrity and sustainability of Council through effective planning and reporting systems (SP)	5.5.2.2 Complete annual statutory financial reports
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Legal/Statutory/Policy Considerations

5 Section 413(2)(c) of the Local Government Act 1993 and Regulation 215 of the Local Government (General) Regulation 2005 require Council to form an opinion on the financial statements. Specifically Council needs to sign off an opinion on the Financial Statements regarding their preparation and content as follows:

10 In this regard the Financial Statements have been prepared in accordance with:

- The Local Government Act 1993 (as amended) and the Regulations made thereunder.
- The Australian Accounting Standards and professional pronouncements.
- The Local Government Code of Accounting Practice and Financial Reporting.

15 And the content to the best of knowledge and belief:

- Presents fairly the Council's operating result and financial position for the year.
- Accords with Council's accounting and other records.
- 20 • Management is not aware of any matter that would render the Financial Statements false or misleading in any way.

25 Section 416(1) of the Local Government Act 1993, requires a Council's annual Financial Statements to be prepared and audited within four (4) months of the end of that financial year i.e. on or before 31 October 2019.

Section 417(4) of the Local Government Act 1993 requires, as soon as practicable after completing the audit, the Auditor must send a copy of the Auditor's Reports to the Departmental Chief Executive and to the Council.

30 Section 417(5) of the Local Government Act 1993 requires Council, as soon as practicable after receiving the Auditor's Reports, to send a copy of the Auditor's Reports on the Council's Financial Statements, together with a copy of the Council's audited Financial Statements, to the Departmental Chief Executive before 7 November 2019.

35 Section 418(1) of the Local Government Act 1993 requires Council to fix a date for the Meeting at which it proposes to present its audited Financial Statements, together with the Auditor's Reports, to the public, and must give public notice of the date so fixed. This requirement must be completed within five weeks after Council has received the Auditors Reports i.e. prior to 5 December 2019.

Financial Considerations

40 There are no direct financial implications associated with this report as the report does not involve any future expenditure of Council funds but it is a report advising of Council's financial outcomes during the 2018/2019 financial year which are identified in this report and attachments.

45

Consultation and Engagement

- 5 Section 420 of the Local Government Act 1993 requires Council to provide the opportunity for the public to submit submissions on the Financial Statements. Submissions are to be submitted within seven days of the Financial Statements being presented to the public. In the case of the 2018/2019 Financial Statements, the closing date for submissions will be 5 December 2019.

Byron Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2019

*Culturally rich and thriving communities living in harmony,
responding positively to the challenges of our world, and
leading by example.*



Byron Shire Council

Financial Statements 2019

General Purpose Financial Statements for the year ended 30 June 2019

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Overview

Byron Shire Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

70 Station Street
MULLUMBIMBY NSW 2482

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by Council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: <https://www.byron.nsw.gov.au>.

Byron Shire Council

Financial Statements 2019

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their council and community.

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

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Byron Shire Council

Financial Statements 2019

General Purpose Financial Statements
for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

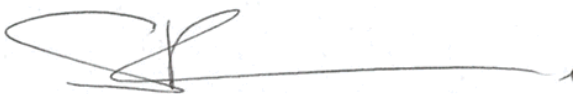
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

To the best of our knowledge and belief, these statements:

- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.


Signed in accordance with a resolution of Council made on 24 October 2019.



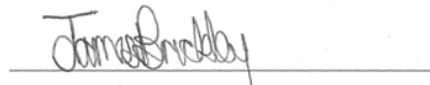
Simon Richardson
Mayor
24 October 2019



Sarah Ndiaye
Councillor
24 October 2019



Mark Arnold
General Manager
24 October 2019



James Brickley
Responsible Accounting Officer
24 October 2019

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
40,884	Rates and annual charges	3a	41,969	39,288
27,859	User charges and fees	3b	30,570	29,944
1,977	Interest and investment revenue	3c	2,517	2,149
1,904	Other revenues	3d	2,030	3,254
4,259	Grants and contributions provided for operating purposes	3e,3f	8,400	8,468
23,577	Grants and contributions provided for capital purposes	3e,3f	21,109	37,313
100,460	Total income from continuing operations		106,595	120,416
Expenses from continuing operations				
25,344	Employee benefits and on-costs	4a	25,235	24,461
4,358	Borrowing costs	4b	4,425	4,439
31,294	Materials and contracts	4c	40,154	33,163
13,679	Depreciation and amortisation	4d	15,012	14,615
4,653	Other expenses	4e	6,425	6,091
—	Net losses from the disposal of assets	5	2,318	2,352
—	Net share of interests in joint ventures and associates using the equity method	15	4	—
79,328	Total expenses from continuing operations		93,573	85,121
21,132	Operating result from continuing operations		13,022	35,295
21,132	Net operating result for the year		13,022	35,295
21,132	Net operating result attributable to council		13,022	35,295
(2,445)	Net operating result for the year before grants and contributions provided for capital purposes		(8,087)	(2,018)

⁽¹⁾ The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Income Statement should be read in conjunction with the accompanying notes.

Byron Shire Council

Financial Statements 2019

Statement of Comprehensive Income
for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		13,022	35,295
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	8,726	3,510
Total items which will not be reclassified subsequently to the operating result		8,726	3,510
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements		—	(99)
Total items which will be reclassified subsequently to the operating result when specific conditions are met		—	(99)
Total other comprehensive income for the year		8,726	3,411
Total comprehensive income for the year		21,748	38,706
 Total comprehensive income attributable to Council		 21,748	 38,706

⁽¹⁾ The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	Restated 2018 ¹	Restated 1 July 2017
ASSETS				
Current assets				
Cash and cash equivalent assets	6(a)	30,589	26,388	13,036
Investments	6(b)	40,570	47,590	63,139
Receivables	7	10,791	9,726	9,947
Inventories	8a	395	402	407
Other	8b	29	16	16
Current assets classified as 'held for sale'	9i	—	992	2,432
Total current assets		82,374	85,114	88,977
Non-current assets				
Investments	6(b)	7,211	3,422	2,665
Receivables	7	396	378	361
Infrastructure, property, plant and equipment	10(a)	822,479	795,258	754,810
Investments accounted for using the equity method	15	1,153	1,157	—
Total non-current assets		831,239	800,215	757,836
TOTAL ASSETS		913,613	885,329	846,813
LIABILITIES				
Current liabilities				
Payables	11	10,312	9,783	11,149
Income received in advance	11	291	227	254
Borrowings	11	2,812	2,719	2,555
Provisions	12	5,422	5,402	5,380
Total current liabilities		18,837	18,131	19,338
Non-current liabilities				
Borrowings	11	61,338	56,520	57,573
Provisions	12	8,139	7,127	5,057
Total non-current liabilities		69,477	63,647	62,630
TOTAL LIABILITIES		88,314	81,778	81,968
Net assets		825,299	803,551	764,845
EQUITY				
Accumulated surplus	13a	563,820	550,798	515,503
Revaluation reserves	13a	261,479	252,753	249,342
Council equity interest		825,299	803,551	764,845
Total equity		825,299	803,551	764,845

⁽¹⁾ The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Statement of Changes in Equity for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		558,537	252,118	810,655	523,242	248,707	771,949
Correction of prior period errors ²	13b	(7,739)	635	(7,104)	(7,739)	635	(7,104)
Restated opening balance		550,798	252,753	803,551	515,503	249,342	764,845
Net operating result for the year		13,022	–	13,022	35,295	–	35,295
Restated net operating result for the period		13,022	–	13,022	35,295	–	35,295
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10(a)	–	8,726	8,726	–	3,510	3,510
– Other reserves movements		–	–	–	–	(99)	(99)
Other comprehensive income		–	8,726	8,726	–	3,411	3,411
Total comprehensive income		13,022	8,726	21,748	35,295	3,411	38,706
Equity – balance at end of the reporting period		563,820	261,479	825,299	550,798	252,753	803,551

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

(2) See Note 13(b) for details regarding the restatement as a result of Prior Period Error

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Statement of Cash Flows for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
<u>Receipts</u>				
40,884	Rates and annual charges		41,407	38,700
27,859	User charges and fees		30,141	30,482
1,977	Investment and interest revenue received		2,173	2,262
27,836	Grants and contributions		24,432	16,244
–	Bonds, deposits and retention amounts received		14	15
1,904	Other		1,083	3,623
<u>Payments</u>				
(25,344)	Employee benefits and on-costs		(24,901)	(24,512)
(31,294)	Materials and contracts		(39,538)	(34,387)
(4,358)	Borrowing costs		(4,271)	(4,317)
(4,653)	Other		(5,988)	(6,236)
34,811	Net cash provided (or used in) operating activities	14b	24,552	21,874
Cash flows from investing activities				
<u>Receipts</u>				
–	Sale of investment securities		85,000	67,500
–	Sale of infrastructure, property, plant and equipment		1,651	1,429
–	Deferred debtors receipts		10	10
<u>Payments</u>				
–	Purchase of investment securities		(81,479)	(52,700)
(50,064)	Purchase of infrastructure, property, plant and equipment		(30,444)	(23,871)
(50,064)	Net cash provided (or used in) investing activities		(25,262)	(7,632)
Cash flows from financing activities				
<u>Receipts</u>				
3,899	Proceeds from borrowings and advances		7,669	1,665
<u>Payments</u>				
(2,638)	Repayment of borrowings and advances		(2,758)	(2,555)
1,261	Net cash flow provided (used in) financing activities		4,911	(890)
(13,992)	Net increase/(decrease) in cash and cash equivalents		4,201	13,352
26,388	Plus: cash and cash equivalents – beginning of year	14a	26,388	13,036
12,396	Cash and cash equivalents – end of the year	14a	30,589	26,388
Additional Information:				
51,012	plus: Investments on hand – end of year	6(b)	47,781	51,012
63,408	Total cash, cash equivalents and investments		78,370	77,400

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 24 October 2019. Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting.

Council is a not for-profit entity.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 19 – Material budget variations

(a) New and amended standards adopted by Council

Council adopted the following new and amended Australian Accounting Standards during the year. There was no material impact on the reported financial position, performance or cash flows of the Council although some additional disclosures have been required.

- AASB 9 Financial Instruments and associated amending standards
- AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments
- AASB 2014-1 Amendments to Australian Accounting Standards
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9
- AASB 2016-6 Amendments to Australian Accounting Standards - *Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
- AASB 2017 - 3 Amendments to Australian Accounting Standards - *Clarifications to AASB 4*
- AASB 2016-5 Amendments to Australian Accounting Standards - *Classification and Measurement of Share-based Payment Transactions*

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- (ii) estimated tip remediation provisions – refer Note 12
- (iii) employee benefit provisions – refer Note 12

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables – refer Note 7.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- Water service
- Sewerage service

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the Council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies. Trust monies and property subject to Council's control have been included in these reports. A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

Council's assessment of these new standards and interpretations (where they have been deemed as having a material impact on Council's future financial performance, financial position and cash flows) are set out below:

AASB 16 Leases

AASB 16 will result (for YE 19/20 and beyond) in almost all operating leases being recognised on the balance sheet by Council (alongside existing finance leases) with the distinction between operating and finance leases removed.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1/7/19).

AASB 16 will (on the whole) affect Council's accounting for existing operating lease agreements that are in place as at 30/6/19.

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$3.165million - refer Note 16.

Of these commitments, all relate to either short-term leases or to low value leases.

Both these lease types and amounts will continue to be accounted for as they currently are (being expensed on a straight-line basis within the Income Statement).

Council currently expects there will be no material implication to the financial statements due to the introduction of AASB 16 Leases.

AASB 15 Revenue from Contracts with Customers and associated amending standards.

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

Councils should assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.

Council is in the process of assessing the financial reporting impact of AASB 15.

AASB 1058 Income of NFP Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives.

Upon initial recognition of the asset, this standard requires council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument, or
- (e) a provision.

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019**Note 1. Basis of preparation (continued)**

excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable council to acquire or construct a recognisable non-financial asset to be controlled by council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

Council is in the process of assessing the financial reporting impact of AASB 1058.

AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities

This Standard provides a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below market terms and conditions, principally to enable the entity to further its objectives (for example, concessionary or peppercorn leases).

The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

As per a NSW Office of Local Government recommendation, Council has elected to measure right-of-use assets (under a concessionary or peppercorn lease) at cost. The standard requires additional disclosures be provided in relation to below market-value leases measured at cost.

Council considers that this standard is not expected to have a material impact overall.

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2018.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 2(a). Council functions/activities – financial information

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note 2(b).										
\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
We have, infrastructure, transport and services which meet our expectations	56,299	34,929	50,012	46,112	6,287	(11,183)	10,791	5,132	559,042	540,899
We cultivate and celebrate our diverse cultures, lifestyle and sense of community	6,581	6,182	15,965	14,261	(9,384)	(8,079)	2,526	2,033	193,973	185,087
We protect and enhance our natural environment	2,486	2,285	5,100	4,737	(2,614)	(2,452)	787	241	19,429	18,798
We manage growth and change responsibly	13,279	53,292	9,667	9,032	3,612	44,260	155	169	38,336	37,502
We have community led decision making which is open and inclusive	27,950	23,728	12,829	10,979	15,121	12,749	2,036	1,696	102,833	103,043
Total functions and activities	106,595	120,416	93,573	85,121	13,022	35,295	16,295	9,271	913,613	885,329

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 2(b). Council functions/activities - component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

We have infrastructure, transport and services which meet our expectations

Provide a road network which is safe, accessible and maintained to an acceptable level of service. Provide essential services and reliable infrastructure which meet an acceptable community standard. Support, through partnership, a network of integrated sustainable transport options. Provide a regular and acceptable waste and recycling service. Provide continuous urban water and sewerage service within the Shire. Manage traffic and parking in an efficient manner.

We cultivate and celebrate our diverse cultures, lifestyle and sense of community

Support and encourage our vibrant culture and creativity. Support access to a wide range of services and activities that contribute to the wellbeing of all members of the Byron Shire community. Provide accessible, local community spaces and facilities. Enhance community safety and amenity while respecting our shared values. Encourage appreciation of cultural vitality and diversity.

We protect and enhance our natural environment

Partner to protect and enhance our biodiversity, ecosystems and ecology. Strive to become a sustainable community. Partner to protect and enhance the health of the Shire's coastlines, estuaries, waterways and catchments. Support and secure our farming future.

We manage growth and change responsibly

Support the visions and aspirations of local communities through place-based planning and management. Support housing diversity in appropriate locations across the Shire. Promote and support local business development, education and employment opportunities. Support tourism and events that reflect our culture and lifestyle. Work to improve community resilience in our changing environment.

We have community led decision making which is open and inclusive

Engage and involve community in decision making. Create a culture of trust with the community by being open, genuine and transparent. Deliver a high level of customer service. Manage Council's assets and allocate resources in a fair and holistic manner. Manage Council's finances sustainably. Manage Council's resources sustainably.

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	16,621	15,438
Farmland	1,147	1,057
Business	4,469	4,097
Rates levied to ratepayers	22,237	20,592
Pensioner rate subsidies received	227	228
Total ordinary rates	22,464	20,820
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	5,381	4,890
Stormwater management services	293	290
Water supply services	2,322	2,241
Sewerage services	10,505	10,163
Waste management services (non-domestic)	794	675
Annual charges levied	19,295	18,259
Pensioner subsidies received:		
– Water	77	77
– Sewerage	75	75
– Domestic waste management	58	57
Total annual charges	19,505	18,468
TOTAL RATES AND ANNUAL CHARGES	41,969	39,288

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government council area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Water supply services	7,093	6,506
Sewerage services	5,306	4,867
Total specific user charges	12,399	11,373
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	80	152
Private works – section 67	203	222
Regulatory/ statutory fees	74	74
Section 10.7 certificates (EP&A Act)	98	114
Section 603 certificates	58	75
Building inspections	559	701
Building services	413	407
Developer fees	800	871
Dog registration / release	34	69
Engineering services	17	12
Freedom of information	26	28
Health inspection	631	497
Total fees and charges – statutory/regulatory	2,993	3,222
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	47	103
Caravan park	4,712	4,694
Cemeteries	181	226
Child care	714	934
Leaseback fees – Council vehicles	270	251
Parking fees	4,203	4,297
Tourism	(6)	23
Water connection fees	149	130
Administration and financial services	179	169
Property rentals and leases	1,142	1,178
Public halls	269	238
Sewerage charges	232	161
Swimming pools	252	293
Other	306	353
Waste	2,528	2,299
Total fees and charges – other	15,178	15,349
TOTAL USER CHARGES AND FEES	30,570	29,944

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(c) Interest and investment revenue (including losses)		
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	159	150
– Cash and investments	2,068	1,991
Fair value adjustments		
– Movements in investments at fair value through profit and loss	290	8
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>2,517</u>	<u>2,149</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	235	150
General Council cash and investments	1,403	819
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	445	475
– Section 64	311	319
Water fund operations	–	171
Sewerage fund operations	123	215
<u>Total interest and investment revenue</u>	<u>2,517</u>	<u>2,149</u>

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(d) Other revenues		
Fines	1,643	1,467
Insurance claims recoveries	114	126
Sales – general	151	475
Waste	–	29
Richmond Tweed Regional Library	–	1,157
Legal Fees Recovery - Other	4	–
Workers Compensation	118	–
<u>TOTAL OTHER REVENUE</u>	<u>2,030</u>	<u>3,254</u>

Accounting policy for other revenue

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Parking fees and fines are recognised as revenue when the service has been provided, or when the penalty has been applied, whichever occurs first.

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	2,036	1,900	–	–
Financial assistance – local roads component	1,190	1,123	–	–
Total general purpose	3,226	3,023	–	–
Specific purpose				
Bushfire and emergency services	144	144	–	–
Child care	1,079	936	171	84
Community care	–	36	–	–
Community centres	325	–	600	106
Economic development	50	110	–	–
Employment and training programs	–	4	–	–
Library	26	41	–	–
Library – per capita	62	62	–	–
Storm/flood damage	–	50	–	–
Street lighting	54	53	75	–
Transport (roads to recovery)	–	198	–	–
Transport (other roads and bridges funding)	77	66	9,117	2,893
Waste management	162	297	15	–
Emergency Services	–	–	83	150
Parks & Gardens	–	–	263	399
Other sport and recreation	–	–	76	179
Planning	105	58	–	–
Crown lands maintenance	201	191	–	–
Environmental management	179	164	13	–
Foreshore maintenance	27	27	–	–
Footpaths	–	–	165	–
Total specific purpose	2,491	2,437	10,578	3,811
Total grants	5,717	5,460	10,578	3,811
Grant revenue is attributable to:				
– Commonwealth funding	4,424	2,962	4,316	1,601
– State funding	1,293	2,498	6,262	2,210
	5,717	5,460	10,578	3,811

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		–	–	2,010	2,674
S 7.12 – fixed development consent levies		–	–	345	137
S 64 – water supply contributions		–	–	251	561
S 64 – sewerage service contributions		–	–	1,800	1,871
Total developer contributions – cash		–	–	4,406	5,243
Total developer contributions	23	–	–	4,406	5,243
Other contributions:					
Cash contributions					
Roads and bridges		1,834	2,206	79	156
RMS contributions (regional roads, block grant)		700	678	–	–
Surf lifesaving		119	116	–	–
Other economic development		–	8	6	–
OLG - Crown Lands Contribution		30	–	–	–
Total other contributions – cash		2,683	3,008	85	156
Non-cash contributions					
Crown land devolved		–	–	1,217	–
Dedications – Assets		–	–	4,823	28,103
Total other contributions – non-cash		–	–	6,040	28,103
Total other contributions		2,683	3,008	6,125	28,259
Total contributions		2,683	3,008	10,531	33,502
TOTAL GRANTS AND CONTRIBUTIONS		8,400	8,468	21,109	37,313

Accounting policy for grants and contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed below.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	289	71
Add: operating grants recognised in the current period but not yet spent	325	281
Less: operating grants recognised in a previous reporting period now spent	(326)	(63)
Unexpended and held as restricted assets (operating grants)	288	289
Capital grants		
Unexpended at the close of the previous reporting period	573	402
Add: capital grants recognised in the current period but not yet spent	623	489
Less: capital grants recognised in a previous reporting period now spent	(492)	(318)
Unexpended and held as restricted assets (capital grants)	704	573
Contributions		
Unexpended at the close of the previous reporting period	32,416	37,086
Add: contributions recognised in the current period but not yet spent	17	31
Add: contributions received for the provision of goods and services in a future period	5,159	6,038
Less: contributions recognised in a previous reporting period now spent	(8,891)	(10,739)
Unexpended and held as restricted assets (contributions)	28,701	32,416

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	18,065	18,722
Employee termination costs	382	168
Employee leave entitlements (ELE)	4,797	3,838
Superannuation	2,369	2,135
Workers' compensation insurance	446	700
Fringe benefit tax (FBT)	17	65
Payroll tax	131	151
Training costs (other than salaries and wages)	308	333
Total employee costs	26,515	26,112
Less: capitalised costs	(1,280)	(1,651)
TOTAL EMPLOYEE COSTS EXPENSED	25,235	24,461
Number of 'full-time equivalent' employees (FTE) at year end	304	305

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit superannuation contribution plans

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 17 for more information.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		4,252	4,315
Total interest bearing liability costs expensed		4,252	4,315
(ii) Other borrowing costs			
– Remediation liabilities	12	173	124
Total other borrowing costs		173	124
TOTAL BORROWING COSTS EXPENSED		4,425	4,439

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

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Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	28,739	22,325
– Caravan parks	1,406	1,407
– Cleaning	255	252
– Security	45	49
– Surf lifesaving	596	554
– Swimming pools	370	409
– Temporary employment	2,197	2,379
– Waste	4,555	3,972
Auditors remuneration ²	164	132
Infringement notice contract costs (SEINS)	198	185
Legal expenses:		
– Legal expenses: planning and development	239	271
– Legal expenses: other	161	82
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	1,229	1,146
Total materials and contracts	40,154	33,163
TOTAL MATERIALS AND CONTRACTS	40,154	33,163

Accounting policy for operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1. Operating lease payments are attributable to:

Information Technology Hardware	586	513
Parking Meters	643	633
	1,229	1,146

2. Auditor remuneration

During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council - NSW Auditor-General:

(i) Audit and other assurance services

Audit of financial statements	80	76
Remuneration for audit and other assurance services	80	76
Total Auditor-General remuneration	80	76

Non NSW Auditor-General audit firms

(ii) Non-assurance services

Internal audit services	84	56
Remuneration for non-assurance services	84	56
Total remuneration of non NSW Auditor-General audit firms	84	56
Total Auditor remuneration	164	132

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		1,120	1,084
Office equipment		140	183
Furniture and fittings		19	19
Land improvements (depreciable)		159	160
Infrastructure:			
– Buildings		1,028	1,122
– Other structures		36	36
– Roads		5,166	5,126
– Bridges		553	324
– Footpaths		150	141
– Stormwater drainage		720	623
– Water supply network		1,402	1,387
– Sewerage network		3,048	3,015
– Swimming pools		56	56
– Other open space/recreational assets		452	436
Other assets:			
– Other		221	225
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10(a),12	485	421
– Quarry assets	10(a),12	257	257
Total gross depreciation and amortisation costs		15,012	14,615
Total depreciation and amortisation costs		15,012	14,615
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E		15,012	14,615

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 10 Infrastructure, Property, Plant and Equipment.

Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(e) Other expenses		
Advertising	77	105
Bad and doubtful debts	8	3
Bank charges	88	79
Computer software charges	804	724
Contributions/levies to other levels of government		
– Bushfire fighting fund	182	187
– Emergency services levy (includes FRNSW, SES, and RFS levies)	44	54
– NSW fire brigade levy	85	86
– Far North Coast Weeds	110	107
– Other contributions/levies	184	116
Councillor expenses – mayoral fee	51	42
Councillor expenses – councillors' fees	178	174
Councillors' expenses (incl. mayor) – other (excluding fees above)	56	59
Donations, contributions and assistance to other organisations (Section 356)	40	40
Richmond Tweed Regional Library	1,310	1,283
Electricity and heating	1,290	1,371
Insurance	942	838
Postage	119	133
Printing and stationery	68	49
Street lighting	402	294
Telephone and communications	294	256
Valuation fees	93	91
Total other expenses	6,425	6,091
TOTAL OTHER EXPENSES	6,425	6,091

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
Plant and equipment	10(a)		
Proceeds from disposal – plant and equipment		351	211
Less: carrying amount of plant and equipment assets sold/written off		(309)	(225)
Net gain/(loss) on disposal		42	(14)
Infrastructure	10(a)		
Less: carrying amount of infrastructure assets sold/written off		(2,668)	(2,116)
Net gain/(loss) on disposal		(2,668)	(2,116)
Investments	6(b)		
Proceeds from disposal/redemptions/maturities – investments		85,000	67,500
Less: carrying amount of investments sold/redeemed/matured		(85,000)	(67,500)
Net gain/(loss) on disposal		–	–
Non-current assets classified as 'held for sale'	9		
Proceeds from disposal – non-current assets 'held for sale'		1,300	1,218
Less: carrying amount of 'held for sale' assets sold/written off		(992)	(1,440)
Net gain/(loss) on disposal		308	(222)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(2,318)	(2,352)

Accounting policy for disposal of assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	538	1,304
Cash-equivalent assets		
– Deposits at call	5,051	4,084
– Short-term deposits	25,000	21,000
Total cash and cash equivalents	30,589	26,388

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
a. 'Financial assets at fair value through profit and loss'				
– Designated on initial recognition	–	–	47,590	3,422
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	40,570	7,211	–	–
Total Investments	40,570	7,211	47,590	3,422
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	71,159	7,211	73,978	3,422
Financial assets at fair value through the profit and loss				
Long term deposits	–	–	47,590	–
NCD's, FRN's (with maturities > 3 months)	–	–	–	2,405
Other long term financial assets	–	–	–	1,017
Total	–	–	47,590	3,422
Financial assets at amortised cost / held to maturity (2018)				
Long term deposits	40,570	–	–	–
NCD's, FRN's (with maturities > 3 months)	–	2,917	–	–
Other long term financial assets	–	4,294	–	–
Total	40,570	7,211	–	–

Accounting policy under AASB 9 – applicable from 1 July 2018

Financial instruments are recognised initially on the date that the council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

Fair value through other comprehensive income – equity instruments

Council has a number of strategic investments in entities over which they do not have significant influence nor control. Council has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to accumulated surplus and is not reclassified to profit or loss.

Other net gains and losses excluding dividends are recognised in Other Comprehensive Income.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Council's financial assets measured at fair value through profit or loss comprise investments in FRNs and NCDs in the Statement of Financial Position.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

(d) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

Recognition and de-recognition

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

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

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

Impairment of available for sale investments

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	71,159	7,211	73,978	3,422
attributable to:				
External restrictions	43,112	7,211	51,601	3,422
Internal restrictions	27,047	–	21,232	–
Unrestricted	1,000	–	1,145	–
	71,159	7,211	73,978	3,422

\$ '000	2019	2018
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Details of restrictions

External restrictions – included in liabilities

Bonds and deposits	2,983	3,122
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External restrictions – included in liabilities

	2,983	3,122
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External restrictions – other

Developer contributions – general	16,398	18,871
Developer contributions – water fund	3,117	3,858
Developer contributions – sewer fund	8,685	9,052
RMS contributions	481	614
Specific purpose unexpended grants	992	862
Water supplies	8,325	6,924
Sewerage services	7,166	9,411
Domestic waste management	1,202	1,204
Crown paid parking reserve	694	457
Crown reserve	260	625
Other	20	23

External restrictions – other

	47,340	51,901
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Total external restrictions

	50,323	55,023
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Internal restrictions

Plant and vehicle replacement	1,982	1,783
Infrastructure renewal - Byron Bay	532	874
Infrastructure renewal reserve – non Byron Bay	330	176
Employees leave entitlement	971	972
Asset revaluation reserve	11	11
Bridge replacement fund	202	397
Brunswick Heads Memorial Hall	87	62
Byron Bay Library Exhibition Space	34	28
Byron Bay Library	312	319
Byron Senior Citizens Hall	41	19
Children's services	43	80
Community development	272	263
Council caravan parks	3,811	3,000
Economic development	88	75
Environment & enforcement levy	–	114
Environmental levy	93	121
Financial assistance grant (in advance)	1,643	1,538
Footpath dining	239	86

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

\$ '000	2019	2018
General managers office	44	76
Human resources	178	59
Information technology	158	210
Information & technology service fee	15	58
Infrastructure services carryover	744	732
Land and natural environment	190	241
Land remediation	10	60
Legal services	500	318
Mullumbimby Pioneer Centre	6	7
On-site sewerage management reserve	290	347
Property	684	497
Quarry	640	642
Revolving energy fund	38	38
Risk management	89	111
Special events response and mitigation	164	165
South Golden Beach Hall	24	25
2006/2007 Special Rate Carryover Reserve	–	113
2007/2008 Special Rate Carryover Reserve	–	601
2008/2009 Special Rate Carryover Reserve	–	174
2017/2018 Special Rate Carryover Reserve	34	258
Stormwater	36	104
Structural change reserve	–	198
Suffolk Park Community Hall	8	17
Suffolk park open space	50	50
Tennis courts	–	2
Unexpended loans	5,665	1,335
Waste management	4,316	4,683
Ocean Shores Community Centre	28	28
Council election	127	120
Grant management	45	45
Community building maintenance	602	–
WHS incentive	69	–
Public toilets	218	–
Volunteer visitor fund	8	–
Byron Bay Town Centre Masterplan	455	–
Mullumbimby Civic Hall	15	–
Property development	906	–
Total internal restrictions	27,047	21,232
TOTAL RESTRICTIONS	77,370	76,255

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	1,624	192	1,091	163
Interest and extra charges	175	24	158	25
User charges and fees	4,425	—	3,947	—
Accrued revenues				
– Interest on investments	422	—	384	—
– Other income accruals	120	—	108	—
Deferred debtors	10	180	10	190
Government grants and subsidies	1,518	—	2,481	—
Net GST receivable	866	—	791	—
Pensioner subsidy	15	—	25	—
Roads and Maritime Services	1,535	—	657	—
Miscellaneous water and sewer	109	—	117	—
Total	10,819	396	9,769	378
Less: provision of impairment				
User charges and fees	(28)	—	(43)	—
Total provision for impairment – receivables	(28)	—	(43)	—
TOTAL NET RECEIVABLES	10,791	396	9,726	378
Externally restricted receivables				
Water supply				
– Specific purpose grants	3	—	5	—
– Rates and availability charges	116	—	88	—
– Other	2,089	—	1,794	—
Sewerage services				
– Specific purpose grants	3	—	5	—
– Rates and availability charges	532	—	401	—
– Other	1,806	—	1,584	—
Total external restrictions	4,549	—	3,877	—
Unrestricted receivables	6,242	396	5,849	378
TOTAL NET RECEIVABLES	10,791	396	9,726	378

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	43	55
+ new provisions recognised during the year	6	1
– amounts already provided for and written off this year	–	(13)
Balance at the end of the period	49	43

Accounting policy for receivables

Recognition and measurement

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are not economical to recover, whichever occurs first.

None of the receivables that have been written off are subject to enforcement activity.

Where the Council renegotiates the terms of receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Rates and annual charges outstanding are secured against the property.

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	395	–	402	–
Total inventories at cost	395	–	402	–
TOTAL INVENTORIES	395	–	402	–
(b) Other assets				
Prepayments	12	–	–	–
Other	17	–	16	–
TOTAL OTHER ASSETS	29	–	16	–

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total unrestricted assets	424	–	418	–
TOTAL INVENTORIES AND OTHER ASSETS	424	–	418	–

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Non-current assets classified as held for sale

(i) Non-current assets and disposal group assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Non-current assets 'held for sale'				
Land	–	–	992	–
Total non-current assets 'held for sale'	–	–	992	–
TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'	–	–	992	–

(ii) Details of assets and disposal groups

During the 2018/2019 financial year, Council completed the sale of one lot of operational land that it had resolved to sell.

(iii) Reconciliation of non-current assets 'held for sale' and disposal groups – i.e. discontinued operations

\$ '000	2019 Assets 'held for sale'	2018 Assets 'held for sale'
Opening balance	992	2,432
Less: carrying value of assets/operations sold	(992)	(1,440)
Balance still unsold after 12 months:	–	992
Closing balance of 'held for sale' non-current assets and operations	–	992

Accounting policy for non-current assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as assets arising from employee benefits; financial assets; and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment

	as at 30/6/2018			Asset movements during the reporting period								as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	18,766	–	18,766	5,589	1,790	–	–	(12,448)	(845)	–	–	12,852	–	12,852
Plant and equipment	13,003	(8,938)	4,065	–	1,271	(309)	(1,120)	–	–	–	–	12,983	(9,076)	3,907
Office equipment	3,035	(2,790)	245	–	–	–	(140)	–	–	–	–	3,035	(2,930)	105
Furniture and fittings	296	(216)	80	–	–	–	(19)	–	–	–	–	296	(235)	61
Land:														
– Operational land	84,332	–	84,332	–	2,450	–	–	–	19	–	–	86,801	–	86,801
– Community land	122,645	–	122,645	–	1,946	–	–	–	(19)	(268)	–	124,304	–	124,304
– Land under roads (post 30/6/08)	231	–	231	–	29	–	–	–	–	–	–	260	–	260
Land improvements – non-depreciable	80	–	80	–	–	(80)	–	–	–	–	–	–	–	–
Land improvements – depreciable	6,215	(2,652)	3,563	–	–	–	(159)	–	–	–	–	6,215	(2,811)	3,404
Infrastructure:														
– Buildings	74,317	(11,857)	62,460	966	271	(30)	(1,028)	769	–	–	7,798	85,673	(14,466)	71,207
– Other structures	2,526	(387)	2,139	–	–	–	(36)	–	1,474	(1,814)	114	2,311	(434)	1,877
– Roads	322,507	(143,937)	178,570	4,016	–	(391)	(5,166)	2,755	34	–	–	328,413	(148,593)	179,820
– Bridges	37,790	(10,688)	27,102	4,834	–	(321)	(553)	1,922	–	–	–	43,414	(10,430)	32,984
– Footpaths	9,278	(3,285)	5,993	1,138	–	(6)	(150)	47	–	–	–	10,450	(3,428)	7,022
– Bulk earthworks (non-depreciable)	28,999	–	28,999	698	–	–	–	37	–	–	–	29,734	–	29,734
– Stormwater drainage	69,113	(18,102)	51,011	5,165	–	(43)	(720)	243	(34)	–	–	74,363	(18,742)	55,621
– Water supply network	105,668	(41,081)	64,587	236	2,035	(70)	(1,402)	2,773	–	–	1,091	112,178	(42,927)	69,251
– Sewerage network	179,976	(68,510)	111,466	3,006	–	(1,471)	(3,048)	3,531	–	–	1,805	187,417	(72,128)	115,289
– Swimming pools	2,800	(665)	2,135	–	–	–	(56)	–	–	–	–	2,800	(721)	2,079
– Other open space/recreational assets	15,727	(5,078)	10,649	1,359	–	(255)	(452)	371	(1,474)	–	–	15,411	(5,212)	10,199
Other assets:														
– Other	3,766	(1,900)	1,866	–	–	–	(221)	–	–	–	–	3,766	(2,121)	1,645
Reinstatement, rehabilitation and restoration assets (refer Note 14):														
– Tip assets	13,547	(1,485)	12,062	–	–	–	(485)	–	524	–	–	14,072	(1,970)	12,102
– Quarry assets	2,739	(527)	2,212	–	–	–	(257)	–	–	–	–	2,739	(784)	1,955
Total Infrastructure, property, plant and equipment	1,117,356	(322,098)	795,258	27,007	9,792	(2,976)	(15,012)	–	(321)	(2,082)	10,808	1,159,487	(337,008)	822,479

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

	as at 30/6/2017			Asset movements during the reporting period							as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000													
Capital work in progress	17,258	–	17,258	11,887	198	–	–	(10,577)	–	–	18,766	–	18,766
Plant and equipment	12,518	(8,064)	4,454	–	921	(225)	(1,084)	–	–	–	13,003	(8,938)	4,065
Office equipment	3,018	(2,608)	410	–	17	–	(183)	–	–	–	3,035	(2,790)	245
Furniture and fittings	297	(197)	100	–	–	–	(19)	–	–	–	296	(216)	80
Land:													
– Operational land	83,564	–	83,564	–	–	–	–	–	768	–	84,332	–	84,332
– Community land	123,413	–	123,413	–	–	–	–	–	(768)	–	122,645	–	122,645
– Land under roads (post 30/6/08)	231	–	231	–	–	–	–	–	–	–	231	–	231
Land improvements – non-depreciable	80	–	80	–	–	–	–	–	–	–	80	–	80
Land improvements – depreciable	6,215	(2,492)	3,723	–	–	–	(160)	–	–	–	6,215	(2,652)	3,563
Infrastructure:													
– Buildings	73,680	(10,735)	62,945	469	–	–	(1,122)	169	–	–	74,317	(11,857)	62,460
– Other structures	2,391	(351)	2,040	–	135	–	(36)	–	–	–	2,526	(387)	2,139
– Roads	302,542	(138,363)	164,179	6,065	14,194	(1,734)	(5,126)	4,109	(3,110)	–	322,507	(143,937)	178,570
– Bridges	23,909	(11,080)	12,829	443	14,971	(335)	(324)	293	(776)	–	37,790	(10,688)	27,102
– Footpaths	8,627	(3,124)	5,503	311	545	(18)	(141)	40	(253)	–	9,278	(3,285)	5,993
– Bulk earthworks (non-depreciable)	29,000	–	29,000	–	–	–	–	–	–	–	28,999	–	28,999
– Stormwater drainage	64,295	(16,974)	47,321	4,026	–	–	(623)	644	(356)	–	69,113	(18,102)	51,011
– Water supply network	97,440	(38,850)	58,590	693	774	–	(1,387)	4,694	–	1,224	105,668	(41,081)	64,587
– Sewerage network	175,858	(64,086)	111,772	326	59	–	(3,015)	37	–	2,287	179,976	(68,510)	111,466
– Swimming pools	2,800	(609)	2,191	–	–	–	(56)	–	–	–	2,800	(665)	2,135
– Other open space/recreational assets	14,751	(4,669)	10,082	445	–	(30)	(436)	590	–	–	15,727	(5,078)	10,649
Other assets:													
– Other	3,766	(1,674)	2,092	–	–	–	(225)	–	–	–	3,766	(1,900)	1,866
Reinstatement, rehabilitation and restoration assets (refer Note 14):													
– Tip assets	11,628	(1,064)	10,564	–	1,919	–	(421)	–	–	–	13,547	(1,485)	12,062
– Quarry assets	2,739	(270)	2,469	–	–	–	(257)	–	–	–	2,739	(527)	2,212
Total Infrastructure, property, plant and equipment ²	1,060,020	(305,210)	754,810	24,665	33,733	(2,342)	(14,615)	(1)	(4,495)	3,511	1,117,356	(322,098)	795,258

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

(2) The balances for 30/06/17 and 30/06/18 have been restated.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (Dol) – Water.

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

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

When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Council will obtain ownership at the end of the lease term. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 20
Office furniture	10 to 20	Benches, seats etc.	10 to 30
Computer equipment	4		
Vehicles	7 to 10		
Heavy plant/road making equipment	7 to 10		
Other plant and equipment	5 to 10		
Buildings		Buildings	
Envelope	32 to 160	Mechanical Services	13 to 53
Floors	90 to 140	Fire Services	22 to 25
Floor Coverings	17 to 34	Electrical Services	65 to 95
Internal Screens	38 to 75	Hydraulic Services	73 to 103
Roof	14 to 105		
Water and sewer assets		Stormwater assets	
Dams and reservoirs	40 to 100	Drains	100 to 200
Bores	20 to 40	Culverts	100
Reticulation pipes: PVC	70 to 80	Flood control structures	100
Reticulation pipes: other	40 to 80		
Pumps and telemetry	10 to 60		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20 to 60	Bulk earthworks	Infinite
Sealed roads: structure	40 to 200	Swimming pools	25 to 50
Unsealed roads	15 to 20	Other open space / recreational assets	5 to 50
Bridge: concrete	60 to 100		
Bridge: other	60 to 100		
Road pavements	50		
Kerb, gutter and footpaths	15 to 83		

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Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under Section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed".

These Rural Fire Service assets are recognised as assets of the Council in these financial statements.

Note 10(b). Externally restricted infrastructure, property, plant and equipment

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	163	–	163	2,773	–	2,773
Plant and equipment	21	21	–	21	19	2
Office equipment	44	44	–	44	44	–
Land						
– Operational land	6,509	–	6,509	6,509	–	6,509
Buildings	633	159	474	1,315	270	1,045
Infrastructure	112,178	42,927	69,251	105,669	41,081	64,588
Total water supply	119,548	43,151	76,397	116,331	41,414	74,917
Sewerage services						
WIP	4,115	–	4,115	4,656	–	4,656
Plant and equipment	307	165	142	307	147	160
Office equipment	72	72	–	72	72	–
Land						
– Operational land	13,463	–	13,463	13,463	–	13,463
– Improvements – depreciable	10	3	7	10	3	7
Buildings	902	222	680	220	51	169
Other structures	17	17	–	17	17	–
Infrastructure	187,417	72,128	115,289	179,976	68,510	111,466
Total sewerage services	206,303	72,607	133,696	198,721	68,800	129,921
TOTAL RESTRICTED I, PP&E	325,851	115,758	210,093	315,052	110,214	204,838

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Notes to the Financial Statements
for the year ended 30 June 2019

Note 11. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	5,791	–	5,182	–
Accrued expenses:				
– Borrowings	225	–	244	–
– Other expenditure accruals	304	–	379	–
Security bonds, deposits and retentions	3,992	–	3,978	–
Total payables	10,312	–	9,783	–
Income received in advance				
Payments received in advance	291	–	227	–
Total income received in advance	291	–	227	–
Borrowings				
Loans – secured ¹	2,812	61,338	2,719	56,520
Total borrowings	2,812	61,338	2,719	56,520
TOTAL PAYABLES AND BORROWINGS	13,415	61,338	12,729	56,520

⁽¹⁾ Loans are secured over the general rating income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 18.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Sewer	1,962	40,897	1,795	42,883
Bonds and deposits	3,992	–	3,978	–
Payables and borrowings relating to externally restricted assets	5,954	40,897	5,773	42,883
Total payables and borrowings relating to restricted assets	5,954	40,897	5,773	42,883
Total payables and borrowings relating to unrestricted assets	7,461	20,441	6,956	13,637
TOTAL PAYABLES AND BORROWINGS	13,415	61,338	12,729	56,520

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings (continued)

(b) Changes in liabilities arising from financing activities

	as at 30/6/2018					as at 30/6/2019
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	59,239	4,911	–	–	–	64,150
TOTAL	59,239	4,911	–	–	–	64,150

	as at 30/6/2017					as at 30/6/2018
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	60,128	(889)	–	–	–	59,239
TOTAL	60,128	(889)	–	–	–	59,239

\$ '000	2019	2018
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(c) Financing arrangements

(i) Unrestricted access was available at balance date to the following lines of credit:

Credit cards/purchase cards	185	185
Total financing arrangements	185	185

Drawn facilities as at balance date:

– Credit cards/purchase cards	1	3
Total drawn financing arrangements	1	3

Undrawn facilities as at balance date:

– Credit cards/purchase cards	184	182
Total undrawn financing arrangements	184	182

Additional financing arrangements information

Breaches and defaults

During the current and prior year, there were no defaults or breaches on any of the loans.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Council comprise trade payables, bank and other loans and finance lease liabilities.

Payables

These amounts represent liabilities for goods and services provided to the council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Byron Shire Council

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Notes to the Financial Statements
for the year ended 30 June 2019

Note 12. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	2,044	–	1,958	–
Long service leave	3,224	430	3,294	116
Gratuities	154	–	150	–
Sub-total – aggregate employee benefits	5,422	430	5,402	116
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	7,709	–	7,011
Sub-total – asset remediation/restoration	–	7,709	–	7,011
TOTAL PROVISIONS	5,422	8,139	5,402	7,127

(a) Provisions relating to restricted assets

Total provisions relating to restricted assets	–	–	–	–
Total provisions relating to unrestricted assets	5,422	8,139	5,402	7,127
TOTAL PROVISIONS	5,422	8,139	5,402	7,127

\$ '000	2019	2018
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(b) Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	3,384	3,637
	3,384	3,637

(c) Description of and movements in provisions

	ELE provisions			
\$ '000	Annual leave	Long service leave	Other employee benefits	Total
2019				
At beginning of year	1,958	3,410	150	5,518
Additional provisions	1,815	990	24	2,829
Amounts used (payments)	(1,729)	(746)	(20)	(2,495)
Total ELE provisions at end of period	2,044	3,654	154	5,852
2018				
At beginning of year	1,888	3,528	152	5,568
Additional provisions	1,702	523	4	2,229
Amounts used (payments)	(1,633)	(641)	(6)	(2,280)
Total ELE provisions at end of period	1,957	3,410	150	5,517

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions (continued)

\$ '000	Other provisions	
	Asset remediation	Total
2019		
At beginning of year	7,011	7,011
Additional provisions	525	525
Unwinding of discount	173	173
Total other provisions at end of period	7,709	7,709
2018		
At beginning of year	4,869	4,869
– Revised costs	20	20
– Revised discount rate	79	79
Additional provisions	1,919	1,919
Unwinding of discount	124	124
Total other provisions at end of period	7,011	7,011

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the Council tip and quarry.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions (continued)

Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries**Restoration**

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Other movements in the provisions for close-down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations, and revisions to discount rates, are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close-down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

(b) Correction of errors relating to a previous reporting period

Nature of prior-period error

Council has reviewed the valuation of Land under Roads. Previously Council had not used the 'englobo' method plus discounting by 90% to determine the appropriate unit rate per square metre to value for land under roads. Previously Council had determined a per square metre rate based on residential land rateable value without discounting. Council has subsequently determined a unit rate based on the total rateable value of all Council land and then discounted it by 90%. This has resulted in an overstatement of Land under Roads of \$7.104million in prior years. Council also needs to reverse a related transaction recognised in Asset Revaluation Reserve of \$0.635million as the revaluation decrement was incorrectly recorded in the revaluation reserve instead of accumulated surplus. Overall the adjustment requires Council to reduce its Accumulated Surplus by \$7.739million and increase Asset Revaluation Reserve by \$0.635million in previous years to the current reporting date. The errors identified have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2017) and taking the adjustment through to accumulated surplus and asset revaluation reserve at that date. Comparatives have been changed to reflect the correction of errors. The impacts on each line item are shown in the table below.

Changes to the opening Statement of Financial Position at 1 July 2017

Statement of Financial Position

\$ '000	Original Balance 1 July, 2017	Impact Increase/ (decrease)	Restated Balance 1 July, 2017
Overstatement of Infrastructure, Property, Plant and Equipment	761,914	(7,104)	754,810
Total assets	853,917	(7,104)	846,813
Total liabilities	81,968	—	81,968
Accumulated Surplus	523,242	(7,739)	515,503
Asset Revaluation Reserve	248,707	635	249,342
Total equity	771,949	(7,104)	764,845

Adjustments to the comparative figures for the year ended 30 June 2018

Statement of Financial Position

\$ '000	Original Balance 30 June, 2018	Impact Increase/ (decrease)	Restated Balance 30 June, 2018
Overstatement of Infrastructure, Property, Plant and Equipment	802,362	(7,104)	795,258
Total assets	892,432	(7,104)	885,328
Total liabilities	81,777	—	81,777
Accumulated Surplus	558,537	(7,739)	550,798
Asset Revaluation Reserve	252,118	635	252,753
Total equity	810,655	(7,104)	803,551

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**(c) Changes in accounting policies due to adoption of new accounting standards (not-retrospective)**

During the year, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

The Council has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2017. As part of the adoption of AASB 9, the Council adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

– AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.

– AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

The adoption of AASB 9 has not resulted in any material impact on the 2019 financial statements.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except Council has not restated any amounts relating to classification and measurement requirements, including impairment, which have been applied from 1 July 2018.

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Notes to the Financial Statements
for the year ended 30 June 2019

Note 14. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	30,589	26,388
Balance as per the Statement of Cash Flows		30,589	26,388
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		13,022	35,295
Adjust for non-cash items:			
Depreciation and amortisation		15,012	14,615
Net losses/(gains) on disposal of assets		2,318	2,352
Non-cash capital grants and contributions		(6,040)	(29,261)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(290)	(8)
Unwinding of discount rates on reinstatement provisions		173	124
Share of net (profits)/losses of associates/joint ventures using the equity method		4	–
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(1,078)	207
Increase/(decrease) in provision for impairment of receivables		(15)	(12)
Decrease/(increase) in inventories		7	5
Decrease/(increase) in other current assets		(13)	–
Increase/(decrease) in payables		609	(1,231)
Increase/(decrease) in accrued interest payable		(19)	(2)
Increase/(decrease) in other accrued expenses payable		(75)	(147)
Increase/(decrease) in other liabilities		78	(13)
Increase/(decrease) in provision for employee benefits		334	(50)
Increase/(decrease) in other provisions		525	–
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		24,552	21,874
(c) Non-cash investing and financing activities			
Crown land devolved		1,217	–
Developer dedications		4,823	28,104
Total non-cash investing and financing activities		6,040	28,104

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Notes to the Financial Statements for the year ended 30 June 2019

Note 15. Interests in other entities

\$ '000	Council's share of net income		Council's share of net assets	
	2019	2018	2019	2018
Associates	(4)	–	1,153	1,157
Total	(4)	–	1,153	1,157

Associates

The following information is provided for associates that are individually material to the Council. Included are the amounts as per the individual associates' financial statements, adjusted for fair-value adjustments at acquisition date and differences in accounting policies, rather than the Council's share.

Summarised financial information for individually immaterial associates

\$ '000	2019	2018
Individually immaterial associates		
Aggregate carrying amount of individually immaterial associates	1,153	1,157
Aggregate amounts of Council's share of individually immaterial:		
Profit/(loss) from continuing operations	(4)	53
Total comprehensive income – individually immaterial associates	(4)	53

Note 16. Commitments

\$ '000	2019	2018
---------	------	------

(a) Capital commitments (exclusive of GST)

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

Buildings	–	185
Roads	16,914	9,601
Water	225	–
Sewer	431	–
Parks and Gardens	547	–
Emergency Services	199	–
Total commitments	18,316	9,786

These expenditures are payable as follows:

Within the next year	14,316	9,786
Later than 1 year not later than 5 years	4,000	–
Total payable	18,316	9,786

Sources for funding of capital commitments:

Future grants and contributions	12,824	5,093
Section 7.11 and 64 funds/reserves	4,988	2,770
Internally restricted reserves	504	1,923
Total sources of funding	18,316	9,786

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Commitments (continued)

\$ '000	2019	2018
(b) Operating lease commitments (non-cancellable)		
a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:		
Within the next year	1,136	1,082
Later than one year and not later than 5 years	2,029	2,450
Later than 5 years	—	323
Total non-cancellable operating lease commitments	3,165	3,855

b. Non-cancellable operating leases include the following assets:**Conditions relating to finance and operating leases:**

- All finance agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

Note 17. Contingencies and other assets/liabilities not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

ASSETS NOT RECOGNISED**(i) Land under roads**

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30 June 2008.

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

LIABILITIES NOT RECOGNISED**1. Guarantees****(i) Defined benefit superannuation contribution plans**

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

– Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.

– The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

Description of the funding arrangements.

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times member contributions for non-180 Point Members*
Division C	2.5% salaries
Division D	1.64 times member contributions

*For 180 Point Members, Employers are required to contribute 7% of salaries to these members' accumulation accounts, which are paid in addition to members' defined benefits.

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 for 3 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$ 363,019. The last valuation of the Scheme was performed by Mr Richard Bayfield, FIAA, on 31 December 2018, and covers the period ended 30 June 2018.

The amount of additional contributions included in the total employer contribution advised above is \$127,000. Council's expected contribution to the plan for the next annual reporting period is \$271,710.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,798.7	
Past Service Liabilities	1,784.2	100.8%
Vested Benefits	1,792.0	100.4%

* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$281,901.36 as at 30 June 2019.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.75% per annum
Salary inflation *	3.50% per annum
Increase in CPI	2.50% per annum

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

(ii) Statewide Limited

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30 June this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

2. Other liabilities**(i) Third party claims**

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) Section 7.11 Contributions (Previously S94 Plans)

Council levies Section 7.11 Contributions (previously Section 94/94A) upon various developments across the Council area through the required Contributions Plans.

As part of these Plans, Council has received funds for which it will be required to expend monies in accordance with those Plans.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

As well, these Plans indicate future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or where a shortfall exists by the use of Council's General Funds.

The future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intentions to spend funds in the manner and timing set out in those Plans.

(iii) Butler Street Byron Bay Contamination

Council is currently in consultation with the Environment Protection Authority undertaking monitoring and investigation of contamination levels at the Butler Street Reserve that is still ongoing. This being the site of a disused landfill. The ongoing monitoring will be used to determine the future management of the Reserve. The current assessment indicates that the site is fit for its current use of passive recreation.

Note 18. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including (1) price risk, (2) credit risk, (3) liquidity risk and (4) interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	30,589	26,388	30,589	26,388
Receivables	11,187	10,104	11,187	10,066
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	47,781	–	47,881	–
Fair value through profit and loss				
Investments				
– 'Designated at fair value on initial recognition'	–	51,012	–	51,012
Total financial assets	89,557	87,504	89,657	87,466
Financial liabilities				
Payables	10,312	9,783	10,312	9,783
Loans/advances	64,150	59,239	68,091	68,688
Total financial liabilities	74,462	69,022	78,403	78,471

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

- Financial assets classified (i) 'at fair value through profit and loss' or (ii) 'available-for-sale' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's finance area manages the cash and Investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

- Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

(a) Market risk – price risk and interest rate risk

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	784	784	784	784
2018				
Possible impact of a 1% movement in interest rates	733	733	(733)	(733)

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

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

Credit risk profile

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	1,598	29	46	56	87	1,816
2018						
Gross carrying amount	1,091	29	46	56	32	1,254

Receivables - non-rates and annual charges

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	9,107	227	19	2	44	9,399
Expected loss rate (%)	0.43%	2.64%	4.40%	8.04%	6.25%	0.52%
ECL provision	39	6	1	–	3	49
2018						
Gross carrying amount	8,561	203	20	4	105	8,893
Expected loss rate (%)	0.48%	3.65%	3.47%	6.60%	5.17%	0.62%
ECL provision	43	7	1	–	5	56

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	3,992	6,320	–	–	10,312	10,312
Loans and advances	6.65%	–	6,316	25,963	59,648	91,927	84,676
Total financial liabilities		3,992	12,636	25,963	59,648	102,239	94,988
2018							
Trade/other payables	0.00%	3,978	5,754	–	–	9,732	9,783
Loans and advances	7.22%	–	6,974	22,514	52,348	81,836	82,430
Total financial liabilities		3,978	12,728	22,514	52,348	91,568	92,213

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations

Council's original financial budget for 2018/2019 was adopted by the Council on 28/06/2018 and is unaudited.

While the Income Statement included in this General Purpose Financial Statements must disclose the original budget adopted by Council, the Local Government Act 1993 requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

Variation Key: **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	40,884	41,969	1,085	3% F
User charges and fees	27,859	30,570	2,711	10% F
Interest and investment revenue	1,977	2,517	540	27% F
Interest on investments exceeded the original budget estimate due to Council's overall cash position not reducing as expected allowing additional funds to be invested and remain invested. Additionally Council at 30 June 2019 has recognised \$289k as unrealised gains on investments that were not originally budgeted for.				
Other revenues	1,904	2,030	126	7% F
Operating grants and contributions	4,259	8,400	4,141	97% F
Council recognised additional operating grant and contributions revenue not included in the original budget related to Natural Disaster funding received from RMS of \$1,833k, Financial Assistance Grant (FAG) advance payment more than budget \$1,747k, various Planning Policy and Natural Environment grants totaling approximately \$160k along with revenue from Statecover \$180k was not anticipated.				
Capital grants and contributions	23,577	21,109	(2,468)	(10)% U
EXPENSES				
Employee benefits and on-costs	25,344	25,235	109	0% F
Borrowing costs	4,358	4,425	(67)	(2)% U
Materials and contracts	31,294	40,154	(8,860)	(28)% U
Additional expenditure not included in the original 2018/2019 budget included: Natural Disaster works associated with 2016 and 2017 flood events \$1,886k, capital works of \$3,300k not capitalised but original budget is included as capital works and not materials and contracts, expenditure related to the demolition of the former Mullumbimby Hospital \$2,025k, legal expenses \$207k, multi use of rail corridor investigation \$231k, 227K additional contract payments for Council's holiday parks due to increased revenue, fine collection fees \$38k, and green waste operations \$107k are examples.				
Depreciation and amortisation	13,679	15,012	(1,333)	(10)% U
Other expenses	4,653	6,425	(1,772)	(38)% U
Expenditure not included in the 2018/2019 budget as other expenses but as materials and contracts: Approximately \$1,090k of electricity costs and \$294k telephone and communication costs. Other additional expenses not included in the original budget include insurances \$96k, postage \$14k and street lighting \$46k.				
Net losses from disposal of assets	–	2,318	(2,318)	∞ U

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for the year ended 30 June 2019

Council does not budget for any expenditure resulting from the disposal of assets as it is a non-cash expense.

Joint ventures and associates – net losses	–	4	(4)	∞	U
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Council does not budget for any net lossess related to its only associated operation - Richmond Tweed Regional Library.

Council's expenditure on materials and contracts was \$8.244million more than estimated in the original budget. Major components of this was the former Mullumbimby Hospital demolition \$2.025million, \$3.300million in capital works that were not capitalised but the related budget was in the original budget as capital expenditure, \$1.886million in natural disaster works restoration from 2016 and 2017 flood events, \$231K for multi use of rail corridor investigation, and additional \$207k for legal expenses. Grants and contributions were also \$3.4million below the anticipated 2018/2019 original budget principally related to the Byron Bay Bypass.

Council sold property plant and equipment that was not included in the original budget. Included in this was sale of land in Station Street Mullumbimby that was budgeted in the 2017-2018 financial year but the sale was not completed until the 2018/2019 financial year. Council also did not complete in cash terms \$19.6million in capital works projects that were included in the original budget including \$10million for the Byron Bay Bypass.

Council during the year borrowed additional funds that were not included in the original borrowings. Principally it borrowed to remediate the former Mullumbimby Hospital that Council acquired during the year \$3.334million and brought forward borrowings originally proposed in 2019/2020 for bridge renewals.

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements for the year ended 30 June 2019

Note 20. Fair Value Measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) Assets and liabilities that have been measured and recognised at fair values

Fair value measurement hierarchy						
2019	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Infrastructure, property, plant and equipment	10(a)					
Plant and equipment			–	–	3,907	3,907
Office equipment			–	–	105	105
Furniture and fittings			–	–	61	61
Operational land		30/06/16	–	86,801	–	86,801
Community land		30/06/17	–	–	124,304	124,304
Land under roads (Post 30/6/08)		30/06/16	–	–	260	260
Land improvements – non-depreciable		30/06/16	–	–	–	–
Land improvements – depreciable		30/06/16	–	–	3,404	3,404
Buildings specialised		30/06/16	–	–	71,207	71,207
Other structures		30/06/16	–	–	1,877	1,877
Roads		30/06/15	–	–	179,818	179,818
Bridges		30/06/15	–	–	32,984	32,984
Footpaths		30/06/15	–	–	7,023	7,023
Bulk earthworks		30/06/15	–	–	29,734	29,734
Stormwater drainage		30/06/15	–	–	55,625	55,625
Water supply network		30/06/17	–	–	69,251	69,251
Sewerage network		30/06/17	–	–	115,289	115,289
Swimming pools		30/06/16	–	–	2,079	2,079
Other open space and recreational assets		30/06/16	–	–	10,198	10,198
Other assets		30/06/16	–	–	1,647	1,647
Tip assets		30/06/16	–	–	12,101	12,101

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Notes to the Financial Statements
for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

		Fair value measurement hierarchy			
		Date of latest valuation	Level 1 Quoted prices in active mkt	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs
2019	Notes				Total
Quarry assets		30/06/16	–	–	1,955
Total infrastructure, property, plant and equipment			–	86,801	722,829
					809,630
		Fair value measurement hierarchy			
		Date of latest valuation	Level 1 Quoted prices in active mkt	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs
2018	Notes				Total
Infrastructure, property, plant and equipment	10(a)				
Plant and equipment			–	–	4,065
Office equipment			–	–	245
Furniture and fittings			–	–	80
Operational land		30/06/16	–	84,332	–
Community land		30/06/17	–	–	122,645
Land under roads (Post 30/6/08)		30/06/16	–	–	231
Land improvements – non-depreciable		30/06/16	–	–	80
Land improvements – depreciable		30/06/16	–	–	3,563
Buildings specialised		30/06/16	–	–	62,460
Other structures		30/06/16	–	–	2,139
Roads		30/06/15	–	–	178,570
Bridges		30/06/15	–	–	27,102
Footpaths		30/06/15	–	–	5,993
Bulk earthworks		30/06/15	–	–	28,999
Stormwater drainage		30/06/15	–	–	51,011
Water supply network		30/06/17	–	–	64,587
Sewerage network		30/06/17	–	–	111,466
Swimming pools		30/06/16	–	–	2,135
Other open space and recreational assets		30/06/16	–	–	10,649
Other assets		30/06/16	–	–	1,866
Tip assets		30/06/16	–	–	12,062
Quarry assets		30/06/16	–	–	2,212
Total infrastructure, property, plant and equipment			–	84,332	692,160
					776,492

Note that capital WIP is not included above since it is carried at cost.

(2) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial assets

Financial assets are exposed to financial risks such as price risk, credit risk, liquidity risk and interest rate risk surrounding the unpredictable nature of financial markets.

The valuation technique for these assets is based on a market approach observing that the carrying value is a reasonable approximation of the fair value.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

Infrastructure, property, plant and equipment (IPP&E)

Plant and equipment, office equipment, furniture and fittings

Plant and equipment, office equipment and furniture & fittings assets are valued at cost. The carrying amount of these assets is assumed to approximate fair value.

Operational land

Operational Land has been valued by APV Valuers and Asset Management (APV), an external valuer utilised by Council at 30 June 2016. The report provided by APV stated - Except in the circumstance of any assets being held for sale (valued in accordance with AASB 5 Assets Held for Sale) or in accordance with specific accounting standards (such as Investment Properties) the balance of the portfolio is valued in accordance with AASB116 Property Plant and Equipment at Fair Value. Depending upon the unique circumstances of each lot, land has been valued using a range of approaches. Where there is an active market the 'market approach' has been adopted. If its value is primarily dependent on its income generating capability the income approach was used. For other types of land the 'cost approach' was adopted. Details of each approach are detailed below.

Level 2 valuation inputs

Market (Direct Comparison) – This has been applied to land held in freehold title and has been assessed on the basis of the estimated amount which the interest in each property being valued might reasonably be expected to realise on the date of valuation in an exchange between market participants given highest and best use or highest and best alternative use. This was determined by comparison to recent sales of land with similar characteristics. This was then adjusted to reflect condition and comparability.

As this was based on observable evidence they have been classified as Level 2. Cost (Direct Comparison) - The valuation of some restricted or otherwise non-saleable land has been valued using the cost approach. This approach was used where, assuming if Byron Shire Council need to purchase the land or acquire additional land from an adjoining neighbour, the value of that land could be determined based on known zoning and town planning restrictions. This was determined by comparison to recent sales of land with similar characteristics. This was then adjusted to reflect condition and comparability. As this was based on observable evidence they have been classified as Level 2.

Community land

Community Land has been valued using the Valuer Generals value of land. These rates are not considered to be observable market evidence and as such they have been classified as Level 3

Land under roads (Post 30/6/08)

Land under roads is valued using the 'Englobo' valuation method at 30 June 2019. The Englobo value of the land under the road is the proportional site value of the land at the time when the land is sold for subdivision. In prior years, this was valued through information provided by the Valuer General (VG). Information was received by the VG for each zone description and an applicable rate per square metre for rural and residential areas was applied to the land recognised under roads, post 30/6/08. Changing to the 'Englobo' valuation method during the reporting period has resulted in a prior period error that details of are disclosed at Note 13(b). These rates are not considered to be observable market evidence and as such they have been classified as Level 3.

Buildings – specialised

Buildings were valued by APV at 30th June 2016 using the cost approach. This approach estimated the replacement cost for each building by componentising it into significant parts with different useful lives taking into account a range of factors. Some of these factors required extensive professional judgement and as such were classified as Level 3.

Roads, bridges and footpaths

Valuations for these asset classes were undertaken by JRA using the replacement cost approach. No market based evidence (Level 2) inputs are available, therefore Level 3 valuation inputs were used for this asset class.

Water

Water Network assets were valued by AssetVal at 30 June 2017. The replacement cost approach was used to value these assets. Some of the significant inputs considered in the valuation of those assets are remaining useful life, pattern of consumption, dimensions and asset components. Some of these inputs are unobservable and as such this asset class is classified as Level 3.

Sewer

Sewer Network assets were valued by AssetVal at 30 June 2017. The replacement cost approach was used to value these assets. Some of the significant inputs considered in the valuation of those assets are remaining useful life, pattern of

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

consumption, dimensions and asset components. Some of these inputs are unobservable and as such this asset class is classified as Level 3.

Stormwater drainage

Valuations for these asset classes were undertaken by JRA using the replacement cost approach. No market based evidence (Level 2) inputs are available, therefore Level 3 valuation inputs were used for this asset class.

Swimming pools

This asset class is for the swimming pool shells only. This was valued externally by Assetic at 30 June 2016. Other open space and recreational assets. This asset class was valued by Assetic as at 30 June 2016. All assets within the revaluation identified the assets as Level 3, valued using the cost approach.

Other assets

Other assets are valued at cost. The carrying amount of these assets is assumed to approximate fair value.

Tip assets

Tip assets are valued at cost. The carrying amount of these assets is assumed to approximate fair value based on the cost estimate to remediate the tip provided by Councils engineering staff. The cost of the asset is influenced by change in cost factors measured by the consumer price index and the discounting to present value by the applicable Government bond rate.

Quarry assets

Quarry assets are valued at cost. The carrying amount of these assets is assumed to approximate fair value based on the cost estimate to remediate the quarry provided by Councils engineering staff. The cost of the asset is influenced by change in cost factors measured by the consumer price index and the discounting to present value by the applicable Government bond rate.

(3) Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Community Land	Land under Roads (post 30/6/08)
2018					
Opening balance	4,453	411	98	123,412	7,335
Prior Period adjustment (Note 13b)	-	-	-	-	-
Transfers from/(to) another asset class	-	-	-	(768)	-
Purchases (GBV)	921	17	-	-	-
Disposals (WDV)	(225)	-	-	-	-
Depreciation and impairment	(1,084)	(183)	(19)	-	-
Other movement	-	-	1	1	-
WIP Transfers	-	-	-	-	-
Adjustments & Transfers	-	-	-	-	-
Reval Equity Movements	-	-	-	-	-
Closing balance	4,065	245	80	122,645	7,335
2019					
Opening balance	4,065	245	80	122,645	7,335
Prior Period adjustment (Note 13b)	-	-	-	-	(7,104)
Transfers from/(to) another asset class	-	-	-	(19)	-
Purchases (GBV)	1,271	-	-	1,946	29
Disposals (WDV)	(309)	-	-	-	-

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BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Community Land	Land under Roads (post 30/6/08)
Depreciation and impairment	(1,120)	(140)	(19)	—	—
WIP Transfers	—	—	—	—	—
Adjustments & Transfers	—	—	—	—	—
Reval Equity Movements	—	—	—	(268)	—
Closing balance	3,907	105	61	124,304	260

\$ '000	Land improv'mnt non-depr.	Land improv'mnt depreciable	Building specialised	Other structures	Roads
2018					
Opening balance	80	3,722	62,944	2,040	164,179
Prior Period adjustment (Note 13b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	169	—	999
Purchases (GBV)	—	—	469	135	20,252
Disposals (WDV)	—	—	—	—	(1,734)
Depreciation and impairment	—	(160)	(1,122)	(36)	(5,126)
Other movement	—	1	—	—	—
WIP Transfers	—	—	—	—	—
Adjustments & Transfers	—	—	—	—	—
Reval Equity Movements	—	—	—	—	—
Closing balance	80	3,563	62,460	2,139	178,570
2019					
Opening balance	80	3,563	62,460	2,139	178,570
Prior Period adjustment (Note 13b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	—	—	1,237	—	4,016
Disposals (WDV)	(80)	—	(30)	—	(391)
Depreciation and impairment	—	(159)	(1,028)	(36)	(5,166)
WIP Transfers	—	—	769	—	2,755
Adjustments & Transfers	—	—	—	1,474	34
Reval Equity Movements	—	—	7,798	(1,700)	—
Closing balance	—	3,404	71,206	1,877	179,818

\$ '000	Bridges	Footpaths	Bulk earthworks	Stormwater drainage	Water supply network
2018					
Opening balance	12,829	5,502	28,999	47,321	58,589
Prior Period adjustment (Note 13b)	—	—	—	—	—
Transfers from/(to) another asset class	(483)	(213)	—	288	5,918
Purchases (GBV)	15,414	862	—	4,026	1,467
Disposals (WDV)	(335)	(18)	—	—	—
Depreciation and impairment	(324)	(141)	—	(623)	(1,387)
Other movement	1	—	—	—	—
WIP Transfers	—	—	—	—	—
Adjustments & Transfers	—	—	—	—	—

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Bridges	Footpaths	Bulk earthworks	Stormwater drainage	Water supply network
Reval Equity Movements	—	—	—	—	—
Closing balance	27,102	5,993	28,999	51,011	64,587
2019					
Opening balance	27,102	5,993	28,999	51,011	64,587
Prior Period adjustment (Note 13b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	4,834	1,138	698	5,165	2,271
Disposals (WDV)	(321)	(6)	—	(43)	(70)
Depreciation and impairment	(553)	(150)	—	(720)	(1,402)
WIP Transfers	1,922	47	37	243	2,773
Adjustments & Transfers	—	—	—	(34)	—
Reval Equity Movements	—	—	—	—	1,091
Closing balance	32,984	7,022	29,734	55,622	69,250

\$ '000	Sewerage network	Swimming pools	Other open space and recreation	Other	Tip assets
2018					
Opening balance	111,773	2,192	10,080	2,092	10,565
Prior Period adjustment (Note 13b)	—	—	—	—	—
Transfers from/(to) another asset class	2,323	—	590	—	—
Purchases (GBV)	385	—	445	—	1,919
Disposals (WDV)	—	—	(30)	—	—
Depreciation and impairment	(3,015)	(56)	(436)	(225)	(421)
Other movement	—	(1)	—	(1)	(1)
WIP Transfers	—	—	—	—	—
Adjustments & Transfers	—	—	—	—	—
Reval Equity Movements	—	—	—	—	—
Closing balance	111,466	2,135	10,649	1,867	12,062
2019					
Opening balance	111,466	2,135	10,649	1,867	12,062
Prior Period adjustment (Note 13b)	—	—	—	—	—
Transfers from/(to) another asset class	—	—	—	—	—
Purchases (GBV)	3,006	—	1,359	—	—
Disposals (WDV)	(1,471)	—	(255)	—	—
Depreciation and impairment	(3,048)	(56)	(452)	(221)	(485)
WIP Transfers	3,531	—	371	—	—
Adjustments & Transfers	—	—	(1,474)	—	524
Reval Equity Movements	1,805	—	—	—	—
Closing balance	115,289	2,079	10,198	1,646	12,101

\$ '000	Quarry assets	Total
2018		
Opening balance	2,469	661,085
Prior Period adjustment (Note 13b)	—	—

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Quarry assets	Total
Transfers from/(to) another asset class	–	8,823
Purchases (GBV)	–	46,312
Disposals (WDV)	–	(2,342)
Depreciation and impairment	(257)	(14,615)
WIP Transfers	–	–
Adjustments & Transfers	–	–
Reval Equity Movements	–	–
Closing balance	2,212	699,265
2019		
Opening balance	2,212	699,265
Prior Period adjustment (Note 13b)	–	(7,104)
Transfers from/(to) another asset class	–	(19)
Purchases (GBV)	–	26,970
Disposals (WDV)	–	(2,976)
Depreciation and impairment	(257)	(15,012)
WIP Transfers	–	12,448
Adjustments & Transfers	–	524
Reval Equity Movements	–	8,726
Closing balance	1,955	722,822

b. Information relating to the transfers into and out of the level 3 fair valuation hierarchy (as disclosed in the table above) includes:

Land Parcel 67860 - Access to Sportsfields, Bangalow Road has been reclassified from Community Land in Level 3 to Operational Land in Level 2. Value of this on Councils register is \$18,882.

c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment			
Plant, Equipment, Furniture, Fittings and Office Equipment	12,983	Cost used to approximate fair value	Asset Condition, remaining useful lives
Community Land	124,304	Land values obtained from the NSW Valuer General	Land Value, land area
Land Under Roads	10,446	Square metre rate calculated from Land and Property information of LG area and applied to depending on zoning of the land	Land Value, land area
Land Improvements	6,215	Cost used to approximate fair value	Asset Condition, remaining useful lives
Buildings	85,673	APV Valuers report	Condition, remaining lives, valuers individual knowledge and skills.
Other Structures	2,311	Cost used to approximate fair value	Asset Condition, remaining useful lives
Roads, Bridges & Footpaths	382,276	JRA Report	Condition, remaining lives, valuers individual knowledge and skills.
Stormwater Drainage	74,366	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Bulk Earthworks	29,734	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Water	112,178	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Sewer	187,417	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Swimming Pools	2,800	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Other Open Space & Recreation	15,411	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Other Assets	3,766	Cost used to approximate fair value	Asset Condition, remaining useful lives
Tip Assets	13,547	Cost used to approximate fair value	Asset Condition, remaining useful lives
Quarry Assets	2,739	Cost used to approximate fair value	Asset Condition, remaining useful lives

(4) Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Related Party Transactions

(a) Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

\$ '000	2019	2018
Compensation:		
Short-term benefits	1,028	1,019
Post-employment benefits	70	68
Other long-term benefits	—	32
Total	1,098	1,119

(b) Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

Nature of the transaction		Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000	Ref					
2019						
Fees and Charges	1	10	—		—	—
Section 356 Local Government Act 1993 Donation	2	24	—		—	—
Event Funding	3	90	—		—	—
2018						
Fees and Charges	1	15	—		—	—
Section 356 Local Government Act 1993 Donation	2	22	—		—	—
Event Funding	3	66	—		—	—

¹ A community organisation has a number of leases and licences over land either owned or under the control of Council. These amounts disclosed is the total amount payable to Council during the reporting period. The General Manager of the community organisation until 20 June 2019 is a KMP of Council.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 21. Related Party Transactions (continued)

- | | |
|---|---|
| 2 | Council during the financial year provided a donation to a community organisation in accordance with a resolution of the Council. The General Manager of the community organisation until 20 June 2019 is a KMP of Council. |
| 3 | Council during the reporting period provided event funding undertaken by a community organisation. The General Manager of that community organisation up until 20 June 2019 is a KMP of Council. |

Note 22. Events occurring after the reporting date

Council is aware of the following 'non-adjusting event' that merit disclosure:

Council on 1 July 2019 completed the purchase of the former Byron Bay Hospital from Health Administration Corporation (NSW) for \$1. Council is to repurpose the facility for alternative uses yet to be determined. Whilst Council is yet to procure an independent valuation of the various former Byron Bay Hospital assets, Council during the 2019/2020 recognise the value of these assets. The value of the assets are expected to be material to Council's financial statements given the gross replacement cost as at 31 December 2016 representing the last valuation obtained by Health Administration were in excess of \$19.5million.

Council is also now responsible for maintaining the site and has provided \$400,000 for this purpose as expenditure in the 2019/2020 financial year.

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements for the year ended 30 June 2019

Note 23. Statement of developer contributions

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

Summary of contributions and levies

\$ '000	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
Open space	4,480	646	–	131	(485)	–	4,772	–
Community facilities	1,413	302	–	37	(364)	–	1,388	–
Urban roads	5,455	266	–	101	(2,153)	180	3,849	–
Rural roads	1,874	429	–	45	(683)	(180)	1,485	–
Cycleways	1,372	148	–	29	(408)	–	1,141	–
Carparking	1,470	20	–	40	(22)	–	1,508	–
Civic and urban improvements	1,600	–	–	20	(831)	–	789	–
Shire support services	258	1	–	7	–	–	266	–
Administration	354	200	–	11	(147)	–	418	–
Section 7.12 levy	596	345	–	21	(180)	–	782	–
S7.11 contributions – under a plan	18,872	2,357	–	442	(5,273)	–	16,398	–
Total S7.11 and S7.12 revenue under plans	18,872	2,357	–	442	(5,273)	–	16,398	–
S64 contributions	12,909	2,047	–	311	(3,465)	–	11,802	–
Total contributions	31,781	4,404	–	753	(8,738)	–	28,200	–

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	Cumulative internal borrowings due/(payable)
\$ '000	Opening Balance	Cash	Non-cash				Held as restricted asset	
S7.11 Contributions – under a plan								
CONTRIBUTION PLAN NUMBER 1 – OPEN SPACE								
Byron Bay	622	198	–	22	(19)	–	823	–
Mullumbimby	536	48	–	15	(45)	–	554	–
Bangalow	399	184	–	11	(181)	–	413	–
Suffolk Park	973	–	–	26	(16)	–	983	–
Brunswick Heads	82	38	–	2	(46)	–	76	–
Ocean Shores	134	30	–	6	(143)	–	27	–
Shire Wide	1,644	132	–	48	–	–	1,824	–
Rural North	36	16	–	–	(35)	–	17	–
Rural South	54	–	–	1	–	–	55	–
Total	4,480	646	–	131	(485)	–	4,772	–
CONTRIBUTION PLAN NUMBER 2 – COMMUNITY FACILITIES								
Byron Bay	56	60	–	–	(173)	–	(57)	–
Mullumbimby	15	1	–	–	–	–	16	–
Bangalow	177	15	–	5	–	–	197	–
Brunswick Heads	9	3	–	–	–	–	12	–
Ocean Shores	68	26	–	2	–	–	96	–
Shire Wide	981	195	–	27	(191)	–	1,012	–
Rural North	–	1	–	–	–	–	1	–
Rural South	107	1	–	3	–	–	111	–
Total	1,413	302	–	37	(364)	–	1,388	–
CONTRIBUTION PLAN NUMBER 3 – CYCLEWAYS								
Byron Bay	539	66	–	6	(384)	–	227	–
Mullumbimby	301	8	–	8	–	–	317	–
Bangalow	224	44	–	7	–	–	275	–
Brunswick Heads	10	8	–	–	–	–	18	–
Ocean Shores	151	8	–	4	(12)	–	151	–

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BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	Cumulative internal borrowings due/(payable)
\$ '000	Opening Balance	Cash	Non-cash				Held as restricted asset	
Shire Wide	38	14	-	1	(12)	-	41	-
Rural North	15	-	-	-	-	-	15	-
Rural South	94	-	-	3	-	-	97	-
Total	1,372	148	-	29	(408)	-	1,141	-
CONTRIBUTION PLAN NUMBER 4 – SHIRE SUPPORT SERVICES								
Byron Bay	20	-	-	1	-	-	21	-
Mullumbimby	13	-	-	-	-	-	13	-
Bangalow	4	-	-	-	-	-	4	-
Ocean Shores	6	-	-	-	-	-	6	-
Rural North	25	1	-	1	-	-	27	-
Rural South	148	-	-	4	-	-	152	-
Shire Rural	41	-	-	1	-	-	42	-
Brunswick Heads	1	-	-	-	-	-	1	-
Total	258	1	-	7	-	-	266	-
CONTRIBUTION PLAN NUMBER 5 – CARPARKING								
Byron Bay	1,287	-	-	35	-	-	1,322	-
Mullumbimby	6	-	-	-	-	-	6	-
Bangalow	(20)	20	-	5	(22)	-	(17)	-
Brunswick Heads	197	-	-	-	-	-	197	-
Total	1,470	20	-	40	(22)	-	1,508	-
CONTRIBUTION PLAN NUMBER 6 – URBAN ROADS								
Byron Bay	3,717	167	-	48	(2,097)	-	1,835	-
Mullumbimby	480	4	-	13	-	-	497	-
Bangalow	1,224	54	-	34	(27)	-	1,285	-
Brunswick Heads	137	41	-	5	-	-	183	-
Ocean Shores	47	-	-	1	-	-	48	-
Batson Quarry	30	-	-	-	(29)	-	1	-
Other	(180)	-	-	-	-	180	-	-

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

\$ '000	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
Total	5,455	266	–	101	(2,153)	180	3,849	–
CONTRIBUTION PLAN NUMBER 7 – RURAL ROADS								
Shire Rural	143	40	–	–	–	(180)	3	–
Mudges Quarry	18	–	–	–	–	–	18	–
Leela Quarry	4	–	–	–	–	–	4	–
Myocum Quarry (Council)	19	–	–	1	–	–	20	–
Rural North	261	176	–	–	(663)	–	(226)	–
Rural South	1,429	213	–	44	(20)	–	1,666	–
Total	1,874	429	–	45	(683)	(180)	1,485	–
CONTRIBUTION PLAN NUMBER 8 – CIVIC AND URBAN IMPROVEMENTS								
Byron Bay	1,078	–	–	7	(828)	–	257	–
Mullumbimby	109	–	–	3	(3)	–	109	–
Bangalow	193	–	–	5	–	–	198	–
Brunswick Heads	13	–	–	–	–	–	13	–
Ocean Shores	129	–	–	3	–	–	132	–
Rural North	27	–	–	1	–	–	28	–
Rural South	51	–	–	1	–	–	52	–
Total	1,600	–	–	20	(831)	–	789	–
CONTRIBUTION PLAN NUMBER 9 – ADMINISTRATION								
Shire Wide	354	200	–	11	(147)	–	418	–
Total	354	200	–	11	(147)	–	418	–
CONTRIBUTION PLAN NUMBER 10 – SECTION 7.12 LEVY								
Shire Wide	596	345	–	21	(180)	–	782	–
Total	596	345	–	21	(180)	–	782	–

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Byron Shire Council

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Notes to the Financial Statements for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	Cumulative internal borrowings due/(payable)
\$ '000	Opening Balance	Cash	Non-cash				Held as restricted asset	
S64 contributions								
CONTRIBUTION PLAN NUMBER 11 – WATER SUPPLY SERVICES								
Byron, Bang, Burns, O/Shires	3,360	124	–	16	(43)	–	3,457	–
Mullumbimby	498	123	–	66	(1,027)	–	(340)	–
Total	3,858	247	–	82	(1,070)	–	3,117	–
CONTRIBUTION PLAN NUMBER 12 – SEWERAGE SERVICES								
Bangalow	1,788	515	–	59	(106)	–	2,256	–
Byron Bay	7,263	1,285	–	170	(2,289)	–	6,429	–
Total	9,051	1,800	–	229	(2,395)	–	8,685	–

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 24. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	29,541	2,369	10,617
User charges and fees	18,491	7,680	5,784
Interest and investment revenue	2,138	104	275
Other revenues	2,030	—	—
Grants and contributions provided for operating purposes	8,248	77	75
Grants and contributions provided for capital purposes	18,125	1,002	1,982
Total income from continuing operations	78,573	11,232	18,733
Expenses from continuing operations			
Employee benefits and on-costs	21,948	861	2,426
Borrowing costs	1,179	—	3,246
Materials and contracts	31,606	3,146	6,984
Depreciation and amortisation	10,523	1,413	3,076
Other expenses	2,286	4,424	76
Net losses from the disposal of assets	777	70	1,471
Share of interests in joint ventures and associates using the equity method	4	—	—
Total expenses from continuing operations	68,323	9,914	17,279
Operating result from continuing operations	10,250	1,318	1,454
Net operating result for the year	10,250	1,318	1,454
Net operating result attributable to each council fund	10,250	1,318	1,454
Net operating result for the year before grants and contributions provided for capital purposes	(7,875)	316	(528)

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

continued on next page ...

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	30,589	—	—
Investments	13,277	11,442	15,851
Receivables	6,242	2,208	2,341
Inventories	395	—	—
Other	29	—	—
Total current assets	50,532	13,650	18,192
Non-current assets			
Investments	7,211	—	—
Receivables	396	—	—
Infrastructure, property, plant and equipment	612,388	76,396	133,695
Investments accounted for using the equity method	1,153	—	—
Total non-current assets	621,148	76,396	133,695
TOTAL ASSETS	671,680	90,046	151,887
LIABILITIES			
Current liabilities			
Payables	10,111	—	201
Income received in advance	291	—	—
Borrowings	1,051	—	1,761
Provisions	5,422	—	—
Total current liabilities	16,875	—	1,962
Non-current liabilities			
Borrowings	20,441	—	40,897
Provisions	8,139	—	—
Total non-current liabilities	28,580	—	40,897
TOTAL LIABILITIES	45,455	—	42,859
Net assets	626,225	90,046	109,028
EQUITY			
Accumulated surplus	427,039	43,979	92,802
Revaluation reserves	199,186	46,067	16,226
Council equity interest	626,225	90,046	109,028
Total equity	626,225	90,046	109,028

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018	Prior periods 2017	Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	(6,055)	(7.11)%	(1.01)%	5.98%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	85,196				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	76,359	71.83%	61.24%	69.70%	>60.00%
Total continuing operating revenue ¹	106,305				
3. Unrestricted current ratio					
Current assets less all external restrictions	34,713	3.65x	3.40x	3.20x	>1.50x
Current liabilities less specific purpose liabilities	9,499				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	13,382	1.86x	2.61x	3.26x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	7,183				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	2,015	4.67%	3.56%	3.52%	<10.00%
Rates, annual and extra charges collectible	43,128				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	71,159	11.02	12.33	14.30	>3.00
Monthly payments from cash flow of operating and financing activities	6,455	mths	mths	mths	mths

(1) Excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets, and net loss of interests in joint ventures and associates.

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Byron Shire Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 25(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(12.78)%	(2.27)%	4.05%	8.17%	5.80%	5.18%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	65.08%	52.89%	89.71%	92.77%	88.62%	87.74%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	3.65x	3.40x	∞	∞	4.85x	5.64x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	2.63x	5.54x	∞	∞	1.20x	1.20x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	4.52%	3.43%	5.02%	3.81%	5.03%	3.88%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	15.67 mths	17.53 mths	0.00	0.00	0.00	0.00	>3.00 mths
Payments from cash flow of operating and financing activities							

(1) - (2) Refer to Notes at Note 28a above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

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Byron Shire Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26. Council information and contact details

Principal place of business:70 Station Street
MULLUMBIMBY NSW 2482**Contact details****Mailing Address:**PO Box 219
MULLUMBIMBY NSW 2482**Telephone:** 02 6626 7000**Facsimile:** 02 6684 3018**Opening hours:**8:30am - 4.30pm
Monday to Friday (except public holidays)**Internet:** www.byron.nsw.gov.au**Email:** council@byron.nsw.gov.au**Officers****General Manager**

Mark Arnold

Responsible Accounting Officer

James Brickley

AuditorsAudit Office of New South Wales
Level 19, Darling Park Tower 2
201 Sussex Street
SYDNEY NSW 2000**Elected members****Mayor**

Simon Richardson

CouncillorsSarah Ndiaye
Michael Lyon
Basil Cameron
Cate Coorey
Jan Hackett
Jeanette Martin
Paul Spooner
Alan Hunter**Other information****ABN:** 14 472 131 473

**INDEPENDENT AUDITOR'S REPORT****Report on the general purpose financial statements****Byron Shire Council**

To the Councillors of the Byron Shire Council

Opinion

I have audited the accompanying financial statements of Byron Shire Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule - Permissible income for general rates.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

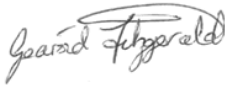
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 19 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

24 October 2019
SYDNEY



Mr Simon Richardson
Mayor
Byron Shire Council
PO Box 219
MULLUMBIMBY NSW 2482

Contact: Gearoid Fitzgerald
Phone no: 02 9275 7392
Our ref: D1925610/1703

24 October 2019

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2019
Byron Shire Council**

I have audited the general purpose financial statements (GPFS) of the Byron Shire Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	42.0	39.3	↑ 6.9
Grants and contributions revenue	29.5	45.8	↓ 35.6
Operating result for the year	13.0	35.3	↓ 63.2
Net operating result before capital grants and contributions	(8.1)	(2.0)	↓ 305

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GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

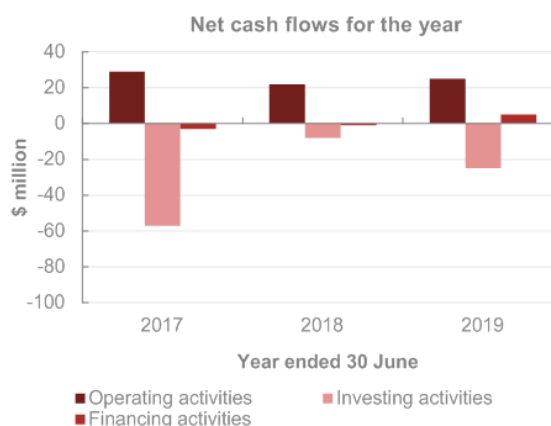
Council's operating result of \$13.0 *million* (including the effect of depreciation and amortisation expense of \$15.0 million) was \$22.3 million lower than the 2017–18 result.

This decrease is largely attributable to the following:

- capital contributions in the 2018 financial year were inflated by the recognition of a section of the Tweed Valley Way valued at \$14.3 million; and
- materials and contracts expense in 2019 has increased by \$7.0m due to former Mullumbimby hospital demolition costs of \$2.0 million, natural disaster repairs expenditure of \$1.9 million and minor capital works not capitalised of \$3.0 million.

STATEMENT OF CASH FLOWS

- Cash flows from operating activities have been positive and remained relatively stable over the past three years.
- Cash used for investing activities is greater than 2018 as Council's expenditure on the purchase / construction of infrastructure, property, plant and equipment increased by \$7 million.
- Cash flow from financing activities is positive as Council borrowed \$7.7 million and repaid \$2.8 million during the 2019 financial year.



FINANCIAL POSITION

Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	50.3	55.1	• Externally restricted balances include unexpended developer contributions and cash balances relating to water, sewer and domestic waste management activities.
Internal restrictions	27.1	21.2	
Unrestricted	1.0	1.1	
Cash and investments	78.4	77.4	<ul style="list-style-type: none"> • Balances are internally restricted due to Council policy or decisions for forward plans including works program. • Council's cash and investments remain comparative to the prior year.

PERFORMANCE

Operating performance ratio

Council's consolidated operating performance ratio of 7.11 per cent (negative) has deteriorated on the prior year. This deterioration is attributable to the recognition of the below costs:

- Former Mullumbimby hospital demolition costs of \$2 million;
- Natural disaster maintenance costs of \$1.9 million whilst funding received has been recognised as revenue in prior years; and
- Increased minor works expenditure not capitalised of \$3 million.

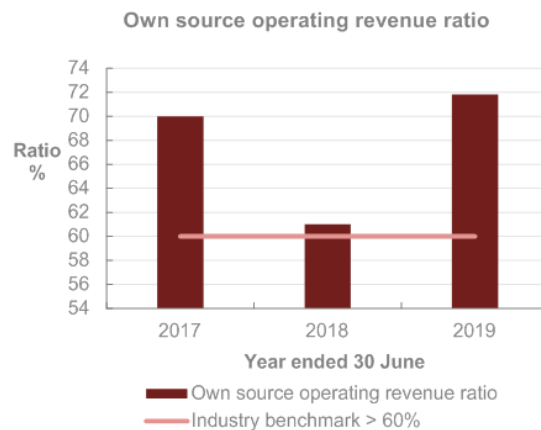
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.



Own source operating revenue ratio

Council's own source revenue of 71.83 per cent continues to exceed the industry benchmark meaning less reliance on external funding sources to conduct its operations sustainably.

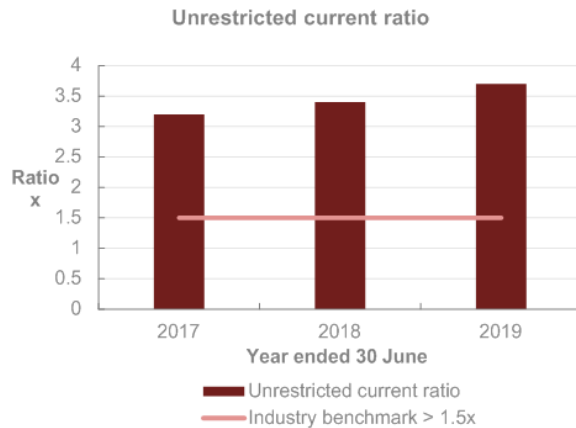
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.



Unrestricted current ratio

Council's unrestricted current ratio at 30 June 2019 is 3.65 and is well above the industry benchmark. The improvement in the ratio on the prior year is attributable to increased internal reserves relating to the receipt of some of the 2020 financial assistance grant prior to balance date as well as unexpended loans. A ratio of 3.65 means that Council has \$3.65 current liquid assets for every \$1 of current liabilities.

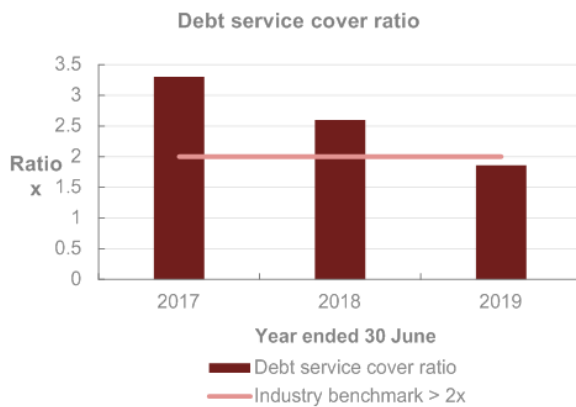
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.



Debt service cover ratio

Council's debt service cover ratio has dropped below the industry benchmark and at 30 June 2019 was 1.86x. The deterioration in the ratio is due to a reduction in the operating result attributable to the significant expenses incurred relating to the former Mullumbimby hospital site demolition and natural disaster maintenance works. The ratio would be 2.14 without the hospital site demolition costs.

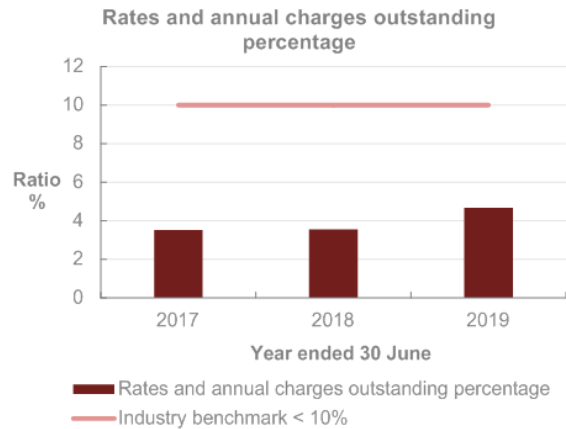
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.



Rates and annual charges outstanding percentage

Council's rates and annual charges outstanding ratio has increased to 4.67 per cent at 30 June 2019. Whilst the ratio is still below the industry benchmark it is trending upwards and will require monitoring.

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for rural / regional councils.



Cash expense cover ratio

Council's expense cover ratio is 11 months as at 30 June 2019. This compares to 12.3 months for the 2018 financial year. The ratio continues to exceed the industry benchmark.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.



Infrastructure, property, plant and equipment renewals

Council's infrastructure renewal expenditure in the 2018–19 year was \$27.0 million compared to \$24.7 million in the 2018–19 financial year. For the past two years, infrastructure renewal expenditure has been higher than the rate at which these assets are depreciating.

OTHER MATTERS

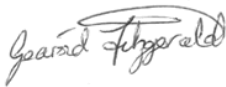
New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"> • a simplified model for classifying and measuring financial assets • a new method for calculating impairment • a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 13(c).</p>

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

cc: Mr Mark Arnold, General Manager
Mr Michael Georghiou, Chairperson, Audit, Risk and Improvement Committee
Mr Tim Hurst, Acting Chief Executive of the Office of Local Government

Byron Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2019

*Culturally rich and thriving communities living in harmony,
responding positively to the challenges of our world, and
leading by example.*



Byron Shire Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements
for the year ended 30 June 2019

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Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Byron Shire Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements

for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these statements:

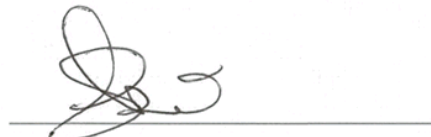
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 24 October 2019.



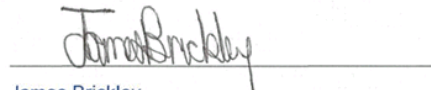
Simon Richardson
Mayor
24 October 2019



Sarah Ndiaye
Councillor
24 October 2019



Mark Arnold
General Manager
24 October 2019



James Brickley
Responsible Accounting Officer
24 October 2019

Byron Shire Council

Special Purpose Financial Statements 2019

Income Statement – Water Supply Business Activity
for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	2,369	2,289
User charges	7,353	6,757
Fees	327	303
Interest	104	289
Grants and contributions provided for non-capital purposes	77	77
Other income	–	10
Total income from continuing operations	10,230	9,725
Expenses from continuing operations		
Employee benefits and on-costs	861	756
Materials and contracts	3,146	2,687
Depreciation, amortisation and impairment	1,413	1,416
Water purchase charges	4,386	4,057
Loss on Sale of Assets	70	–
Calculated taxation equivalents	88	94
Other expenses	10	14
Total expenses from continuing operations	9,974	9,024
Surplus (deficit) from continuing operations before capital amounts	256	701
Grants and contributions provided for capital purposes	1,002	675
Surplus (deficit) from continuing operations after capital amounts	1,258	1,376
Surplus (deficit) from all operations before tax	1,258	1,376
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(70)	(210)
SURPLUS (DEFICIT) AFTER TAX	1,188	1,166
Plus accumulated surplus	42,661	41,220
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	88	94
– Corporate taxation equivalent	70	211
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	43,979	42,663
Return on capital %	0.3%	0.9%
Subsidy from Council	752	1,269
Calculation of dividend payable:		
Surplus (deficit) after tax	1,188	1,165
Less: capital grants and contributions (excluding developer contributions)	(755)	(114)
Surplus for dividend calculation purposes	433	1,051
Potential dividend calculated from surplus	216	526

BYRON SHIRE COUNCIL

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.2 - ATTACHMENT 1

Byron Shire Council

Special Purpose Financial Statements 2019

Income Statement – Sewerage Business Activity for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	10,617	10,288
User charges	5,216	4,781
Liquid trade waste charges	275	238
Fees	293	218
Interest	275	484
Grants and contributions provided for non-capital purposes	75	75
Total income from continuing operations	16,751	16,084
Expenses from continuing operations		
Employee benefits and on-costs	2,426	2,395
Borrowing costs	3,246	3,364
Materials and contracts	6,984	6,398
Depreciation, amortisation and impairment	3,076	3,037
Loss on sale of assets	1,471	–
Calculated taxation equivalents	228	233
Debt guarantee fee (if applicable)	1,006	1,047
Other expenses	48	57
Total expenses from continuing operations	18,485	16,531
Surplus (deficit) from continuing operations before capital amounts	(1,734)	(447)
Grants and contributions provided for capital purposes	1,982	2,162
Surplus (deficit) from continuing operations after capital amounts	248	1,715
Surplus (deficit) from all operations before tax	248	1,715
SURPLUS (DEFICIT) AFTER TAX	248	1,715
Plus accumulated surplus	91,348	88,381
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	228	233
– Debt guarantee fees	1,006	1,047
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	92,802	91,348
Return on capital %	1.1%	2.2%
Subsidy from Council	253	501
Calculation of dividend payable:		
Surplus (deficit) after tax	248	1,715
Less: capital grants and contributions (excluding developer contributions)	(182)	(291)
Surplus for dividend calculation purposes	66	1,424
Potential dividend calculated from surplus	33	712

Byron Shire Council

Special Purpose Financial Statements 2019

Income Statement – Holiday Parks
for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
Fees	4,712	4,694
Total income from continuing operations	4,712	4,694
Expenses from continuing operations		
Materials and contracts	1,974	1,900
Depreciation, amortisation and impairment	141	157
Calculated taxation equivalents	363	369
Other expenses	934	828
Total expenses from continuing operations	3,412	3,254
Surplus (deficit) from continuing operations before capital amounts	1,300	1,440
Surplus (deficit) from continuing operations after capital amounts	1,300	1,440
Surplus (deficit) from all operations before tax	1,300	1,440
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(358)	(396)
SURPLUS (DEFICIT) AFTER TAX	942	1,044
Plus accumulated surplus	9,038	8,637
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	363	369
– Corporate taxation equivalent	358	396
Less:		
– TER dividend paid	(907)	(856)
– Dividend paid	(109)	(552)
Closing accumulated surplus	9,685	9,038
Return on capital %	4.9%	5.6%

Byron Shire Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Investments	11,442	10,781
Receivables	2,208	1,887
Total current assets	13,650	12,668
Non-current assets		
Infrastructure, property, plant and equipment	76,396	74,916
Total non-current assets	76,396	74,916
TOTAL ASSETS	90,046	87,584
NET ASSETS	90,046	87,584
EQUITY		
Accumulated surplus	43,979	42,660
Revaluation reserves	46,067	44,924
TOTAL EQUITY	90,046	87,584

Byron Shire Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Investments	15,851	18,463
Receivables	2,341	1,990
Total current assets	18,192	20,453
Non-current assets		
Infrastructure, property, plant and equipment	133,695	129,921
Total non-current assets	133,695	129,921
TOTAL ASSETS	151,887	150,374
LIABILITIES		
Current liabilities		
Payables	201	207
Borrowings	1,761	1,813
Total current liabilities	1,962	2,020
Non-current liabilities		
Borrowings	40,897	42,659
Total non-current liabilities	40,897	42,659
TOTAL LIABILITIES	42,859	44,679
NET ASSETS	109,028	105,695
EQUITY		
Accumulated surplus	92,802	91,347
Revaluation reserves	16,226	14,348
TOTAL EQUITY	109,028	105,695

Byron Shire Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Holiday Parks

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Non-current assets		
Investments	3,811	3,000
Infrastructure, property, plant and equipment	26,453	25,933
Total non-current assets	30,264	28,933
TOTAL ASSETS	30,264	28,933
LIABILITIES		
Current liabilities		
Payables	291	234
Total current liabilities	291	234
TOTAL LIABILITIES	291	234
NET ASSETS	29,973	28,699
EQUITY		
Accumulated surplus	9,685	9,038
Revaluation reserves	20,288	19,661
TOTAL EQUITY	29,973	28,699

Byron Shire Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

a. Byron Shire Council Water Supplies

Water supply operations servicing the towns of Byron Bay, Mullumbimby, Bangalow, Suffolk Park, Brunswick Heads and Ocean Shores.

b. Byron Shire Council Sewerage Service

Sewerage reticulation and treatment operations servicing the towns of Byron Bay, Mullumbimby, Bangalow, Suffolk Park, Brunswick Heads and Ocean Shores.

c. Byron Shire Council Holiday Parks

Council owned Holiday Parks operated in the Shire. The holiday parks include First Sun and Suffolk Beachfront.

Category 2

(where gross operating turnover is less than \$2 million)

Nil

continued on next page ...

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Byron Shire Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

(i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 27.5%

Land tax – the first \$692,000 of combined land values attracts 0%. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the DoI – Water guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the DoI – Water guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 27.5% is the equivalent company tax rate prevalent at reporting date.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

continued on next page ...

Page 11 of 13

Byron Shire Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30 June 2019.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.

**INDEPENDENT AUDITOR'S REPORT****Report on the special purpose financial statements****Byron Shire Council**

To the Councillors of the Byron Shire Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Byron Shire Council's (the Council) declared business activities, which comprise the Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019, Note 1 Significant accounting policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- water supply
- sewerage
- holiday parks.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code).

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 'Permissible income for general rates'.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

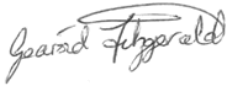
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Gearoid Fitzgerald

Delegate of the Auditor-General for New South Wales

24 October 2019
SYDNEY

CONFIDENTIAL REPORTS - CORPORATE AND COMMUNITY SERVICES**Report No. 5.1****CONFIDENTIAL - Update on IT Actions****Directorate:**

Corporate and Community Services

Report Author:Phil Pountney, Manager Business Systems and Technology
Colin Baker, Business Systems and Technology Coordinator**File No:**

I2019/1691

Summary:

This report provides a summary of all open actions with their current status and expected due dates.

RECOMMENDATION:

1. That pursuant to Section 10A(2)(f) of the Local Government Act, 1993, Council resolve to move into Confidential Session to discuss the report Update on IT Actions.
2. That the reasons for closing the meeting to the public to consider this item be that the report contains:
 - a) details of systems and/or arrangements that have been implemented to protect council, councillors, staff and Council property
3. That on balance it is considered that receipt and discussion of the matter in open Council would be contrary to the public interest, as:
 - Exposes information security risk and vulnerabilities that could assist threats in the environment to expose Council data and systems to those without authorisation.

Report No. 5.2 **CONFIDENTIAL - Audit Progress Report - November 2019**
Directorate: Corporate and Community Services
Report Author: Heather Sills, Corporate Governance Officer
File No: I2019/1841

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Summary:

10 This report presents the Internal Audit Outstanding Actions Report – November 2019 prepared by Council and the Internal Auditor, O'Connor Marsden and Associates (OCM).

15 The activity report contains the remaining outstanding recommendations from each audit review conducted by Council's previous internal audit provider as well as recommendations from recently completed audit reviews conducted by OCM.

RECOMMENDATION:

- 20 1. That pursuant to Section 10A(2)(d)i of the Local Government Act, 1993, Council
 resolve to move into Confidential Session to discuss the report Audit Progress Report
 - November 2019.
- 25 2. That the reasons for closing the meeting to the public to consider this item be that the
 report contains:
 a) commercial information of a confidential nature that would, if disclosed
 prejudice the commercial position of the person who supplied it
- 30 3. That on balance it is considered that receipt and discussion of the matter in open
 Council would be contrary to the public interest, as:
 nature and content of audit report is for operational purposes

Attachments:

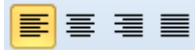
- 1 Internal Audit Activity Report - November 2019, E2019/81972

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Report No. 5.3 **CONFIDENTIAL - Business Continuity and Risk Management - Update**
Directorate: Corporate and Community Services
Report Author: Emma Fountain, Strategic Risk & Business Continuity Coordinator
File No: I2019/1853

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Summary:



10 The purpose of this report is to provide an update on the Business Continuity and Risk Management frameworks.

RECOMMENDATION:

- 15 1. That pursuant to Section 10A(2)(f) of the Local Government Act, 1993, Council resolve to move into Confidential Session to discuss the report Business Continuity and Risk Management - Update.
- 20 2. That the reasons for closing the meeting to the public to consider this item be that the report contains:
- 25 a) details of systems and/or arrangements that have been implemented to protect council, councillors, staff and Council property
- 30 3. That on balance it is considered that receipt and discussion of the matter in open Council would be contrary to the public interest, as:

Risk management

30 **Attachments:**

- 1 Risk management strategy, E2019/81410
- 2 Risk management action plan, E2019/74957
- 3 DRAFT Strategic Risk Register, E2019/75039
- 35 4 DRAFT Operational Risk Register, E2019/75045

Report No. 5.4 **CONFIDENTIAL - Pay Parking Audit Review**
Directorate: Corporate and Community Services
Report Author: Anna Vinfield, Manager Corporate Services
File No: I2019/1857

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Summary:

10 Council's Internal Auditors, O'Connor Marsden and Associates (OCM), conducted an internal audit review of Pay Parking during October 2019. Their report is at Confidential Attachment 1.

This audit received a review rating of 'weak' and it identified one high and three medium risks. Agreed recommendations and actions are included in the Confidential Attachment.

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RECOMMENDATION:

1. That pursuant to Section 10A(2)(d)i of the Local Government Act, 1993, Council
20 resolve to move into Confidential Session to discuss the report Pay Parking Audit Review.
2. That the reasons for closing the meeting to the public to consider this item be that the report contains:
25 a) commercial information of a confidential nature that would, if disclosed prejudice the commercial position of the person who supplied it
3. That on balance it is considered that receipt and discussion of the matter in open
Council would be contrary to the public interest, as:
30 nature and content of audit report is for operational purposes

Attachments:

- 35 1 Pay Parking Audit Review, E2019/81748

Report No. 5.5 **CONFIDENTIAL - Grants Management Audit Review**
Directorate: Corporate and Community Services
Report Author: Anna Vinfield, Manager Corporate Services
File No: I2019/1858

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Summary:

10 Council's Internal Auditors, O'Connor Marsden and Associates (OCM), conducted an internal audit review of Grant Management during October 2019. Their report is at Confidential Attachment 1.

This audit received a review rating of 'satisfactory' and it identified two medium risks. Agreed recommendations and actions are included in the Confidential Attachment.

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RECOMMENDATION:

- 20 1. That pursuant to Section 10A(2)(d)i of the Local Government Act, 1993, Council resolve to move into Confidential Session to discuss the report Grants Management Audit Review.
2. That the reasons for closing the meeting to the public to consider this item be that the report contains:
- 25 a) commercial information of a confidential nature that would, if disclosed prejudice the commercial position of the person who supplied it
3. That on balance it is considered that receipt and discussion of the matter in open Council would be contrary to the public interest, as:
- 30 nature and content of audit report is for operational purposes

Attachments:

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- 1 Review of Grant Management - October 2019, E2019/81617